UNIVERSITY OF CENTRAL MISSOURI FOUNDATION
INVESTMENT AND SPENDING POLICIES
FOR FUNDS FUNCTIONING AS ENDOWMENTS

I. PURPOSE

This Policy statement includes both objectives and guidelines intended to apply to the funds functioning as endowments investment assets ("Investments") in the University of Central Missouri Foundation ("Foundation"). This policy is designed to:

A. Establish appropriate risk and return objectives in light of the risk tolerance and the perpetual time horizon for the Investments.
B. Describe roles and responsibilities of parties overseeing the Investments.
C. Establish asset allocation guidelines and suitable investments for the Investments, consistent with the risk and return objectives of the policy.
D. Describe investment manager evaluation.

II. INVESTMENT OBJECTIVES

The primary investment objectives for the management of the Investments are to:

A. Maintain intergenerational equity as measured by achieving a real long-term return – after total spending – that at least equals inflation.
B. Create investment returns to meet the current and future program or expenditure needs designated by donors.
C. Create a flow of investment returns to assist the Board of Directors ("Board") in funding operating expenses of the Foundation, including sufficiently building operating reserves for future use.
D. Maximize risk-adjusted returns.

III. GENERAL INVESTMENT POLICY

The Foundation has adopted the principles of and requirements under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Investment policy and decisions for asset placement are based on a long-term investment strategy appropriate for an institutional endowment held in perpetuity. The Investments will be invested using an asset allocation to maximize long-term total return under the parameters described below. The investment policy shall serve to diversify investments and provide a balance enhancing total return while avoiding undue risk concentration in any single asset class or investment category. Because of the long-term nature of the portfolio, investments in and commitments to illiquid investment strategies will be considered. Specific liquidity definitions are noted in Appendix C. The asset allocation shall be implemented using a policy portfolio with allocations and ranges for each investment strategy to achieve the long term growth assumptions. It is expected that market fluctuations will cause deviations from the target allocations to occur. Rebalancing will take place with an emphasis on mitigating risk and reducing expenses as far as practicable.

IV. RISK MANAGEMENT

The Board, acting through the Investment Committee ("Committee"), understands that investment risk cannot be eliminated but should be managed. The Committee has defined risk as the possibility of failure to meet the commitments to students and programs arising from the inability to earn sufficient, inflation-adjusted returns to cover distribution requirements that maintain intergenerational equity over the long-term (10-20 years). The level of overall portfolio risk taken should be consistent with the overall return objectives and investment policy of the Foundation.

The Committee, with the help of the Foundation's investment managers ("Managers"), and Executive Director, are responsible for understanding the risks inherent in various investment strategies, ensuring proper compensation for these risks, as well as measuring and monitoring the risks.

V. SPENDING POLICY

This spending policy is intended to allocate the annual total return from the Investments to address the following objectives:

A. Provide consistent funding for programs, projects or scholarships as designated by the donor(s).
B. Provide for annual assessments for operating reserves and expenses.
C. Provide for long-term growth of the corpus of the Investments.

The Investment's total distribution for spending ("spending"), including appropriations for operating reserves and expenses, will be reviewed and approved by the Board. The spending will be calculated using the twelve-quarter rolling average market value of the funds functioning as endowment portfolio. The Board intends to employ a constant growth spending policy where annual distributions will have a target equal to distributions in the prior year, plus an adjustment for tuition inflation at the University of Central Missouri. Under certain conditions, the Board may decide not to spend the amount indicated by the spending formula or may provide for an additional appropriation for operating reserves and expenses.

Effective July 1, 2014, and thereafter, spending on newly created endowments will begin with the distribution cycle immediately following the funds being invested for six months.

According to the Financial Accounting Standards Board Statement of Financial Accounting Standard No. 116, unconditional promises to give are recognized as gift revenue in the period that the promise is received. As a result, the Foundation does have receivables on its statements of financial position that represent the fair market value of these promises to give. In order to protect the assets and to prevent the expenditure of gifts not yet received, no portion of gift receivables shall be spent or transferred to the University unless there is prior approval by the Board.

The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets:

A. the original value of gifts donated to the permanent endowment,
B. the original value of subsequent gifts donated to the permanent endowment, and
C. accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets and maintained as such for appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the UPMIFA. In accordance with the UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund; purpose of the Foundation and the donor-restricted endowment fund; general economic conditions; possible effects of inflation and deflation; expected total return from income and the appreciation of investments; other resources of the organization; and, the investment policies of the organization.

When the fair market value of an endowment is 90% of its corpus amount, the endowment should be evaluated and spending could be frozen. Under the prudent management flexibility of UPMIFA, spending may continue to occur if it has a significant impact on the mission and can be done prudently without significantly impeding the endowment’s recovery. After consideration of the factors, the Board will exercise its fiduciary duty when determining whether spending is allowed.

