



**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

# **Financial Management & Investment Policy**

Approved May 2008  
Amended and Approved October 2016  
by the Board of Trustees

MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

# Financial Management & Investment Policy

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SECTION 1

# FINANCIAL MANAGEMENT POLICY

## 1.1 INTENT OF THE BOARD OF TRUSTEES

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The Board of Trustees of the Morehead State University Foundation, Inc. (hereafter referred to as MSUF) establishes this document to be the Financial Management and Investment Policy of the MSUF. This document is intended as a guide to establish the expectations for good business practices and management of the MSUF. This document does not supersede the need to use good judgment managing the everyday business of the MSUF with the overall objective to support the mission of the MSUF as a not-for profit organization.

## 1.2 OBJECTIVES

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1. To ensure the financial viability of the MSUF.
2. To ensure the assets of the MSUF are protected against inflation.
3. To establish financial controls to protect MSUF assets against mis-management and theft.
4. To provide appropriate stewardship of donated assets.

## 1.3 THE FOUNDATION FIDUCIARY RESPONSIBILITY TO THE UNIVERSITY

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The University Board of Regents recognizes the Foundation as its fiduciary to solicit, receive and administer all private non-contractual contributions to the University. The Foundation accepts the legal responsibility as a fiduciary to carry out these duties and the mission set forth above. It further recognizes liability to the University if it fails to properly perform fiduciary duties.

The Foundation is a non-affiliated corporation recognized under Kentucky law as an autonomous entity dedicated to assisting the University.

The University and Foundation recognize and affirm a fiduciary relationship of the Foundation for the identification, receipt, acknowledgment and administration of all private contributions, regardless of check payee designation. The Foundation and the University will act so that the intent of private donors (individuals, businesses or foundations) is followed with respect to their contributions, subject to compliance with sections 273.600 through 273.645 of the Kentucky Revised Statutes (Uniform Prudent Management of Institutional Funds Act or UPMIFA).

The Foundation Board of Trustees is responsible for the control and management of all assets of the Foundation, including the prudent management of all gifts consistent with donor intent. This document and a Memorandum of Understanding with Morehead State University clearly addresses the Board's fiduciary responsibilities, including expectations of individual board members based upon ethical guidelines and policies.

#### **1.4 PERSONAL LIABILITY OF TRUSTEES**

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As a Kentucky non-profit corporation, the MSUF is subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (hereafter referred to as UPMIFA). The UPMIFA sets forth standards of conduct that apply to each member of the MSUF Board of Trustees. These standards generally require that each Trustee discharge his/her duties, in good faith; with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and in a manner he/she reasonably believes to be in the best interests of the MSUF.

Each Trustee owes fiduciary duties both to the MSUF and its members; and any breach of those duties may give rise to personal liability on the part of the individual Trustee and/or corporate liability on the part of the MSUF.

#### **1.5 CONFLICT OF INTEREST POLICY**

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The nondisclosure of "conflicting interest transactions" may give rise to individual liability on the part of Officers and Trustees and corporate liability on the part of the MSUF. Officers can include paid employees or volunteers working on behalf of the MSUF. Accordingly, the MSUF Board of Trustees has adopted the following policy:

Each Officer and Trustee will disclose in writing to the Board of Trustees all "conflicting interest transactions," as that term is defined in KRS 273.600 through 273.645 in the UPMIFA. The MSUF chooses to include MSUF Officers in this policy. A "conflicting interest transaction" means a contract, transaction, or other financial relationship between the MSUF and:

1. An MSUF Officer or Trustee, or
2. A party related to the MSUF Officer or Trustee, or
3. An entity in which the MSUF Officer or Trustee is an Officer or Trustee or has a financial interest.

For purposes of this disclosure, the UPMIFA defines a party related to an MSUF Officer or Trustee as a spouse, descendent, ancestor, sibling, the spouse or descendent of a sibling, an estate or trust in which the Officer or Trustee or a party related to the Officer or Trustee has a beneficial interest, or an entity in which a party related to an Officer or Trustee is an Officer, Trustee, or has a financial interest. Consistent with this policy, at least annually, each Officer and Trustee will certify in writing to the Board of Trustees that he/she has provided written disclosure of all “conflicting interest transactions,” or he/she is not subject to any “conflicting interest transactions.” Thereafter, the Board of Trustees (or a committee thereof) will review each “conflicting interest transaction” so disclosed and, by affirmative vote of a majority of the disinterested Trustees, will determine whether such transaction is fair to the MSUF. In the event the “conflicting interest transaction” is determined to be fair to the MSUF, such determination will be deemed to constitute an authorization, approval or ratification of such transaction.

