STATEMENT OF INVESTMENT POLICY
FOR THE
TEXAS STATE UNIVERSITY DEVELOPMENT FOUNDATION

Approved April 28, 2017

Contents

1. INTRODUCTION AND PURPOSE

The purposes of the Texas State University Development Foundation are to accept and receive, invest and manage gifts, legacies, and contributions covering both real and personal property for the benefit of Texas State University (the "University") and for its charitable and educational operation.

This Statement of Investment Policy ("Statement") is set forth to:

1. Define the investment policies, guidelines and objectives of the portfolio (the "Portfolio") of the Texas State University Development Foundation (the "Foundation");
2. Create a framework from which the Investment Committee (the "Committee") of the Foundation Board of Trustees (the "Board") can oversee management of the Portfolio both in compliance with applicable laws and regulations and in accordance with the policies and objectives of the Foundation; and
3. Define the roles and responsibilities of all parties involved in investment management of the Portfolio.

2. ROLES AND RESPONSIBILITIES

2.1 Investment Committee

The Board has delegated to the Committee the fiduciary responsibility for oversight and investment of the Portfolio. The Committee has the responsibility to ensure that the assets of the Foundation are managed in a manner that is consistent with the policies and objectives of the Foundation and in compliance with all applicable laws. Specific responsibilities of the Committee can be found in the Investment Committee Member Orientation Packet.

2.2 Foundation Staff

The staff at the Foundation provides support to the Committee. Specific duties of the Foundation Staff can be found in the Investment Committee Member Orientation Packet.

2.3 Investment Consultant

The Investment Consultant shall serve in a fiduciary role to the Committee and is responsible for assisting Foundation Staff and the Committee in all aspects of managing and overseeing the Portfolio's investments. Specific duties of the Investment Consultant can be found in the Investment Committee Member Orientation Packet.

2.4 Investment Managers

The Investment Managers selected by the Committee under the directive guidance of the Investment Consultant, among other duties, invest assets under their management in accordance with the guidelines and restrictions formulated by the Committee. Specific duties of the Investment Managers can be found in the Investment Committee Member Orientation Packet.

2.5 Investment Custodian

The custodian selected by the Committee as custodian of Foundation assets shall be responsible for the safekeeping of the Foundation's assets. Specific duties of the Investment Custodian can be found in the Investment Committee Member Orientation Packet.

3. INVESTMENT OBJECTIVES AND PHILOSOPHY

3.1 Return Objective

The long term objective of the Foundation is for the Portfolio to earn a return sufficient to preserve the purchasing power of the Foundation for generations, as well as to provide for current university needs. Thus, the Foundation's assets will be invested with a long-term investment horizon, where preservation of real purchasing power of the Portfolio – while providing for the ongoing support of the University – is the primary objective. The investment strategy of the Foundation's assets is to emphasize total return: the aggregate return from capital appreciation and dividends and interest income. Specifically, the long-term return goal for the Portfolio is expected to earn an average annual return at least equal to the nominal spending rate (including spending plus administrative costs) plus the expected rate of inflation, net of all fees, over the long-term (viewed over rolling three-year periods.)

3.2 Risk Tolerances

While acknowledging the importance of preserving capital, the Board also recognizes the necessity of accepting risk if the Portfolio is to be able to meet its long-term investment goals. It is the view of the Board that choices made with respect to asset allocation and liquidity risk will be the major determinants of investment performance. The Committee shall seek to ensure that the risks taken are appropriate and commensurate with the Foundation's goals.

3.3 Constraints

3.3.1 **Liquidity:** The Portfolio must maintain sufficient liquidity to maintain compliance with its Spending Rate Policy.

3.3.2 **Time Horizon:** The Portfolio should be managed with a long term time horizon of 30 to 50 years, with priority to provision for the Foundation's annual needs over time.

3.3.3 **Tax Status:** The Foundation is a tax-exempt entity and no investments should be made that jeopardize the Foundation's tax-exempt status. In addition, gifts and any investments that may produce unrelated business taxable income (UBTI) should be considered carefully due to the potential increase in required tax reporting.

3.4 Annuity Pool

Funds allocated to the Annuity Pool are to be managed consistent with this Statement. However, the Annuity Pool may have different asset allocations and/or return objectives.

4. PERFORMANCE MEASUREMENT

4.1 Benchmarks

The Committee shall strive to establish a benchmark with the following characteristics:

- Measurable – Benchmarks should be easily calculated on a regular basis.
- Appropriate – Benchmarks should be representatives of the portfolio manager's investment style, expertise, or strategy.
- Reflective of current investment opinions – Benchmarks should incorporate the manager's knowledge of security and factor exposures in the benchmark itself.
- Investable –Benchmarks should reflect a passive alternative to active management.
- Specified in advance – Benchmarks must be determined in advance of each calendar year and may not be changed without approval of the Committee.
- Unambiguous – The ideal benchmark will provide names, weights, and factor exposures to all underlying securities in the benchmark.

