

Ouachita Baptist University Endowment Pool

Investment Policy Statement

Revised Policy Statement Adopted
by the Board of Trustees
December 14, 2017



Ouachita Baptist University Endowment Pool Investment Policy Statement

I. Purpose

This Investment Policy Statement (“Policy”) provides the framework for the management of investments in the Ouachita Baptist University Endowment Pool (“the Pool”). The purpose of this policy is to establish the following:

1. Understanding of the objective of the Pool to provide a stable and growing income stream to the University for the achievement of its purpose.
2. Approach to be used in the ongoing management of endowment assets.
3. Governance structure, including the key roles and responsibilities relating to the ongoing management and oversight of endowment assets.
4. Investment structure, including the various asset classes and acceptable ranges that are expected to meet the objective over the long term while prudently managing risk.
5. Endowment Strategy according to the distinct values of the University and in such a way that the success of the University’s mission (both present and future) is the primary focus.

II. Objective

The objective of the Pool is to provide a common investment vehicle which will generate a stable and continuously growing income stream for the university’s endowments and quasi-endowments. The overall objective of the pool is to preserve the purchasing power of the future stream of endowment payout for the activities supported by the endowment and allow the principal to grow in value over time.

Preservation of Purchasing Power – Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation in order to preserve the purchasing power of the Pool’s assets. A moderate amount of risk is assumed to reach this long-term growth objective.

Preservation of Capital – Over the investment time horizon, ~~capital~~ gains are to be protected. A positive return is expected over the investment time horizon; however, there may be periods with negative returns. The Pool may sacrifice some positive returns in order to protect against losses.

III. Approach

Team-Oriented – To deliver coordinated oversight, with each member of the team operating within its strengths and responsibilities.

- Endowment Committee – high-level governance and reporting to Board of Trustees (“Trustees”).
- Administration – develop and communicate the University’s missional needs.
- Arkansas Baptist Foundation – serve as Chief Investment Officer, provide guidance and independent reporting to Endowment Committee, oversee and coordinate investment advisors, and bring experience and economies of scale to bear.
- Investment Advisors – source asset managers and investment strategies for the Endowment Pool in alignment with the Investment Policy Statement, with regular reporting to and collaboration with the Chief Investment Officer.
- Asset Managers – invest Endowment Pool assets, with regular reporting to Investment Advisors.

Mission-Driven – To implement the Endowment Strategy in such a way that the success of the University’s mission (both present and future) is the sole focus.

- Investment Philosophy – maintain sufficient flexibility to capture investment opportunities as they may occur and also maintain reasonable parameters to ensure prudence and care.
- Structure – utilize a strategic core portfolio, complemented by a discretionary tactical overlay.
- Liquidity – balance the near-term availability of Endowment Pool resources with a long-term view.
- Distributions – within prudent ranges, and in alignment with the University’s needs, focus on dollars distributed rather than percentages.
- Reporting – evaluate Strategy success relative to the objective of the Endowment Pool rather than a focus on benchmarks.

Uniquely Ouachita – To implement the Endowment Strategy according to the distinct values of the University.

- Faith – a humble dependence on God for current and future provision.
- Scholarship – a continual willingness to learn and adapt in the face of change.
- Growth – to maintain structures and processes that can support a “larger dream” for the University.
- Character – a commitment to biblically responsible stewardship of the Endowment Pool portfolio.
- Community – an emphasis on partnerships with those who have a personal connection to the University and are devoted to its success.

IV. Governance Structure

This structure is designed to deliver coordinated oversight, with each member of the team operating within its strengths and responsibilities. The following list of responsibilities are not exhaustive, but are indicative of the team-oriented approach.

A. Responsibilities

The responsibilities of the Trustees and more specifically the Endowment Committee include:

1. Expressing the Pool's risk tolerance level.
2. Establishing reasonable investment objectives and goals.
3. Approving annually spending amount of the Pool within compliance of the Spending Policy to follow herein.

The responsibilities of the University Administration include:

1. Determining the Pool's projected financial needs and communicating such to the Trustees and Endowment Committee on a timely basis.
2. Coordinating management of the Endowment Pool with the Chief Investment Officer ("CIO").

The responsibilities of the CIO include:

1. Directing the Investment Advisors and University Administration to comply with all applicable rulings and regulations concerning prudent investment.
2. Developing sound and consistent investment policy guidelines which the Investment Advisors and Asset Managers can use to formulate investment decisions.
3. Monitoring and evaluating performance results to assure that the policy guidelines are being adhered to and that objectives are being met.
4. Ensuring that the endowment assets are managed in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted by the Arkansas legislature.
5. Providing reporting to the Trustees and Endowment Committee on a regular basis.