## **1.6 BUDGETING**

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The CEO of the MSUF, through the Director of Finance, is responsible for the budgeting process. Prior to the beginning of each fiscal year, an annual operating budget for the MSUF will be prepared and presented to the Board of Trustees for their review and approval. The annual budget should be presented in sufficient detail to enable the Board to understand how the MSUF plans to conduct the main elements of its business. The annual operating budget will be funded by a combination of revenue generated by foundation activities and interest earned from the foundation managed endowment portfolio (not to exceed 2.5% of the 60 month rolling average of the total value of MSUF endowment portfolio market value) & any carry-forward balances from prior budget year operation. Additionally, as a service to MSU, the MSUF will manage the assets of privately funded operating accounts in which the fees for management will equal the investment earnings of the assets while held by the MSUF. The earnings from such funds will be deposited into the MSUF’s general investment income account.

The following budgeting actions will occur and be approved by the board with a majority vote prior to the beginning of the fiscal year for which the budget is being prepared (See Figure 1):

- Earnings from the managed portfolio based on the 60 month rolling average will be determined and reported to the board.
- A recommended endowment payout will be presented to the board for approval

with an annual maximum approved spending for the distributions not to exceed three and one-half percent (3.5%) of the total 60 month rolling average value of the endowment portfolio.

- An annual recommended budget to include foundation operating expenses and investment consultant fees will be presented to the board for approval. This fee structure shall not exceed two and one-half percent (2.5%) of the 60 month rolling average of the managed portfolio value.
- The annual inflation rate based on the Consumer Price Index will be determined and applied to endowment principal to ensure the historical value of the endowment is preserved.
- Existing foundation liabilities will be presented to the board with recommended pay down provided for approval.
- The long-term annual return must be sufficient to meet the above spending requirements. To ensure operation at the established percentages, an Operational Reserve Account will be maintained. Funding for this account will come from annual earnings that remain after all fees, payouts and adjustments to inflation are taken from total earnings for each year. This account will normally be maintained at an amount equal to that required to meet all foundation financial commitments for one to two full years. When the value exceeds this amount, the excess will normally be applied to endowment principal.

The board, with recommendations from the Finance Committee, may temporarily modify this policy with a majority vote if deemed appropriate to compensate for unusual financial conditions.

The CEO of the MSUF is authorized to spend up to \$100,000 during a fiscal year on non-budgeted items which, in the CEO's judgment, will benefit the MSUF. The CEO should report spending on un-budgeted activities at the next regularly scheduled Board meeting.

During major fund-raising campaigns in which the Board has already approved specific projects to be funded by the campaign, the CEO may use un-restricted contributions raised as part of the campaign to help complete any campaign project.

If MSUF incurs an operating deficit for two consecutive years, the Board must address and consider a multi-year business plan to correct the deficit.

Operating results as compared to the budget will be reported to the Board at each full meeting.

## **1.7 THE FINANCE COMMITTEE**

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The Chair of the Board will appoint a Finance Committee to serve as the review agency for the Board concerning this policy and all related matters. The Committee must be chaired by a member of the Board as selected by the Chair of the Board and approved by the Board.

The Finance Committee will consist of no less than six members. At least four members of the Finance Committee must be members of the Board, including the Committee Chair. The Vice President of University Advancement/CEO of the MSUF will be a voting member of the Finance Committee. The Finance Committee will meet as determined by its Chair but no less than before each regularly scheduled board meeting.

The Chair of the Finance Committee may invite nonmembers with expertise in taxes, law, investments or other financial matters as advisors. The Chair may ask them to be voting members or non-voting advisors only. The advisor's status will be clarified in the minutes of the specified meeting.

The Committee's duties include but are not limited to the following:

1. Oversee and monitor the MSUF's financial condition, investment portfolio, operating activity, and financial procedures;
2. Review quarterly financial reports to be presented to the Board;
3. Present the annual operating budget to the Board;
4. Review and propose changes to the FMIP, if appropriate;
5. Establish the MSUF's Investment Policy.

