Prairie View A&M Foundation

Subject: Long-Term Investment Pool Investment Policy

Purpose: To state the general investment policy of the Foundation.

Procedure:

The long-term financial objective for the assets in the Long-Term Investment Pool of the Prairie View A&M Foundation (the "Fund") is to preserve or increase the purchasing power of the Foundation's assets in perpetuity. This goal should be achieved over rolling five to ten year periods on a total return basis. The underlying challenge is to produce an adequate inflation adjusted annual spending policy to support current and future educational programs and funding requirements of the Prairie View A&M Foundation and Prairie View A&M University.

The long-term investment objective of the Fund is to earn an average annual real (i.e., inflation-adjusted) return of at least 6% per year, net of all investment fees.
The Foundation's investment policies are based on the assumption that the annual spending policy of the Fund will average approximately 6.0% of the Fund which includes a 5.1% payout distribution to the university and a .9% management fee. The spending policy is based on a trailing five-year (20 quarter) moving portfolio market value average computed on a calendar year basis

During the initial start up phase (approximately 3-5 years), the Foundation will leverage strategies to optimize returns that will consider and balance near term financial requirements in line with current market conditions. These strategies may include and are not limited to equities, private funds, structured derivatives and validated private placement opportunities. Investment activities during the initial start up phase may include "opportunistic " investments as vetted and reviewed by the Investment Committee with full review and approval of the Board and counsel with the Foundation's financial advisors / counsel.

The initial capital project (PVAMU Sports Complex) undertaken by the Foundation, while developing a significant donor base will require a conservative investment strategy for all restricted funds donated in support of the Sports Complex. Performance of the unrestricted portfolio will demonstrate, over time, a portion of the Sports Complex restricted funds should be allocated to the primary investment strategy of the Foundation.

The following investment guidelines will be used:

1. **TYPES OF ASSETS:** The Fund will be diversified by asset class, market capitalization, industry sector and security. The Fund's asset allocation may include:

- **Traditional Equity.** Traditional equity investments will utilize various investment styles and components thereof to provide diversification and reduce portfolio volatility. Guidelines should be established with external investment managers and monitored to ensure reasonable diversification and avoidance of excessive concentration of risk. It is desired that portfolio managers be prepared to react to short term (3-6 months) as well as long term (1-3 years) market cycles within the limits of this policy. Investment managers must have a well-defined sell discipline to protect the portfolio from significant losses in any one security. Equities should be managed for consistent long-term growth, rather than for short-term gains with excess volatility.

- **Alternative Equity.** Alternative equity investments will utilize various instruments, including limited partnerships, and hedge funds to enhance diversification and seek higher returns in less efficient parts of the capital market where long-dated strategies provide a competitive advantage. Additionally, alternative equities will sometimes include long-only equity portfolios concentrated in market sectors (such as REITS) that have unique characteristics, such as inflation hedging, that are key to long-term portfolio performance and diversification.

 Fixed Income. Fixed income, taken as a whole, is primarily there for risk reduction and income generation. Fixed income will include a core of US-centric traditional bonds, including U.S. Treasury, and Agency securities, as well as corporate credit and mortgages. Guidelines should be established and monitored to ensure reasonable diversification and avoidance of excessive concentration of risk. Extended fixed income markets, such as high-yield or non-US bonds can be utilized, but should never comprise more than one-third of the Fixed Income portfolio.

2. **ASSET ALLOCATION:** The total Fund asset mix shall include the following parameters: maximum 75% and minimum 50% (combined traditional and alternative) and all remaining funds invested in bonds and cash (minimum 25%).

3. **INVESTMENT MANAGER STYLES:** The Fund's investment manager structure will be diversified by investment style, capitalization emphasis and asset class. Appropriate passive and peer benchmarks will be established for each investment manager reflecting its investment cycle.

4. **USE OF DERIVATIVES:**

A. **For Alternative Marketable Equities:** Managers of alternative marketable equities are most likely to utilize derivatives as a normal part of their investment strategies. The Foundation will invest in such strategies exclusively through limited partnerships, offshore corporations or other legal entities that limit the Foundation's exposure to its investment in the strategy.

B. **For Common Stock and Fixed Income Portfolios:** The Foundation may allow certain common stock and fixed income investment managers to utilize derivative securities in a manner consistent with the Foundation's overall investment objectives and policies. In the case of common stock portfolios, derivative securities primarily include exchange-traded index futures, options on index futures and currency futures and forwards. In the case of fixed income portfolios, derivative securities primarily include interest rate futures, options on interest rate futures, currency futures and forwards, international interest rate futures, swaps and collateralized mortgage obligations.
Investment managers should not utilize derivatives without prior discussion with, and authorization by, the Foundation. The manager should clearly state the objectives and limitations of the proposed use of derivatives, and the securities to be used, and develop written guidelines for the program that are agreeable to the Foundation.
An investment manager shall engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more efficiently and at a lower cost than would be possible in the cash market. Derivatives should not be used to leverage portfolios. Derivative strategies should not be used to alter the effective duration of the portfolios beyond the appropriate ranges for the portfolios.
The Foundation requires that investment managers utilizing derivative securities in Foundation portfolios have appropriate control and review procedures in place to evaluate the risks and exposures of the portfolios on a timely basis. These control and review procedures shall include, but not be limited to, compliance with all necessary legal requirements to use derivative securities, creating internal review and control systems to review portfolio risk and using third party pricing of illiquid securities where appropriate.

