IV. INVESTMENT POLICY

A. General Investment Policy

In recognition of its fiduciary responsibility, the James A. Rhodes State College Foundation Board of Directors (hereafter called the "Board") adopts the following investment policy guidelines. These guidelines relate to those gifts and donations in the form of endowments, with long-term benefit objectives, those monies treated as endowment by the Board and contributions received for the current benefit of James A. Rhodes State College (the "College").

Investments will be limited to those organizations and instruments that follow policies consistent with the guidelines established herein and which meet the standards of a prudent investor.

B. Investment Objectives

The investment objectives for the management of endowment assets and current contributions are to:

- manage the contributions in a manner that will maximize the benefit intended by the donor,
- produce current income to support the programs of the College and donor objectives,
- achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets, thus protecting the assets against inflation.

In order to preserve the purchasing power of both principal and of withdrawals made available for spending, the long-term annualized total net rate of return objective for the James A. Rhodes State College Foundation (hereafter called the "Foundation") is inflation plus 5 percent. A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the Foundation, and the additional 5 percent is required to provide for spending. Investment objectives will be achieved by maximizing total return consistent with prudent risk limits. To satisfy its long-term net rate of return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends).

C. Asset Allocation

The general policy shall be to diversify investments using equity, fixed income, and other securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. As a long-term policy guideline, the normal asset allocation shall be 70% equity and 30% fixed income. The Investment Committee in consultation with the Investment Manager(s) and the Treasurer of the Foundation may make changes from the normal allocation.

The following exhibit defines the Foundation's target asset allocation and the minimum and maximum allocation limits of each asset class. The allowable ranges provide flexibility for shifts in the actual asset allocation to take advantage of market conditions. It is expected that extreme positions will be avoided to prevent the possibility of a significant reduction in value given adverse market conditions.

Target Asset Allocation and Benchmark Index

Asset Class	Target %	Allowable Range %	Benchmark Index
Equities	70%	50 – 80%	MSCI World Index
Fixed Income	30%	20 – 50%	Bloomberg Barclay's Aggregate Bond Index
Cash & Equivalents	0%	0 – 5%	91-day Treasury Bills
Other Securities	0%	0 – 10%	As appropriate

D. **Equity Investments**

The principal category of equity investments will be in common stocks. Primary emphasis shall be on high quality, investment grade, and dividend paying stocks in companies that are financially sound and that have prospects for earnings growth. Stock investment shall be diversified in terms of industry, market capitalization, growth and value characteristics, and country of origin. It is expected that no more than 20% of stock investment shall be in companies not within the United States, that no more than 5% of the equity portion shall be invested in any one company, and that the investment of more than 20% of the portfolio in any one industry sector shall be avoided. However, when due to appreciation, an investment in any one company may exceed 5% of the equity portion.

E. **Fixed Income Investments**

The largest percentage of fixed income investments shall be invested in portfolios of high quality (primarily A to AAA) corporate bonds, appropriately liquid preferred stocks, floating rate notes (bonds) and obligations issued or guaranteed by the U.S. Government or its Agencies or instrumentalities. In addition, investments may include no more than 10% of the fixed income component in professionally managed, below investment grade securities, and no more than 10% in international bonds.

F. **Cash and Equivalents**

Cash and equivalents shall be kept at the minimum level necessary to meet foreseeable short-term liquidity requirements. Investments shall be made in United States Treasury Securities, certificates of deposit issued by commercial banks and insured by the FDIC, commercial paper rated A-1 or P-1, and money market securities issued by institutions with proven high quality credit ratings or by pooled funds with demonstrably high quality credit standards, and proven records of superior performance over time. Other vehicles may be used when specifically approved in writing by the Investment Committee.

Uninvested cash reserves shall be kept to a minimum; short term, cash equivalent securities are usually not considered an appropriate investment vehicle for endowment assets. However, such vehicles are appropriate as a depository for income distributions from endowment investments, or as needed for temporary placement of funds directed for future investment to the long-term investments.

G. **Other Securities**

Other securities may include equity real estate, held in the form of professionally managed, income producing commercial and residential property, and venture capital and private equity investments held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers with proven records of superior performance over time. In general, the use of derivative securities is discouraged.

H. **Management of Current Gifts**

The Investment Committee of the Foundation is responsible for the management of current gifts to the Foundation. The Committee may delegate management of these short-term investments to the Treasurer of the Foundation. Generally the designated staff may invest any such funds in United States Treasury Securities, certificates of deposit issued by commercial banks and insured by the FDIC, commercial paper rated A-1 or P-1, and money market securities issued by institutions with proven high quality credit ratings or by pooled funds with demonstrably high quality credit standards, and proven records of superior performance over time. Other vehicles may be used when specifically approved in writing by the Investment Committee.

I. **Spending Policy**

Based on the above stated objectives, the current spending policy is to distribute annually 5% of a trailing three-year average of the Foundation's total asset value. Such a policy should allow for steady growth for the support of operations and minimize the probability of invading the principal over time. Since there may occasionally be situations requiring a higher rate of spending from investable assets, the Investment Committee is authorized to increase the spending rate as necessary on a temporary basis. Such an increase should not be undertaken without a clearly justifiable cause or without the advance approval of the Board.

It shall be the responsibility of the Investment Committee to periodically review the spending policy against actual returns in order to consider adjustments necessary for the preservation of the purchasing power of the endowment.

J. **Investment Manager Selection, Reporting, and Performance Evaluation**

In recognition of the Board's duties under the Uniform Prudent Investor Act (UPIA) it is the Board's fiduciary responsibility to invest and manage endowment assets as a prudent investor would. Performance is based on the whole and not on any individual asset. The process of investment and diversification is as important as the result. It is therefore the policy of the Board to use professional management services for investment of the endowment pool.

It is expected that the Investment Manager(s) responsible for the investment of the assets shall report quarterly on the performance of the portfolio, including comparative returns for the funds and their respective benchmarks. Also included will be a complete accounting of all transactions involving the managed funds during the quarter, together with a statement of the beginning market value, fees, capital appreciation, income, and ending market value. In addition, the Investment Manager(s) shall meet with the Investment Committee at least annually. When appropriate this can include videoconferences or conference calls.

It is recognized that market conditions may greatly influence the ability of the Investment Manager(s) to meet year-to-year investment goals and objectives. Further, it is recognized that significant cash flow may also affect the ability of the Investment Manager(s) to meet a specific short-term objective. Accordingly, it is expected that the Investment Manager(s) shall report performance through absolute, relative, and comparative terms over annualized time periods. The Investment Manager shall immediately notify the Vice President for Institutional Advancement in writing of any material change in its investment outlook, investment strategy (substantial asset allocation modifications), ownership, organizational structure, financial condition or senior personnel. Absolute results will determine the rate of fund growth, while relative results will provide the Investment Committee with a view of investment performance compared to the securities markets, and comparative results will present performance as compared to other Investment Managers. The Investment Manager will provide suggestions for appropriate adjustments to investment policy, objectives and investment performance review.

Performance will be measured over the most recent quarter, year, three year, and five year time frames. An Investment Manager whose performance falls below the median over a period of three years shall be a candidate for replacement. A review process will be conducted every three years to assess performance and market trend of fees by a committee convened by the Investment Committee Chair or designee. The findings, and appropriate recommendations, will be reported to the Board.

K. **Execution of Policies and Procedures**

The Board delegates responsibility for execution of the policies and procedures outlined in this statement to the Investment Committee.

The Investment Committee delegates responsibility for the depositing of funds as directed by these policies and procedures to the Vice President for Finance and Business who serves as the Treasurer of the Foundation.

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