The responsibilities of the Investment Advisors include:

1. Selecting qualified Asset Managers.
2. Taking appropriate action to replace an Asset Manager for failure to perform as expected.
3. Adhering to the Investment Policy Statement: The Investment Advisor(s) are expected to respect and observe the specific limitations, guidelines and philosophies stated herein or as expressed in any written amendments.

4. Making decisions on a discretionary basis regarding all assets placed under its jurisdiction and will seek to achieve the investment objectives indicated herein.
5. Informing the CIO of any significant changes in the ownership, organizational structure, financial condition or senior staffing of the Investment Advisor's firm.
6. Providing written recommendations when an Investment Advisor believes that any particular guideline in this policy statement should be altered or deleted.

The responsibilities of the Asset Managers include:

1. Adhering to the Investment Policy Statement: The Asset Manager's acceptance of the responsibility to manage assets of the Pool will constitute a ratification of this Investment Policy Statement.
2. Making decisions to buy, hold, and sell securities in amounts and proportions that are reflective of the Asset Manager's current investment strategy and compatible with the Pool's investment guidelines.
3. Providing timely notices of portfolio transactions, as well as quarterly performance reports to the Investment Advisors.

B. Spending Policy

The Trustees have adopted a Spending Policy for the Pool. That is, annual spending amount may be comprised of income, realized capital gains or unrealized capital gains, or any combination thereof.

The annual spending amount shall be recommended by the Endowment Committee and approved by the Trustees. This amount shall not exceed the standard defined by UPMIFA to act prudently.

In addition, an endowment management fee shall be calculated as 0.5% times the average of the past three years' market value of the endowment assets in the Pool.

C. Underwater Endowment Funds

If an endowment fund, through declining market performance, has used all accumulated earnings and appreciation and is now eating into or eroding the original gift value, or the historic dollar value, the fund is considered underwater. If this occurs, spending from the fund cannot exceed the annual income yield (i.e. interest and dividends) of the fund. All realized and unrealized gains must be reinvested in the fund until the corpus has been restored. Review of endowment accounts will be made quarterly to determine if they are considered underwater.

In some cases, the market value of an endowment fund exceeds the historic dollar value but a full payout as calculated under the spending policy would cause the fund to be underwater. In those cases, the payout will not exceed the greater of the

difference between market value and historic dollar value or the annual income yield.

Quasi-endowments are not subject to the underwater endowment fund restrictions. All quasi-endowments are entitled to receive the full payout and pay the endowment management fee even if underwater.

V. Investment Structure

The Pool utilizes a strategic core portfolio, complemented by a discretionary tactical overlay. This structure is designed to create a management process with sufficient flexibility to capture investment opportunities as they may occur yet maintain reasonable parameters to ensure prudence and care in the execution of the Endowment Strategy. Maintaining liquidity needed to support annual spending while maximizing the value of the endowment in prolonged down markets is indicative of the mission-driven approach.

A. Asset Allocation

The core portfolio is a diversification of equity, fixed income and cash equivalent securities, real estate and other alternative investments. The core portfolio shall be invest in accordance with the maximum and minimum range for each asset category as stated below.

<u>Asset Category</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Equities	40%	50%	60%
International Equities	0%	5%	20%
Fixed Income	30%	35%	60%
Real Estate	0%	3%	20%
Cash Equivalents	0%	1%	20%
Alternative Investments	0%	6%	20%

These acceptable minimum and maximum ranges represent a long-term view. As such, rapid and significant market movements may cause the Pool's actual asset mix to occasionally fall outside the policy range but it is expected that any divergence should be of a short-term nature. These ranges apply to the total Pool. Individual Asset Managers may be assigned different allocations.

The tactical overlay(s) utilized in the portfolio will be fully discretionary portfolios with broader asset allocation flexibility. Investment Advisors in charge of the overlay(s) will keep the CIO informed on a timely basis of major changes in their investment outlook, investment strategy, asset allocation, and other matters affecting their investment policies or philosophy.

The Trustees and Administration of the University recognize, that regardless of assets allocation, risk cannot be eliminated but should be managed and that

Investment Advisors and Asset Managers have the obligation to utilize risk efficiently. Risk exposures should be identified, measured and monitored. Risk should be taken consistent with expectations for return.

The Trustees recognize that risk (i.e. the uncertainty of future events), volatility (i.e. the variability of returns), and the possibility of loss in purchasing power due to inflation are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, the assumption of risk is warranted and encouraged in order to allow the Investment Advisors and Asset Managers the opportunity to achieve satisfactory long-term results consistent with objectives and fiduciary character of the Pool.

B. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term asset allocations specified above. Significant movements from the asset allocation targets for extended periods of time will alter the intended expected return and risk of the Pool.