5. **ALLOCATING NON-MARKETABLE INVESTMENTS:** As a part of its investment strategy, the Foundation invests in non-marketable investments, such as private partnerships. The market value of those investments ("market value" being defined as the market value of the actual "called" capital to date, notwithstanding the amount of outstanding "committed" capital) can and

occasionally will be different than the policy targets for those asset classes. In as much as the Foundation does not have control over the timing of cash calls or distributions by general partners, there will often be an unavoidable discrepancy between the target amount and the actual market value within this asset group, especially in the early period of the investment. Also, from time to time, market values of such partnerships may exceed our targets, and in such fortuitous circumstances, the Foundation may not have the option to 'trim' our positions in these investments. Therefore, to the extent that the market value of such non-marketable investments is less than (or more than) the respective policy targets, the difference(s) shall generally be applied to marketable asset classes according to the following methodology:

At such time as the non-marketable "committed" capital is "called," the related marketable asset class set forth above (B. 1-4) shall be liquidated as the source capital to fund such commitments, subject to available cash, transaction costs, and other significant target imbalances. Within the marketable major asset classes to be modified, staff will determine which sub-asset classes and external managers offer the best return/risk opportunities.
The portfolio should be examined quarterly for potential changes necessitated by changes in invested capital and market values. Changes made according to the above methodology should be executed only when the potential moves involved exceed 3% of at least one major asset class. This is to avoid unnecessary transaction costs.

A. **Rebalancing of Marketable Assets**

1. Where market values of such non-marketable investments are less than policy targets, all marketable asset classes with weights below policy targets will be brought minimally to their policy target weight to the extent practical. (An example of where it would be impractical is an asset class with a single manager and a product that is closed to new cash flows.)

2. Where market values of such non-marketable investments are more than policy targets, all marketable assets with weights above policy targets will be brought down to the policy target weight.

B. **Distribution of Remaining Under/Over Investment Amounts**

The remaining differences (over or under) between the market value and policy targets of non-marketable asset classes will generally be proportionately applied to those marketable asset classes that have similar characteristics (such as expected rates of returns, volatility, and perceived risk) to the investment that is under- (or over-) represented in the actual portfolio. Specifically:

1. Amounts designated for venture capital investments will be applied to US equity and cash in such proportions as determined by the Investment Committee.

2. Amounts designated for other private equity (such as buyouts or distressed debt) will be applied to US equity and cash in such proportions as determined by the Investment Committee.

3. Amounts designated for private real estate funds will be applied to REITS.
4. Amounts designated for other hard asset funds (oil and gas, timber) will be applied to US equity within the target hard asset equity group or other substitute assets as determined by the Investment Committee.

6. **NON-MARKETABLE INVESTMENTS COMMITMENT POLICY:** In an attempt to more closely align the market value with portfolio target levels within the Non-Marketable Asset Class, the Foundation shall have the option to make initial commitments to private partnerships selected for investment that exceed the aggregate total of the target amount in this asset class. It is the

expectation that the life cycle of the actual committed capital in this asset class will span a 3 to 10 year time horizon. As such, the committed capital will be expended fully for only a short period of time (if at all) relative to the entire investment period. Therefore, to reach the target level on an aggregate asset class basis, an overallotment of committed capital may be required to achieve the target level at a given point in time. Therefore, the Foundation shall be permitted to commit to selected investments within this group an amount not to exceed 175% of the target amount in the Non-Marketable Asset Class.

7. **PERFORMANCE TIME HORIZON:** The investment performance of each manager will be monitored on a quarterly basis. It is not expected that investment results exceed stated objectives for each quarterly report; investment managers will generally be given 3 to 5 years to generate desired performance results. However, should trends emerge that indicate an investment manager's performance and market position is such that good long-term relative performance cannot be achieved, or that there has been a change in the firm's ownership, professional staff or investment process, or any factor that led to the firm being hired, then termination of the investment manager may be considered.

8. **PERFORMANCE EVALUATION AND MONITORING:** Portfolio manager evaluation will be based upon:

A. total fund performance including appreciation and income components,

B. analysis of risks incurred in achieving results,

C. comparison of total fund and each asset class performance with that of a universe of similar managed funds, and

D. performance by individual investment managers should be in the top quartile of their universe of similarly styled funds. Moving one, three, five, seven year and inception-todate performance results will be emphasized, with quarterly monitoring of cumulative progress in evaluating expected returns and a comprehensive annual review of all manager and performance returns in line with investment policy and market expectations.

9. **REBALANCING:** As a basic policy, the Foundation will utilize cash flow (both purchases and redemptions) to rebalance to policy targets on an on-going basis. The basis for all rebalancing decisions and policies is the position of the assets compared to the implementation targets. The implementation targets are the policy targets adjusted per the policies outlined above in paragraph 5 to account for under/over allocations to non-marketable investments.

Mandatory Rebalancing:

Staff shall compare the asset positions relative to the implementation targets at least quarterly. The portfolio shall be rebalanced to the implementation targets if the deviation of any major asset class from the target equals or exceeds 3%. Major asset classes are Traditional Equity, Alternative Equity, and Fixed Income (including cash). The period of rebalancing shall be left to the discretion of the staff, with the Investment Committee being notified of any rebalancing activity that is intended to be executed over a period longer than 2 months.

Optional Rebalancing:

Staff is authorized to make marginal additions/withdrawals in any asset class as long as the cash flow brings the balance closer to the implementation target, without going above/below the implementation target, respectively.
Every effort will be made to hold transaction costs to a minimum during rebalancing efforts.

10. **GOVERNANCE STRUCTURE:** A two-thirds (2/3) majority vote of the Investment Committee and a vote of the Board of Trustees is required authorization for PVAMF investment of the fund.

11. A risk-controlled securities lending program will be utilized to enhance portfolio income.

12. The Investment Committee will annually review and revise the investment guidelines as deemed appropriate.