The benchmarks for the Portfolio are set forth on **Appendix A (Appendix B for the Annuity Pool)**.

4.2 Return Performance

The Committee, along with the assistance of the Investment Consultant, will seek to achieve an annualized nominal rate of return equal to or greater than that of the long-term return goal set forth in Section 3.1**.** In addition, the Committee and Investment Consultant will work to attain a nominal rate of return greater than or equal to a composite index created by combining various indices in the same proportion as the Portfolio Asset Allocation over trailing 12 month periods.

4.3 Risk Performance

Risk measures, such as standard deviation, Sharpe Ratio, Sortino Ratio, downside deviation, beta, and other appropriate measures will be reviewed as part of the performance appraisal process.

The following risks will be evaluated with respect to the investment decisions of Foundation assets:

- Market risk: Characterized as the volatility of market returns.
- Inflation risk: The risk of inflation eroding portfolio purchasing power.
- Interest rate risk: The risk of changes in interest rates adversely affecting asset prices.
- Shortfall risk: The risk of a return that does not meet the long-term return goal.
- Various other risks: Country/political risk, Credit risk, Exchange rate risk, Non-systematic risk, etc.

4.4 Performance Attribution

At least annually the Committee will review an attribution analysis prepared by the Investment Consultant with analysis at the asset class level and, as needed, the position level.

4.5 Investment Consultant Performance Review

The Committee shall review the performance of the Investment Consultants on an annual basis and report its findings to the Board. The Committee shall evaluate the Investment Consultant based upon the following criteria:

1. Ability to meet or exceed the performance objectives in the Statement or as otherwise set by the Committee;
2. Adherence to the philosophy, style, and service deliverables the Investment Consultant described to the Committee or Board at, or subsequent to, the retention of the Investment Consultant; and
3. The performance of the Investment Consultant’s responsibilities set forth in the Statement.

4.6 Performance Review Schedule

4.6.1 **Quarterly –** The Committee will meet at least quarterly to review Portfolio performance information.

4.6.2 **Annually –** The Committee, or its designee, will report Portfolio performance information to the Board at least annually.

5. SPENDING RATE POLICY

The spending rate policy is recommended by the Committee and approved by the Finance and Audit Committee. Final approval is made by the Executive Committee of the Board.

The planned spending policy is 4% per year based on the average ending balance of the prior three fiscal years. Income will be distributed and is to be achieved on a total return basis (i.e. interest, dividends, and capital appreciation). The Committee will review the spending policy annually and recommend any necessary adjustments to the Executive Committee.

6. ASSET ALLOCATION

It is the responsibility of the Committee to approve the asset allocation recommended by the Investment Consultant for the Portfolio (the “Portfolio Asset Allocation”) that offers the highest probability of achieving the Foundation’s long-term return goal while satisfying the Portfolio risk objective and applicable constraints. The Committee, with guidance from the Investment Consultant, shall review the asset allocation on an ongoing basis and authorize revisions to the Portfolio Asset Allocation as it deems necessary and appropriate.

The Committee shall determine the Portfolio Asset Allocation based on a comprehensive asset allocation study completed by the Investment Consultant and reviewed at least annually by the

Committee. A change to the Portfolio Asset Allocation and/or rebalancing may result from an ongoing assessment by the Investment Consultant and the Committee of the comparative intermediate or long-term outlook for all available asset classes and styles.

The Foundation's portfolio shall have the following characteristics:

- Broad diversification by asset class, geography, sector, and strategy;
- Preponderant allocation to public equities, which serve as the Fund's main growth driver;
- Moderate allocation to diversifying strategies, such as hedge funds, to diversify the sources of economic returns and to smooth out volatility;
- Precautionary protection against macroeconomic stresses; and
- Sufficient liquidity.

The Foundation's asset allocation, allowable ranges, and benchmarks are found within Appendix A (Appendix B for the Annuity Pool). These allocations are designed to maximize the probability of attaining the long-term return while meeting the risk objectives and satisfying the Foundation's constraints. It is expected that these items will be reviewed in detail annually, although they will be monitored more frequently and that they will be changed infrequently or as circumstances change that would require modification (i.e., changes in investment objectives or spending policy).

7. PROHIBITED INVESTMENTS

There are certain investments that the Foundation is prohibited from investing in as set forth on **Appendix C**.

8. PORTFOLIO REBALANCING

The Committee recognizes the importance of periodically rebalancing the Portfolio Asset Allocation, namely to ensure that variation in returns among assets do not create outsized deviations from target allocations that cause Portfolio performance to diverge from expected policy performance.

The Committee shall review the Portfolio Asset Allocation at its quarterly meetings. The Committee has the authority to rebalance the Portfolio to achieve the desired Portfolio Asset Allocation at any time.

The Investment Consultant shall notify the Committee to address rebalancing in the event any primary individual asset class (equity, alternatives, or fixed income) exposure differs from policy by a level of 5% or more beyond the upper or lower limit of the specified range as measured at the end of the month. In the event rebalancing is necessary between Committee meetings, the Investment Consultant shall consult with the Executive Director and the Committee Chair and develop a plan to rebalance asset allocation within target ranges.