The Administration will work with the CIO to monitor the actual asset allocation on at least a quarterly basis. Assets of the Pool shall be rebalanced in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Administration will work with the CIO to assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from proscribed asset allocations. Rebalancing may be delayed when in the best interest of the Pool and within the requirements to act prudently.

C. Types of Investments

The following list of investments are not exhaustive, but any modifications to the below must be approved by the Trustees.

Equities

1. Permitted Securities: Common Stocks, Convertible Preferred Stocks, Convertible Securities including Debentures, American Depository Receipts (ADRs) of Foreign Companies, Mutual funds or pooled investments comprised of the above investment types.
2. Diversification: The equity portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group or individual security.
3. Quality and Marketability: Common and convertible preferred stocks should be listed on a public exchange with the requirement that such stocks have adequate market liquidity relative to the size of the investment. Holdings should generally meet a minimum capitalization requirement of \$100 million with adequate liquidity.
4. Concentration by Issuer:

- a. No more than 5% of total equity assets in the Pool shall be invested in the securities of any one issuing corporation at the time of purchase
- b. No more than 20% of the market value of total equity assets in the Pool shall be invested in any one industry at the time of purchase.
- c. Investments in any corporation shall not exceed 5% of the outstanding shares of the corporation.

Fixed Income Investments

1. Permitted Securities: Government and Agency Securities, Corporate Bonds and Notes, Mortgage Backed Securities, Preferred Stocks, Mutual funds or pooled investments comprised of the above investment types, Internal Loan Agreements.
2. Private placement "144A" issues are not permitted.
3. Quality: Marketable bonds at the time of purchase must be rated "A" or better by a nationally recognized statistical rating agency. Asset backed securities, mortgage backed securities, and CMOs shall be rated "AAA" at the time of purchase by a nationally recognized statistical rating agency.
4. Concentration by Issuer:
 - a. No limitations are placed on investments in U.S. Government guaranteed obligations (including fully guaranteed Federal agencies) or on internal loan agreements.
 - b. Investments in any one issuer (excluding obligations of the U.S. Government, U.S. Agencies, or internal loan agreements) shall not exceed 5% of total fixed income assets of the Pool based on market value at the time of purchase.
5. Maturity: No fixed income security shall have a maturity of longer than thirty years at the time of purchase.
6. Internal loan agreements should be reviewed by the Endowment Committee to ensure that they bear a fair rate of interest.

Cash Equivalents

1. Permitted Securities: Treasury Bills, Money Market Funds, Commercial Paper, Repurchase Agreements, Certificates of Deposit
2. Asset Managers may invest in cash equivalents providing all such assets represent maturities of one year or less.
3. Quality: Commercial Paper must have a rating of not less than A1 by Standard & Poor's or P1 by Moody's.
4. Concentration by Issuer: Investment in any one issuer shall not exceed 5% of total assets in the Pool at the time of purchase.

Real Estate

1. Permitted Securities: Residential, Rental, Commercial, Mutual funds or pooled investments comprised of the above investment types
2. Generally speaking, this category shall consist of property that is in close proximity to the campus of the University and shall produce income through rents until such time as the property is needed by the University for expansion purposes. Other purchases or holdings of real estate are allowed when deemed to be in the best interest of the University by the Administration.

Alternative Investments

1. Permitted Securities: Commodity pools organized for the purpose of participating in global futures, options and forward markets; Hedge Funds, Oil and gas mineral rights, Other natural resources, Venture capital and private equity investments, Mutual funds or pooled investments comprised of the above investment types.

Other Assets

Investments in this category shall only be made on the recommendation of the Administration and the approval of the Trustees.

Inappropriate Investments

Clearly the choice to purchase a given investment is indicative of the establishment of a relationship with the organization issuing that investment. There exist certain organizations which, by nature of the products or services they provide, the public or private positions they may hold, or affiliations they may maintain, are incompatible with the goals and objectives of Ouachita Baptist University. The establishment of this type of relationship could be detrimental to the ongoing operation of the University or counterproductive to the processes whereby the University seeks to fulfill its Mission and Purpose.

Therefore, it is essential that the Asset Managers shall make every reasonable effort to guard against the incorporation of any such investments in the portfolio of the Pool. The Asset Managers shall be provided with an initial listing of specific organizations known to fit this category. The Asset Managers are encouraged to use any available means to thoroughly investigate a potential investment and to exclude it from the Pool's portfolio if there exists any question as to the issuing organization's compatibility with the Mission and Purpose of Ouachita Baptist University. If, at any time, the University shall deem a particular investment to be inappropriate, the Asset Manager shall, upon notification, remove that investment from the portfolio.