Prairie View A&M Foundation (PVAMF)
Long-term Investment Policy

Purpose: To document the General Investment Policy of PVAMF

Overview: The financial objective for the assets in the Long-Term Investment Fund (the "Fund") of the PVAMF is to increase the income-creating capability of the Fund into perpetuity. The goal of creating more income each year should be achieved on an annual basis in direct connection with the success of fundraising. The prevailing challenge is to establish and sustain a fundraising program which produces sufficient inflation-adjusted annual income to support current and future funding requirements of the PVAMF and Prairie View A&M University. As such, it is incumbent upon the Advancement and Finance Committees to fully aware of and engaged in the Investment Committee's activities.

It is important to note that the Fund includes both an unrestricted component *and* a restricted component, the latter for which specific use criteria has been established by donors. Although the Investment Committee (IC) is responsible for managing the entire Fund, the "spend no principle" tenet, which will be established later within this document, pertains only to the unrestricted component of the Fund. Additionally, any funding shortfalls within the restricted component which result from investment-related activities will be addressed separately by the Executive Committee (in consultation with the Finance and Investment Committees).

Investment Objectives

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 and expenses, as measured over rolling 10-year periods. The portfolio is to be structured in a manner that will generate long-term growth of capital without excessive exposure to risk, providing sufficient and sustainable annual income to support spending distributions.

Investment Guidelines and Constraints

All persons associated with the management of the investment portfolio must act in good faith, placing the interests of the PVAMF and Fund first and foremost, and functioning in accordance with all applicable laws and regulations.

Investment Guidelines and Constraints (continued)

The IC will leverage the expertise and guidance of an Investment Management Company (IMC) in its deliberations regarding the management of Fund assets, keeping the following considerations in mind:

- The current economic environment;
- Emerging inflationary or deflationary pressures;
- Potential tax consequences (because the PVAMF and Fund are exempt from federal income taxes due to 501C (3) designation, tax considerations will not normally be a significant constraint; however, the potential for unrelated business taxable income should be evaluated as part of the investment decision-making process);
- Expected total return from income and appreciation of investments;
- The needs of the PVAMF to both make distributions and preserve capital;
- Pros/cons of investing in assets with potential negative Environmental, Social, and Corporate Governance exposure or those with special relationship or value to the charitable purpose of the PVAMF and Fund.

Types of Assets: The Fund will be diversified by asset class, market capitalization, equity style, geography, and industry sector. The Fund's asset allocation may include:

a. Traditional Equity. Traditional equity investments must be publicly traded, have daily liquidity, and be audited by a third party. Strong attention must be given to the reasons for holding any security trading below $5 per share. 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.
b. Alternative Equity. This includes various instruments such as: limited partnerships; hedge funds; Real Estate Investment Trusts (REITS); and commodities. Each investment made must be publicly traded, have daily liquidity, and be audited by a third party. Strong attention must be given to the reasons for holding a security that trades below $5 per share.
c. Fixed Income. Fixed income, taken as a whole, is primarily there for risk reduction and income generation. Fixed income may include 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. Fixed income markets with longer duration and lower credit quality should get extra scrutiny and aim to be less than one-third of the fixed income portfolio.

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Asset Allocation: The total Fund asset mix shall aim for 50% equity and 50% fixed income (to include at least 5% cash or money market funds) with space for the manager to strategically navigate current market conditions. At the riskiest, the portfolio may have a maximum of 65% equity and 35% fixed income (to include at least 5% cash or money market funds). At the least risky, the portfolio may have a maximum of 35% equity and 65% fixed income (to include at least 5% cash or money market funds).

Use of Other Investments: Upon reaching $20 M in portfolio value, the IC may elect to participate in illiquid investment opportunities that may not publicly be traded, provided that each holding is audited annually by a third party available to the committee, and by extension, its investment manager. Investments of this type include: derivatives; offshore investments; futures; collateralized mortgage obligations (CMOs); non-marketable investments; private partnerships; general partnerships; distressed debt; venture capital; and private equity to include private REITs. The total amount of investments in the Fund that may be allocated to these types of investments shall not exceed 5% of the Fund.