VI. ENDOWED ASSETS RECEIVED BY GIFT

With approval through the Gift Acceptance Policy, certain endowed gift assets may be received by the Foundation periodically with a limited means of liquidation, or that the Committee determines should be held and retained as the sole endowed asset of a particular fund. Such assets and funds will be excluded from this policy. Spending for that fund will be determined by a separate action of the Committee, depending on the type of asset involved.

VII. RESPONSIBILITIES

The following parties shall discharge their respective responsibilities in accordance with all applicable fiduciary standards in the sole interest of the beneficiaries; with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; and by diversifying the investments to minimize the risk of large losses.

A. Board of Directors: The Board has overarching fiduciary responsibility for the assets of the Foundation. The Board is responsible for determining and approving, upon recommendation by the Committee, the Foundation's investment and spending policies and overall asset allocation ranges and targets; risk/return objectives, setting guidelines for reporting and monitoring of performance, and the use of any consultants. In determining these items, the Board and the Committee will ensure that any governing laws and policies are adhered to pertaining to the investments as in effect from time-to-time.
B. Investment Committee: The members of the Committee are delegated authority by the Board to provide oversight of the day-to-day administrative issues associated with the Investments. The Committee has the authority to implement this investment and spending policy; specific responsibilities of the Committee include the following:
    1. Establish and, when deemed necessary, recommend modifications to the investment and spending policy to the Board for approval.
    2. Review investment policy at least annually to ensure compliance and relevance to the current law, financial and economic trends, and to meet the needs of the Investments.
    3. Determine the overall asset allocation ranges and targets, and risk/return objectives, and report changes in such to the Board for approval.
    4. Select professional investment managers, brokers, and administrators, and negotiate and monitor terms and conditions of their services.
    5. Cause investment purchases to be made, via Executive Director on Committee instruction, in accordance with policy, and instruct staff in carrying out policy as needed.
    6. Monitor performance of the Investments against appropriate benchmarks at least quarterly, and more often if necessary.
    7. Assure proper custody of the investments.
    8. Report the asset allocation, and performance results at least quarterly to the Board on the Investments.

9. Retain an investment advisor to assist with this process as necessary.

C. Investment Manager(s): Industry-regulated investment products will be used, and/or investment manager(s) will be hired and delegated the responsibility of investing and managing the assets in accordance with this policy and all applicable laws. Each investment manager must either be registered under the Investment Company Act of 1940, registered under the Investment Advisors Act of 1940, a bank, as defined in that Act, an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Investments, or, such other person or organization authorized by applicable law or regulation to function as an investment manager.

VIII. PRUDENCE, ETHICS AND CONFLICT OF INTEREST

All fiduciaries involved in the investment process shall act responsibly and without conflict with other business or personal interests, in accordance with the Foundation's conflict of interest policy and annual declarations. The standard of prudence to be applied to the Committee, the investment consultant (if applicable), each investment manager, and each other fiduciary with discretion respecting management of the Investments shall be the "prudent investor" rule. This rule requires each fiduciary to invest and manage endowed assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust.

In satisfying this standard, the fiduciary shall exercise reasonable care, skill, and caution. A fiduciary's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the endowed portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Investments.

IX. ASSET CLASS DEFINITIONS AND GUIDELINES

The Investments may be invested in any combination of individual securities, separately managed accounts with investment managers, commingled funds, exchange traded funds and mutual funds. In cases of the use of managers, they will have full discretion over their portfolio management decisions in accordance with guidelines provided by this policy. In the case of commingled funds, exchange traded funds and mutual funds, their management will be carried out within their respective structures and in accordance with the prospectus material published. The composite asset classes of investments that may be deployed are noted below. The permissible asset allocation ranges and the targets for each category, along with additional specifics, are stated later in this policy.