The Finance Committee may have a sub-committee as needed to assist in investment oversight. The sub-committee will be composed of at least one Finance Committee member and other non-members as the Committee deems necessary, up to a maximum of five members. The sub-committee will have authority to develop money manager selection criteria, screen candidates and select money managers for the MSUF's investments within the constraints of this policy. The sub-committee will also monitor money manager performance. The sub-committee will report to the Finance Committee regarding investment performance and report any changes to investment managers.

The CEO of the MSUF has responsibility for daytoday decisions to carry out investment policy

with the Director of Finance acting as his/her agent for daily transactions. The Director of Finance will be the primary contact with money managers, banks, brokerage houses and other financial institutions. The CEO and the Director of Finance should be available to answer questions, interpret the Board's policy, and administer accounting and reporting functions.

The Finance Committee may make emergency decisions which conflict with this FMIP. All emergency decisions will be reviewed and ratified by the Board at its next regularly scheduled meeting.

## **1.8 ACCOUNTING AND AUDITING**

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The MSUF will follow generally accepted accounting principles for non-profit organizations in maintaining its financial records and preparing financial statements.

The financial books and records of the MSUF will be audited annually by an independent firm of certified public accountants. The annual audit will be presented to the Board for approval at its first meeting following completion of the audit. Audited financial statements including the independent firm's opinion are available upon request.

The Chair of the Board will appoint an Audit Committee as needed to serve as the review agency for the Board concerning audit related matters. The Audit Committee will be chaired by a member of the Board selected by the Chair of the Board and approved by the Board.

The Audit Committee will consist of no less than three and no more than six members. At least two members of the Audit Committee should be members of the Board, including the Chair of the Audit Committee.

The Chair of the Audit Committee may invite nonmembers of the Board with specialized expertise as advisors.

The Committee's duties will include the following:

1. Establish criteria for selection of an independent firm of certified public accountants;
2. Select independent firm to prepare annual audit;
3. Meet as necessary with the independent firm to review the audit report and discuss any related matters;
4. Assist independent firm in presenting audit findings to the Board;
5. Monitor management's progress toward making any improvements suggested by the independent firm.

Representatives of the Audit Committee may meet with the independent firm without MSU staff prior to presentation of the audit to the Board for approval. The purpose of the meeting will be to allow members of the Audit Committee and the independent firm to speak directly. The Chair of the Audit Committee will appoint members to attend the meeting.

## **1.9 FINANCIAL REPORTING**

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The goal of financial reports is to allow the Board to make informed decisions. The CEO of the MSUF through the Director of Finance is responsible for presenting periodic financial reports to the Board that clearly show the financial condition of the MSUF in accordance with generally accepted accounting principles.

Financial reports should include MSUF's statement of financial position, statement of activities, budget operating activity, investment status and if applicable report of capital purchases.

### **1.10 PRESERVATION OF ENDOWMENT FUND CAPITAL**

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UPMIFA was adopted by the Commonwealth of Kentucky on March 25, 2010 and replaces the 1972 Kentucky State Statute known as UMIFA. The intent of the original UMIFA statute was to provide a structured system of fundamental rules for the investment of funds entrusted to charitable institutions and the expenditure of those donated funds categorized as "endowments." UMIFA outlined two main principles: 1) assets would be invested prudently in diversified investments in an effort to gain growth and income, and 2) appreciation of assets could be spent in a prudent manner for the purpose outlined in the endowment fund. The UPMIFA builds upon the original UMIFA principles previously stated.

In accordance with UMIFA, endowments can be invested in a number of ways as long as the governing board of the institution agrees to "exercise ordinary care and prudence under the facts and circumstances prevailing at the time of the action or decision..." From an investment approach UPMIFA simply builds upon this premise requiring each person responsible for managing and investing an institutional fund to make investment related decisions "in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances." UPMIFA expands the factors involved in making endowment investment decisions as presented below:

- General economic conditions;

- Possible effects of inflation or deflation;
- Tax consequences;
- How each decision plays into the entire portfolio strategy;
- The expected total return from income and appreciation;
- Other resources of the institution; and
- Current and future needs of the institution

UPMIFA states, “an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established.” The following criteria were identified in UPMIFA to instruct institutions as they develop their yearly expenditure plan:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution

The preservation of the historic dollar value of endowment funds is of extreme importance to the MSUF. The historic dollar value includes the original and sub-subsequent donations to the fund as well as accumulations made pursuant to an applicable gift agreement. In order to ensure that the value of each fund not only maintains its historical dollar value, but also keeps pace with inflation, the MSUF’s policy is to retain in endowment funds a portion of the investment return to support the increasing cost of benefits in the future.