In the event of cash contributions to the Foundation the Foundation Staff and Investment Consultant are permitted to invest these cash inflows according to the Asset Allocation promulgated at the time the funds are received.

9. CONFLICTS OF INTEREST

The Board and Committee members are charged with the responsibility for recommendations and decisions that, in their judgment, best serve the long-range interests and objectives of the Foundation. In discharging this obligation, the Board and Committee members should diligently avoid placing themselves or the Foundation in any situation involving an actual or perceived conflict of interest.

If the Board or Committee takes up for consideration any matter in which Board or Committee members, or persons affiliated with them, have a direct or indirect financial interest, the Board or Committee, as applicable, shall resolve questions of real or apparent conflict of interest by adopting the following procedures:

1. Board or Committee members must disclose to the Board or Committee any relevant facts that might give rise to a conflict of interest with respect to any matter to be considered by the Committee;
2. Board or Committee members affected by an actual or perceived conflict of interest must abstain from the Committee’s discussion of such matter unless the Board or Committee specifically requests information of them, and such abstention shall be recorded in the Board or Committee meeting minutes; and
3. If requested to do so by any other Board or Committee member, the affected members must withdraw from the meeting during the Board or Committee’s deliberations and vote.

10. PROCESS TO REVISE THE STATEMENT

This Statement shall remain in effect unless or until modified by the Board. This Statement shall be reviewed by the Executive Director and the Committee at least annually. The Committee may recommend modifications to the Statement as it deems necessary and appropriate. With the exception of responsibilities delegated to the Committee and described in section 2.1, the Board must approve any material changes to the Statement.

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The Effective Date of this Statement of Investment Policy is [DATE].

APPENDIX A - PORTFOLIO ASSET ALLOCATION AND BENCHMARKS

Asset Class	Policy Target	Allowable Ranges	Benchmark
Growth Engine	63%	45-75%	MSCI ACWI (net)
Diversifiers	18%	10-25%	HFRI Fund of Funds Composite Index
Inflation Sensitive	7%	0-15%	Asset-weighted blend of underlying Real Assets manager benchmarks
Bonds and Cash	12%	10-30%	Asset-weighted blend of underlying Bonds and Cash manager benchmarks
	100%		

Asset Class Descriptions:

- Growth – Global equities, both public and private, passively and actively managed**;**

- Diversifiers – Hedge fund strategies, credit and related strategies (such as high yield bonds and mortgage backed securities);

- Inflation Sensitive – Natural resources equities, commodities, real estate securities, inflation-linked bonds, MLP's, both passively and actively managed; and

- Bonds and Cash – Higher quality liquid U.S. and global fixed income securities of varying duration and cash and cash equivalents, both passively and actively managed.

Total Portfolio Benchmarking:

Two sets of benchmarks shall be used for analyzing total Portfolio performance:

1. Policy Benchmark: Static benchmark that represents a passive investment in the policy target asset allocation as described in table above. Measures the value-added relative to the investment policy, particularly related to asset allocation.
    a. Policy target weights multiplied by the asset class indices defined in the table above
2. Dynamic Benchmark: Measures the value-added by active management over passive returns
    a. Manager-specific weights multiplied by manager-specific index returns

Asset Class Benchmarking:

Individual asset class performance shall be measured against the asset class benchmarks identified with the table above.

Manager Benchmarking:

Individual manager benchmarks will be identified at the time of hire. Active managers will be expected to provide returns greater than their appropriate benchmark, net of fees, while utilizing acceptable risk levels, over moving 36-month periods. Index, or passive managers, will be expected to provide returns materially consistent with the appropriate benchmark, before reasonable fees, with materially no more volatility than the benchmark.

APPENDIX B - PORTFOLIO ASSET ALLOCATION – ANNUITY POOL

Asset Class	Policy Target	Allowable Ranges	Benchmark
Growth Engine	55%	45-75%	MSCI ACWI (net)
Inflation Sensitive	5%	0-15%	Asset-weighted blend of underlying Real Assets manager benchmarks
Bonds and Cash	35%	25-50%	Asset-weighted blend of underlying Bonds and Cash manager benchmarks
	100%		

Total Portfolio Benchmarking:

Two sets of benchmarks shall be used for analyzing total Portfolio performance:

1. Policy Benchmark: Static benchmark that represents a passive investment in the policy target asset allocation as described in table above. Measures the value-added relative to the investment policy, particularly related to asset allocation.
    a. Policy target weights multiplied by the asset class indices defined in the table above
2. Dynamic Benchmark: Measures the value-added by active management over passive returns
    a. Manager-specific weights multiplied by manager-specific index returns

Asset Class Benchmarking:

Individual asset class performance shall be measured against the asset class benchmarks identified with the table above.

APPENDIX C - PROHIBITED INVESTMENTS