A. Cash and cash equivalents – the managers may invest in the highest quality commercial paper, repurchase agreements, U.S. Treasury Bills, certificates of deposit and money market funds to provide income, liquidity for expense payments and preservation of the Investment's principal value. Investment in the obligations of a single issuer should not at the time of investment exceed 5% of the Investment's total market value, with the exception of the U.S. Government and its agencies. The Committee does not consider short-term cash equivalent securities to be appropriate investment vehicles for long-term portfolios, so cash and cash equivalents shall be kept to a minimum except where needed to comply with liquidity parameters.
B. Global equities – the purpose of global equity investments will be to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals. This component includes global common stocks, warrants and rights, American Depository Receipts (ADR), preferred stocks and convertible stocks traded on the world's stock exchanges or over-the-counter markets as well as REITs (real estate investment trusts) and any other investments as allowed by respective prospectuses. Public equity securities shall be restricted to readily marketable securities of corporations that are traded on the major stock exchanges and generally represent companies meeting a minimum market capitalization requirement of respective asset class guidelines with reasonable market liquidity where customary. Investments in securities of issuers representing a single major industry shall not at the time of investment exceed 10 percent of the Investment's total market value and investments in securities of any one issuer shall not at the time of investment exceed 5 percent of the Investment's total market value, unless approved by the Committee. This does not include indexed or exchange-traded funds (ETF).
C. Global fixed-income – the purpose of global fixed income investments are to provide diversification and a dependable source of current income. Fixed income investments should reduce the overall volatility of the Investments and provide a deflation or inflation hedge, where appropriate. The fixed income asset class includes the global fixed income markets of the world's developed and emerging economies. It includes, but is not limited to, U.S. Treasury and government agency bonds, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, inflation-protected securities and non-investment grade debt. Also included are money market instruments such as commercial paper, certificates of deposit, time deposits, banker's acceptances, repurchase agreements, and U.S. Treasury and agency obligations. The managers shall take into consideration credit quality, sector, duration and issuer concentration in selecting an appropriate mix of fixed income securities. Allocations in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings and maturity premiums. The specific allocation biases between U.S. and non-U.S.

fixed income will be determined by the Committee and will adhere to the broad policy ranges and targets. With the exception of U.S. government and agency issues, investments in securities of issuers representing a single major industry shall not at the time of investment exceed 10 percent of the Investment's total market value and investments in securities of any one issuer shall not at the time of investment exceed 5 percent of the Investment's total market value, unless approved by the Committee. This does not include index or exchange-traded funds (ETF).

D. Alternatives – the following alternative strategies shall be permitted for the Investments, subject to the respective guidelines set forth in each section. Investments in alternative strategies shall not at the time of investment exceed 20% of the Investment's total market value, unless approved by the Committee. The Committee recognizes that alternative investment classes may help to reduce the Investment's volatility and/or enhance overall performance. It is the intent of the Committee to place a portion of assets, as specified in alternative investment strategies. Appropriate strategies include, but are not limited to:

    1. Marketable alternative strategies – Investment may include (among other strategies) equity-oriented or market-neutral hedge funds which can be both domestic and international market-oriented. Marketable alternative investments may include commodity funds, currencies and managed futures or other investments the investment managers deem appropriate. These components may be viewed as equity-like or fixed income-like strategies as defined by their structures and exposures.
    2. Private equity – Investments may include illiquid investments in both private and public companies both domestically and internationally. These investments include venture capital, buyouts, high yield, and subordinated debt seeking diversification across categories and investment stage. Such investments may be made only through professionally managed investment funds usually organized as limited partnerships. Managers are sought which have proprietary deal flow and whose experience enables them to bring strategic, operational, or technical expertise to a transaction in addition to financial acumen and capital.
    3. Energy and Natural Resources – Investment allocations may include oil, gas and timber investments, typically held in the form of professionally managed pooled limited partnerships, as well as commodity-based investments. All such investments must be made through funds offered by professional investment managers.
    4. Real Estate – Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investments may be made only through professionally managed pooled real estate investment funds.

5. Distressed debt – Investments may include the debt securities of companies undergoing bankruptcy or reorganization. Such investments may be made only through professionally managed funds.

The Committee may waive or modify any of the restriction in these guidelines in appropriate circumstances. Any such waiver or modification shall be made only after a thorough review of the manager and investment strategy involved. An addendum supporting such waiver or modification shall be maintained as a permanent record of the Committee. All such waivers and modifications shall be reported to the Board at the meeting immediately following the granting of the waiver or modification.

Adherence to the restrictions in these guidelines shall be measured as of the time of the initial investment. It is recognized that subsequent market action may result in the investment or strategy ceasing to adhere to these restrictions, through no fault of the Committee or manager. In such situation, the Committee and manager shall make reasonable attempts to bring the investment or strategy back within adherence to these restrictions, bearing mind the long-term interests of the Investments and the desirability of avoiding harmful forced sales of assets. In these cases, investment managers will use best efforts to rebalance the Investments as described in Section IX of this policy.

X. ASSET ALLOCATION

The asset allocation parameters for the Investments is determined by the Committee and further described in Appendix A to facilitate the achievement of the investment objectives within the established risk parameters. The actual asset allocation and the benchmark indexes will be reviewed by the Committee and reported to the Board at least quarterly. While negative returns in any single year may be unavoidable, over the longer term, asset allocations should be selected which are expected to achieve overall positive portfolio returns. In order to assess and monitor portfolio risk, the Committee will review its asset allocation policy at least annually.