Accordingly, the MSUF approves the annual spending rate and is not to exceed 3.5%. The annual spending rate is approved during the first calendar year meeting of the Board. Allowed endowment spending is calculated by multiplying the annual spending rate by the 60 month rolling average market value of the MSUF endowment.

## **1.11 T AXEXEMPT STATUS**

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The MSUF is a non-profit Kentucky Corporation organized under Section 501(c) (3) of

the Internal Revenue Code. This form of organization restricts the types and amounts of revenue which the MSUF can generate without risking taxexempt status.

The CEO of the MSUF has the responsibility to ensure that the combined activities of the MSUF do not threaten the taxexempt status. The CEO may consult with tax attorneys, accountants and other professional advisors when questions arise on this issue. The CEO will seek the guidance of the Board if any MSUF activity appears to affect taxexempt status.

## **1.12 REVIEW AND MODIFICATION**

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This “Financial Management and Investment Policy” should be reviewed periodically by the Finance Committee. Changes should be presented as necessary for approval by the Board.

SECTION 2  
**INVESTMENT POLICY**

**2.1 PURPOSE**

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The purpose of this Investment Policy Statement (IPS) is to assist the Finance Committee (Committee) of Morehead State University (Morehead State) in effectively supervising, monitoring and evaluating the investment performance of its Foundation (the Foundation).

The Foundation's investment program is defined in the various sections of this IPS by:

*1. Stating the objectives in a written document.*

The objectives are desired results reflecting the Committee's attitudes, expectations and guidelines for the investment of all assets.

*2. Setting forth an investment structure.*

This structure includes various asset classes and investment management styles that, in total, are expected to produce a satisfactory level of overall diversification and total investment return over the long term.

The Committee will determine the allocation of assets with the assistance of the investment consultant.

*3. Providing policy guidelines for the investment portfolio.*

These guidelines are designed to control the level of overall risk and liquidity assumed in the portfolios. Through effective monitoring of policy, the Committee hopes to optimize the likelihood of meeting return and risk objectives, and ensure that the assets of the Foundation are managed in accordance with stated objectives.

*4. Encouraging effective communications.*

A periodic review process involving the Committee and the Investment Consultant is intended to assist the Foundation achieve the stated objectives.

*5. Complying with applicable provisions of ERISA, fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize.*

The Investment Policy Statement set forth in Appendix 1 has been recommended by the investment advisor to the MSU Foundation and has been approved by the Foundation Finance Committee and Board of Trustees.

**MOREHEAD STATE UNIVERSITY FOUNDATION, INC.**

Nov 1, 2016

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*Date*



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*James A. Shaw*  
*Chief Executive Officer*  
*MSU Foundation, Inc.*

SECTION 3  
**APPENDICES**

APPENDIX 1



**Fund Evaluation Group**<sup>®</sup>  
investment advisors

Morehead State University Foundation

**INVESTMENT POLICY STATEMENT**

DATE August 2016

**DRAFT**

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**ACKNOWLEDGEMENT**

# INVESTMENT POLICY STATEMENT

## OVERVIEW

### BACKGROUND

The mission of the Morehead State University Foundation is to prudently administer all assets of the Foundation and/or Morehead State University as provided by federal and state law and regulations and through fiduciary responsibility between the University and the Foundation, to promote educational purposes in connection with or at the request of the University by encouraging, sponsoring and supporting institutional priorities, to provide advice, consultation and support to the President and Board of Regents of Morehead State University, and to provide volunteer leadership to Morehead State University's fund raising programs and to assist other institutional advancement efforts.

