

# SOUTHEASTERN UNIVERSITY

## GENERAL ADMINISTRATIVE POLICY

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**TITLE:** Investment Policy - Endowment Fund

**POLICY NUMBER:**

**EFFECTIVE DATE:**

**REVISION DATE:** July 16, 2008

**ACCREDITATION STANDARDS:**

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**POLICY:**

The college shall invest endowment funds according to the purposes and guidelines set forth below.

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**PURPOSE:**

To establish objectives and guidelines for investing endowment funds

To safeguard college assets

To preserve and enhance (in real dollar terms) the principal of the endowment fund

To provide a dependable source of income for current operations

To provide current income, growth of income, and appreciation of principal from the equity investments

To provide a predictable and dependable source of income and to reduce portfolio volatility from the fixed income investments

To provide reasonable assurance that investments in either a single security or a class of securities can not have an excessive impact on the total portfolio.

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**SCOPE:**

The business office shall follow these guidelines when investing endowment funds

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**DEFINITIONS:**

Permanent Restricted funds (endowment funds) - are funds received from donors and/or government agencies that may not be spent by the University without the permission of the donor. They are typically used for awarding scholarships from the interest income.

Temporary Restricted funds - are funds received that may be spent only if meeting the donor requirements. These funds are spent before unrestricted money.

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**FORMS AND APPLICABLE DOCUMENTS:**

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**PROCEDURES:**

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### Philosophy

The responsibility of the Board of Regents is to establish broad guidelines for the endowment, select investment managers, and determine or approve asset allocation. The investment managers are responsible for optimizing the return on the assets within the guidelines that have been established. Unless specifically desired or approved, extreme positions or variations in an individual manager's style are not consistent with these objectives.

The endowment fund is a permanent fund with disciplined investment objectives and consistent management strategies that can accommodate any relevant, reasonable, or probable events.

The careful management of endowment assets is designed to ensure a total return (yield plus capital appreciation) necessary at least to preserve and, it is hoped, enhance (in real dollar terms) the principal of the endowment fund, and at the same time provide a dependable source of income for current operations.

The purpose of equity investments is to provide current income, growth of income, and appreciation of principal. The purpose of fixed income investments is to provide a predictable and dependable source of income and to reduce portfolio volatility. The fixed income and equity portions of the investment portfolio are to be diversified in order to provide reasonable assurance that investment in either a single security or a class of securities can not have an excessive impact on the total portfolio.

Other than indicated in this statement, investment managers are to have complete investment discretion with the expectation that funds will be invested with care, skill, prudence, and diligence.

### General Investment Objectives and Guidelines

The return objective is to earn an average annual total real rate of return (adjusted for inflation) of five to six percent, as measured over a three-year to five-year market period, and at the same time to outperform selected weighted marked indices.

The asset mix of the endowment fund is to range approximately within the following limits:

Fixed income securities	20% to 35%
Common stocks (including Convertibles)	65% to 80%

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### Equity Investment

Investments in a particular industry or company are to be based upon a demonstrable analysis of prospects for above-average return over a three-year to five-year period. Emphasis is to be placed on capital appreciation and growth of earnings.

Investments are to be made primarily in well-established, quality companies whose securities enjoy marketability adequate for the portfolio. Quality is not synonymous with size or recognition. For example, equity investments in high-quality, well established, smaller companies (capitalized, for instance, at between \$50 million and \$250 million) can be superior vehicles for preservation and enhancement of capital.

At the time of investment no manager is to invest more than five percent of the net assets of the fund in securities of organizations with less than a three-year operating record. A manager is to concentrate no more than 20 percent of the market value of the fund in any single industry and no more than five percent in any single company without prior approval of the Investment Committee or its designee(s) at the time of investment.

Investments in equity (or debt issues) of smaller or small emerging companies may be made within the overall guidelines expressed in this statement. These investments (as distinguished from gifts made to the institution) may not be made in letter stock or unregistered or privately placed securities without prior approval of the Investment Committee or its designee(s).

The use of options, futures, and other hedging strategies is permissible subject to prior review and approval by the Investment Committee. The institution may not invest its endowment fund in real estate.

Investments in foreign securities are appropriate as a form of diversification and may be made up to 10 percent of the aggregate portfolio market value.

### Fixed Income Securities

The structure of the bond portfolio and the selection of individual securities are matters of investment management discretion, developed primarily in response to changing market relationships, interest rate forecasts, and economic circumstances.

The portfolio is to be comprised of high quality issues carrying Moody's ratings of A and above or the equivalent unless approved by the Investment Committee or its designee(s).

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Call protection is to be emphasized to assure stable and current income.