Allocation of funds between asset classes may be the single most important determinant of the investment performance over the long-term. Formal asset allocation studies and a review of capital market assumptions should be conducted at least every two years, with annual evaluations of the validity of the adopted asset allocation. The Investments shall be divided into the following general asset classes: cash and cash equivalents; global equities; global fixed income; and alternatives. The asset allocation parameters are listed in Appendix A and appropriate benchmarks are listed in Appendix B. Within the above guidelines and restrictions, the managers shall have complete discretion over the selection, purchase and sale of securities subject to the standards of fiduciary responsibility.

XI. LIQUIDITY MANAGEMENT

Staff will monitor cash flow on a regular basis, and sufficient liquidity shall be maintained to ensure spending policy is efficiently implemented. When withdrawals become necessary, staff will notify the investment manager(s) as far in advance as possible to allow them sufficient time to liquidate assets as necessary.

XII. REBALANCING

Investment managers will use best efforts to rebalance the investment portfolio on an ongoing basis (and no less than quarterly) as cash returns and new gifts to the Investments are received, or market value fluctuations occur in asset classes that require divestment and redeployment to other asset classes. When prudent, dollar cost averaging will be deployed. All new investments and rebalancing actions will be reported to the Committee at least quarterly.

The purpose of rebalancing is to move the investment portfolio towards, but not necessarily to, the target asset allocation taking into consideration factors such as market conditions, planned asset allocation actions, circumstances of the manager being used, and liquidity of the asset classes. In general, the portfolio is expected to remain within the boundaries of the ranges around the target asset allocation. The Committee may make a tactical asset allocation decision to not rebalance for a particular reason or time frame.

XIII. MANAGER REVIEW AND CORRECTIVE ACTION

The Committee will also periodically review the qualitative developments of the investment manager. This evaluation should include changes in the investment philosophy, in the organizational structure or financial condition (including any significant changes in total assets under management), in key personnel and in the fee structure.

This review should also include an assessment as to whether the investment manager(s) have operated within the scope of this policy. Investment manager(s) must disclose all major changes in organization or investment philosophy to the Committee members within 30 days.

Investment managers shall report not less than quarterly on the performance of the portfolio, including comparative net and gross returns for the funds and their respective benchmarks, as well as a complete accounting of all transactions involving the Investments during the quarter, together with a statement of beginning balance, fees, capital appreciation, income and ending balance for each account.

Corrective action should be taken by the Committee naturally as a result of the ongoing review process of both portfolio returns and all components of the contribution to returns. While there may be unusual occurrences at any time, the following are instances where corrective action may be in order:

A. Any organizational change that may materially affect the management process will be noted by the investment management and discussed with the Committee. If the Committee deems appropriate, the investment manager may be called upon to discuss changes.
B. Violation of terms of contract without prior approval for the Committee constitutes grounds for termination.

Changes in the portfolio manager(s) shall be subject to the recommendation of the Committee and approval of the Executive Committee or the Board. Any agreement entered into with a professional investment management organization shall include a provision granting the Board of the authority for dismissal of the said organization upon a twenty-four hour notice.

XIV. OTHER MATTERS

A. Proxy Voting: The investment manager(s) shall have the sole and exclusive right to vote any and all proxies solicited in connection with the portion of the securities held by the Investments under their management. The investment manager(s) shall furnish the Committee with a written proxy voting policy statement, and shall keep records with respect to its voting decisions and submit a report annually to the Committee summarizing votes cast.
B. Trading and Execution: The investment manager(s) shall use their best efforts to obtain execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.

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APPENDIX A – Asset Allocation Parameters

	Minimum	Maximum
Global Equities	**30%**	**70%**
U.S. Large Cap	20%	70%
U.S. Mid Cap	0%	20%
U.S. Small Cap	0%	20%
Developed Ex-U.S.	10%	30%
Emerging Market	0%	25%
Global Fixed Income	**20%**	**50%**
U.S. Fixed Income	20%	50%
Non-Investment Grade	0%	20%
Ex-U.S. Fixed Income	0%	20%
Emerging Market Fixed Income	0%	15%
Alternatives	**10%**	**20%**
Marketable Strategies	0%	10%
Private Equity	0%	10%
Energy and Natural Resources	0%	10%
Real Estate	0%	10%
Distressed Debt	0%	10%
Cash and Cash Equivalents	**0%**	**5%**

APPENDIX B – Policy Portfolio

Broad Asset Class	Policy Portfolio	Benchmark
U.S. Equities	30%	Russell 3000
Global Equities	30%	MSCI All Country World Index
Global Fixed Income	30%	Barclays Universal Bond Index
Alternatives	10%	HFRI Hedge Fund of Funds Diversified Index

APPENDIX C – Liquidity Classifications

Liquidity	Definition
Daily	Highly Liquid
Quarterly	Liquid
< 1.5 years	Semi-liquid
1.5 to 5 years	Illiquid
More than 5 years	Highly Illiquid