The MSU Foundation is a non-affiliated corporation recognized under Kentucky law as an entity dedicated to assisting the University but not controlled by the institution. As such, it reimburses the University for staff support, office space, utilities and other services under terms of a detailed operating agreement. The agreement also establishes the Foundation's fiduciary responsibilities for managing gift assets of the University.

### PURPOSE

This Investment Policy Statement (IPS) was adopted by the Morehead State University Foundation (Foundation) to establish a clear understanding of the Foundation's philosophy and investment objectives.

The purpose of the Foundation's is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

### SCOPE

This Policy applies to all assets that are included in the Foundation's investment portfolio for which the Investment Advisor and Finance Committee have discretionary investment authority.

### FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the policy, the Finance Committee and the Investment Advisor shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). All investment actions and decisions must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Finance Committee of all material facts regarding any potential conflicts of interests.

# INVESTMENT POLICY STATEMENT

## DEFINITION OF DUTIES

### **BOARD OF TRUSTEES**

The Board of Trustees has the ultimate fiduciary responsibility for the Foundation's investment portfolio. The Board must ensure that appropriate policies governing the management of the Foundation are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Finance Committee for ongoing monitoring.

### **FINANCE COMMITTEE**

The Finance Committee is responsible for establishing the Investment Policy. This responsibility includes approving investment strategy, oversight of the investment advisor, monitoring performance of the investment portfolio, and maintaining sufficient knowledge about the portfolio and investment advisor so as to be reasonably assured of their compliance with the Investment Policy Statement.

### **INVESTMENT ADVISOR**

The Investment Advisor is responsible for all aspects of managing and overseeing the Foundation's portfolio. On an ongoing basis the Investment Advisor will:

1. Implement the overall investment strategy, including the selection/termination of securities and/ or investment managers, within these investment policy guidelines;
2. Monitor the asset mix and allocate assets of each investment strategy within these investment policy guidelines;
3. Provide the Finance Committee with quarterly performance reports;
4. Assist the Finance Committee periodically, with a review of the Investment Policy Statement, including an assessment of the current asset allocation and investment objectives; and
5. Supply the Finance Committee with other reports or information as reasonably requested.

# INVESTMENT POLICY STATEMENT

## OBJECTIVES

The overall, long-term investment goal of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending, thus protecting the purchasing power of the assets.

## STRATEGY

The Board and Finance Committee agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets also provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

## SPENDING POLICY

Income available for spending is determined by a total return system. A recommended endowment payout will be presented to the board for approval with an annual maximum approved spending for distributions not to exceed 3.5% of the total 60 month rolling average value of the endowment portfolio.

Additionally, an annual recommended budget to include foundation operating expenses and investment advisory fees will be presented to the board for approval. This fee structure shall not exceed 2.5% of the 60 month rolling average of the managed portfolio value.

The CEO of the MSUF is authorized to spend up to \$100,000 during a fiscal year on non-budgeted items which, in the CEO's judgement, will benefit the MSUF. The CEO should report spending on un-budgeted activities at the next regularly scheduled Board meeting.

If MSUF incurs an operating deficit for two consecutive years, the Board must address and consider a multi-year business plan to correct the deficit.

# INVESTMENT POLICY STATEMENT

## ASSET ALLOCATION

Asset allocation will likely be the key determinant of the Foundation's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Foundation, rather than judging asset categories on a stand-alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investments will generally fall into one of four asset categories. Each category serves a specific role within a portfolio. An allocation to all four categories can provide diversification to major market risk factors and provides a simple framework to review the exposures within the portfolio. The categories are as follows:

### GLOBAL EQUITY

Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities. Includes both long-only and liquid hedged equity mandates.

### GLOBAL FIXED INCOME/CREDIT

Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be further categorized as interest rate sensitive and credit sensitive.

### REAL ASSETS

Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes real estate investment trusts (REITs), natural resources (e.g., Energy Master Limited Partnerships), and commodities.