### General

As a general guideline that applies to all assets managed, transactions are to be entered into on the basis of “best execution,” which normally means best realized price. Commissions may be paid for investment services rendered to the institution upon the approval of the Investment Committee’s designee(s).

### Investor Responsibility

The Board recognizes its role as a “responsible” investor. While the primary purpose of managing the endowment is to maximize return on the assets within an appropriate level of risk, companies in the portfolio that might cause concern to the institution are to be reviewed regularly by the Investment Committee. In exercising responsibility, the Committee may:

- vote properly drafted proxies, or instruct the manager to vote proxies that relate to social responsibility issues,
- communicate directly with management,
- recommend other actions to the Board.

The Committee is to report regularly to the Board.

### Investment Managers

The Investment Committee allocates funds to individual managers and from time to time may withdraw funds from or reallocate funds between managers. Each manager’s performance is to be compared regularly with the performance of equity and fixed income market indices, with mutual funds having similar objectives, with other funds managed by “peer group” managers (for example, with similar styles and objectives), and with other endowment funds.

Over a three to five-year period, equity managers are to be expected to achieve an average total rate of return that exceeds the Standard and Poor’s 500 rate of return by 1 ½ to 2 percent compounded annually, net of fees. Fixed income managers are to be expected to achieve an average total rate of return 1 to 1 ½ percent compounded

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annually higher than the rate of return on the Shearson/Lehman Corporate and Government Composite Index.

Custodial responsibility for all securities is to be determined by the Investment Committee or its designee(s).

Investment managers are responsible for frequent and open communication with the University on all significant matters pertaining to the assets managed. Objective evaluations of investment managers are to be made periodically.

The Investment Committee is to meet as often as necessary with the investment managers. The frequency of meetings is to be determined in part by the performance evaluation results compared to predetermined objectives and manager characteristics. The committee is to meet with each manager at least once a year.

### Spending and Spending Limitations

An amount equal to \$400,000 of the corpus of the endowment fund is regulated under the provisions of the Federal Endowment Challenge Grant Program.

During the grant period, May 7, 1990 through April 30, 2010, the grantee may not withdraw or spend any part of the endowment fund corpus.

If, during the grant period, a grantee withdraws or spends all or part of the endowment fund corpus, it must repay to the Secretary of the United States Department of Education an amount equal of 50 percent of the amount withdrawn or spent plus the income earned on that amount.

At the end of the grant period, the institution may use the endowment fund corpus for any educational purpose.

During the endowment challenge grant period, a grantee:

1. may withdraw and spend up to 50 percent of the total aggregate endowment fund income earned prior to the date of expenditure;
2. may spend the endowment fund income for:
  - a. costs necessary to operate the institution, including general operating and maintenance costs;

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- b. costs to administer and manage the endowment fund, and
  - c. costs associated with buying and selling securities, such as stockbroker commissions and fees to “load” mutual funds;
3. may not use endowment fund income for:
    - a. a school or department of divinity or any religious workshop or sectarian activity;
    - b. an activity that is inconsistent with a state plan for desegregation of higher education applicable to the grantee; or
    - c. an activity that is inconsistent with a state plan of higher education applicable to the grantee; and
  4. may not withdraw or spend the remaining 50 percent of the endowment fund income.

Notwithstanding Item 1 of this section, the Secretary may permit a grantee that requests to spend more than 50 percent of the total aggregate endowment fund income to do so if the grantee demonstrates that the expenditure is necessary because of:

1. a financial emergency such as a pending insolvency or temporary liquidity problem;
2. a situation threatening the existence of the institution such as destruction to a natural disaster or arson; or
3. another unusual occurrence or demanding circumstance, such as a judgment against the institution for which the institution would be liable.

If, during the grant period, a grantee spends more endowment fund income or uses it for purposes other than permitted under the two preceding paragraphs of this section, it shall repay to the Secretary an amount equal to 50 percent of the amount improperly spent.

At the end of the grant period, the institution may use all of the endowment fund income for any educational purpose.

A grantee shall calculate the amount of endowment fund income that it may withdraw and spend at a particular time as follows:

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1. on each date that the grantee plans a withdrawal of income, it must:
  - a. determine the value of endowment fund income by subtracting the endowment fund corpus from the current total value of the endowment fund on that date; and
  - b. calculate the amount of endowment fund income previously withdrawn from the endowment fund.
  
2. If the value of endowment fund income in the endowment fund exceeds the aggregate amount of previously withdrawn endowment fund income, the grantee may withdraw and spend up to 50 percent of that excess fund income.

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**APPROVAL:**

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**DISTRIBUTION:**

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**AUTHOR:** Board of Administration