Distribution of Income: Investment growth and income (dividends and interest received since the last withdrawal) are always available for withdrawal and distribution. Unless otherwise authorized by the Board, withdrawals shall be confined to current (earned since last withdrawal) interest and dividends only. This "spend no principle" approach is one of the most important tenets in this document. Also, the Fund may not be used as collateral for a loan of any kind ("no loans principle") without the endorsement of the Executive Committee (two-thirds vote) and full Board (majority note). Withdrawals will typically be evaluated on a planned basis at the end of each fiscal year, but special withdrawals are also permissible at the Board's discretion. To initiate the process, the IC, in consultation with the IMC, will calculate the amount of funds available for distribution and advise the PVAMF Board in the next scheduled quarterly meeting or at the Executive Committee's request. For the purpose of establishing an optimal withdrawal amount for the Board's consideration, the following formula will be used to develop an initial recommendation:

*Amount available to fund grants = 0.5 * [(current balance-previous year-end balance) - contributions made during the preceding twelve-month period]*

The ultimate decisions regarding disposition (re-investment, withdrawal, hold, etc.) will reside with the Board; however, if withdrawal is decided, any amount which is divergent with the "spend no principle" provision must be approved by a two-thirds vote of the Board. As a reminder this, and the "allow no loans" provision, are considered the two most important tenets in this document.

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Performance: Investment performance will be stewarded on a quarterly basis with the expectation that annual income produced by the portfolio increases in direct relationship with deposits made. In support of the "spend no principle" tenet established as a primary investment objective, sufficient justification must exist to support retention of any security that yields little or no near-term returns. Performance may be analyzed however the IC desires, but typically this would involve at least these examinations on an annual basis: (1) a Morningstar X-Ray report providing diversification details; (2) a line-item summary of overall and prior-period gain/loss for each security, (3) an accounting of the yield for each security to include a forward-looking projected cash flow report, and (4) a hindsight period-by-period performance report. Termination of the investment management company may be considered at any time for any reason.

Investment Committee (IC) Responsibilities

The primary responsibilities of the IC with respect to the oversight of the Fund are:

- Establish and recommend for approval to the Board of Directors an investment policy statement and periodically review that statement for continued accuracy and completeness;
- Review and recommend to the Board asset allocation long-term targets and ranges;
- Prudently diversify, or oversee the diversification of, the portfolio assets to meet an agreed upon risk/return profile;
- Confer with the Treasurer quarterly to identify, recommend, and execute [(with Finance Committee endorsement and EC approval (majority vote)] transfers of excess funds to the unrestricted investment account;
- Review and recommend to the Board external investment consultants;
- Monitor the investment managers and the performance of the accounts under management;
- Consider the information provided by the consultant and other professional advisors and act responsibly;
- Control and oversee all investment, record keeping and administrative expenses associated with the accounts; and
- Review and prudently deal with conflicts of interest
- Evaluating investment management company performance.

Investment Management Company Responsibilities

The primary responsibility of the IMC retained by the PVAMF is to assist the IC managing the Foundation's investment portfolio. The IMC will be responsible for:

- Investing the assets under its management in accordance with the Policy expressed herein;
- Meeting or exceeding the investment goals as set forth in this policy;
- Meeting or exceeding strategy-specific benchmarks, net of all fees and expenses, over appropriately measured time periods;
- Providing quarterly performance updates to the IC within 45 days of the end of each quarter;
- Developing a methodology and performing, on an annual basis, a hindsight analysis to assess Fund performance relative to established benchmarks (Standard & Poor's 500, Dow Jones Industrial Average, Russell 200 Index, select stock market index funds, etc.) and custom benchmarks which accurately mimic Fund construct/asset allocation (via Morningstar Instant X-ray or other tools);
- Developing plans to re-balance the portfolio when asset allocation is not in compliance with policy;
- Providing the IC with an annual review of the Investment Policy Statement and assessments of the Portfolio's current asset allocation, spending policy, fees, and investment objectives;
- Disclosing all conflicts and potential conflicts of interest;
- Ensuring that no actions are taken that might jeopardize the tax-exempt status of the PVAMF and/or the Fund;
- Initiating discussions with the IC when the IMC believes that this Policy is inhibiting performance and/or should be altered for any valid reason;
- Monitoring and evaluating investment account manager performance.

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Policy Change Management

The Investment Committee will annually review and certify this Investment Policy statement. Proposed changes require approval of the Investment Committee (simple majority vote) except as follows:

- BENCHMARK LIMITATIONS: changes that increase the risk of the portfolio beyond the 65% equity benchmark described in the Asset Allocation paragraph above require two-thirds agreement of the IC.
- ASSET LIMITATIONS: changes that increase the risk of the portfolio by altering either the types of assets invested in and/or the limitations described for investing in those assets require two-thirds agreement of the IC.
- MAJOR TENETS: changes that alter the main tenets of this document ("spend no principal" and "allow no loans") require two-thirds agreement of the Investment, Finance, and Advancement Committees.

All changes endorsed by Board Committees must also be approved by the Executive Committee (two-thirds agreement) and submitted to the entire Board for final approval (majority agreement).