### DIVERSIFYING STRATEGIES

Intended to provide diversification from systematic market risk, as the primary determinant of returns are typically from manager skill (alpha) rather than market return (beta). Includes liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

# INVESTMENT POLICY STATEMENT

To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

	<i>Min</i>	<i>Target</i>	<i>Max</i>
<b>GLOBAL EQUITY</b>	<b>35%</b>	<b>50%</b>	<b>65%</b>
<i>Long-Only (Public)</i>	20%	35%	50%
<i>Hedged Equity</i>	0%	5%	15%
<i>Private Equity</i>	0%	10%	20%
<b>GLOBAL FIXED INCOME/CREDIT</b>	<b>10%</b>	<b>20%</b>	<b>40%</b>
<i>Private Credit</i>	0%	5%	10%
<b>REAL ASSETS</b>	<b>0%</b>	<b>15%</b>	<b>30%</b>
<i>Private Real Assets</i>	0%	10%	20%
<b>DIVERSIFYING STRATEGIES</b>	<b>0%</b>	<b>15%</b>	<b>30%</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>
<b>Total Portfolio</b>		<b>100%</b>	

## REBALANCING

The investment advisor will actively manage the asset allocation based on their determination of market valuations, but remain within the ranges at all times. Should any category move out of acceptable range due to market movements, the investment advisor will use prudence in rebalancing the portfolio, either immediately or over the subsequent few months.

## ACTIVE AND PASSIVE MANAGEMENT

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets may be managed using index funds and enhanced index/portable alpha strategies.

# INVESTMENT POLICY STATEMENT

## INVESTMENT STYLES

The Investment Advisor will allocate between styles based on market valuations. Because value stocks are expected to outperform growth stocks over the long-term (as they have historically), and this is more pronounced for smaller market capitalizations, the Investment Advisor expects to employ a strategic overweight to value stocks, with a larger value overweight to small cap stocks.

## LIQUIDITY

A goal of the Fund is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. In many instances, the most appropriate investment option is one that comes with liquidity constraints.

Illiquid investments include private equity, private debt, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemption restrictions, and in some cases, illiquidity of the underlying investments. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process. The goal is to maintain 50% of the portfolio in liquid investments, but with the following limits:

CLASSIFICATION OF ASSET	LIMITS
Liquid	At least 40% of the portfolio
Semi-Liquid	No more than 35% of the portfolio
Illiquid	No more than 35% of the portfolio

*The portfolio liquidity guidelines are intended to represent the liquidity profile of the strategic asset allocation adopted by the Morehead State University Foundation as detailed in this Investment Policy Statement. The portfolio may differ from these guidelines from time to time for various reasons such as allocation tilts, portfolio transitioning, and facilitating cash flow needs.*

# INVESTMENT POLICY STATEMENT

## PERFORMANCE MEASUREMENT

### TIME HORIZON

The Finance Committee seeks to achieve the investment objectives over a full market cycle. The Finance Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, the portfolio may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured net of fees over a 5-year moving period.

### PRIMARY BENCHMARK

The primary objective of the Foundation is to achieve a total return, net of fees, in excess of spending, administrative fees, and inflation. The Primary Benchmark is the minimum return needed to achieve the portfolio's objectives.

*Total Return greater than Consumer Price Index + 6%*

### TARGET WEIGHTED BENCHMARK

The secondary investment objective is to achieve a total return in excess of the Target Weighted Benchmark, comprised of each asset category benchmark weighted by its target allocation.

### RISK PARAMETERS

The volatility (beta) is expected to be no greater than 1.20 versus the Target Weighted Benchmark.



# INVESTMENT POLICY STATEMENT

## GUIDELINES AND RESTRICTIONS

### GENERAL

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care, and prudence has been met for the Foundation's investments.

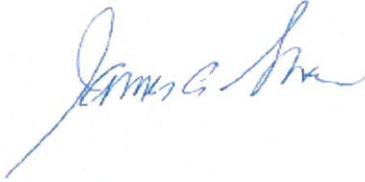
The Investment Advisor shall:

1. Have full investment discretion with regard to security selection, consistent with this Investment Policy Statement;
2. Immediately notify the Investment Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel; and
3. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein.

# INVESTMENT POLICY STATEMENT

## ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are expected.

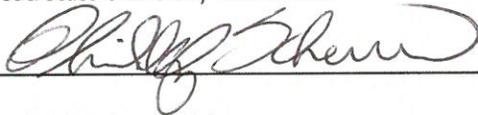


Nov 1, 2016

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Morehead State University Foundation

Date



11 | 1 | 2016

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Fund Evaluation Group, LLC

Date

SECTION 3  
APPENDICES

APPENDIX 2

