

**Midwestern State University
Board of Regents Meeting
December 16, 2015
2:00 p.m.**

Meeting Location: MSU Campus – 3410 Taft Boulevard
Hardin Administration Building - J. S. Bridwell Board Room

The Board of Regents of Midwestern State University (MSU) may deliberate and take action regarding any item on this agenda. This meeting will be continuous in that the Board reserves the right to take any agenda item out of the order or sequence that is listed below. The Board reserves the right to discuss any properly posted items in Executive Session whenever legally justified in accordance with the Texas Government Code Chapter 551. The meeting will be streamed live at <http://www.mwsu.edu/welcome/president/regents-minutes>.

Call to Order

Introduction of Visitors

Opening Comments

Public Comment

A public comment period will be provided in accordance with MSU Policy 2.22.

Athletics/Intramural/Free-Play Facilities and Location of New Health Sciences and Human Services Building

16-39. At the November 2015 meeting of the Board of Regents the administration was asked to consider the location of a new artificial turf athletics/intramural/free-play field as well as the location of a free-play basketball court and to return to the board with recommendations within a reasonable amount of time. The administration will make recommendations related to athletics/intramural/free-play facilities, as well as the location of the new health sciences and human services building and other related facilities (see Attachment 16-39).

Investment Policy

16-40. During the August 2015 meeting of the Board of Regents the administration reported that no changes were made to the Texas Public Funds Investment Act (PFIA) during the legislative session that had an effect on higher education institutions and no changes were recommended to the university's investment policies. Following a review of the PFIA it was noted that the Board of Regents is required to review and approve the university's investment policies annually regardless of whether changes are made. The administration will recommend approval of Policy 4.182 (Investment Policy – Operating Funds) and Policy 4.196 (Investment Policy – Endowment Funds) as shown in Attachment 16-40.

**SPECIAL BOARD OF REGENTS MEETING
CAMPUS PLAN RECOMMENDATIONS
DECEMBER 16, 2015
ITEM 16-39**

RECAP OF MSU PLANNING EFFORT

Following the November board meeting it was determined that a review of the university's campus planning process would be beneficial and this information is below.

- 1) The planning process began in the fall 2013 specifically to address planning related to the university's Tuition Revenue Bond (TRB) request; housing, dining, and Greek Life needs; and the possible placement of a baseball field on campus. Other areas that were added to the scope of the work included athletic master planning, the use of Christ Academy, library renovation, police department needs, and campus beautification.
- 2) The Board of Regents received its first presentation in **November 2013** and a special work session was held in **January 2014**. A number of ideas came out of this presentation and the administration was asked to continue refining the plans. In **May 2014**, the board approved the TRB project request to be submitted to the legislature.
- 3) In **August 2014**, the planners presented a Campus Facilities Implementation Plan. This plan included short-term projects that were presented for approval and longer-term ideas and concepts that were presented for information and discussion. At that time, Dr. Rogers noted that the plan needed to be fully discussed with faculty, staff, and students. He noted that the facilities plan would also need to be coordinated with the university's Strategic Plan.

Items approved by the board as part of the Near-Term Implementation Plan included the following:

- a. A new residence hall to be built in the parking lot between McCullough-Trigg Hall and the Fain Fine Arts Center
- b. A campus beautification project for the street east of Pierce Hall and the service delivery area south of the Clark Student Center dining hall
- c. The TRB request for a new Health Science and Human Services (HSHS) facility, as well as ADA and deferred maintenance projects.

The Long-Term University Growth options included in the presentation were as follows:

- a. Academic building additions
- b. A new facilities services building
- c. A new dining hall and student center

- d. Movement of soccer, softball, and tennis to the South Campus
- e. An expansion to the Central Plant
- f. The addition of parking garages
- g. Additional student housing
- h. An expanded Wellness Center
- i. The building of a football stadium on the main campus.

At the conclusion of the presentation the planners commented that the university should continue with planning and working toward a comprehensive master plan, noting that this had been an abbreviated process. They added that campus and community engagement through discussion workshops was needed. The Board of Regents authorized the administration to continue the development of the plan.

- 4) In November 2014 the addition to the Fain Fine Arts Center for the mass communication program was recommended for addition to the plan and was approved by the Board of Regents.
- 5) In May 2015 the Board of Regents authorized increasing the University Services Fee by \$6 per semester credit hour (SCH) with the funds generated to be used to put down artificial turf fields, move fields as necessary, and address other Intramural and Athletics Facility needs. It was noted that the administration would present plans and costs for these projects at future board meetings.
- 6) During the course of these 18 months of presentations and discussions, options for the location of the new HSHS building, athletics fields, and parking were presented and discussed, but no decisions were made.

RECAP OF ACTION TAKEN AT THE NOVEMBER 2015 MEETING

The administration reported that an architect worked with the administration and academic deans to review options for the best possible use of the TRB funding. During the November meeting the board authorized the administration to proceed with planning of the HSHS building project, with the recommendation of the building's location to be made in February. The administration also recommended action regarding the placement of a new soccer stadium with a turf field, a second turf field, and a free-play basketball court on campus. After much discussion, the board approved building a new soccer complex on the south campus and authorized a second artificial turf field and a new outdoor free-play basketball court with the location of both to be recommended to the board within a reasonable amount of time.

RECOMMENDATIONS FOR CONSIDERATION

Following the November 2015 board meeting and the administration's review of the master planning process, the President's Cabinet looked again at the ideas summarized above. Various options were considered and discussions were held with academic, student, and athletics representatives regarding next steps. It was determined that the decision regarding the placement of the new HSHS building affected parking as well as a number of other future decisions. Based

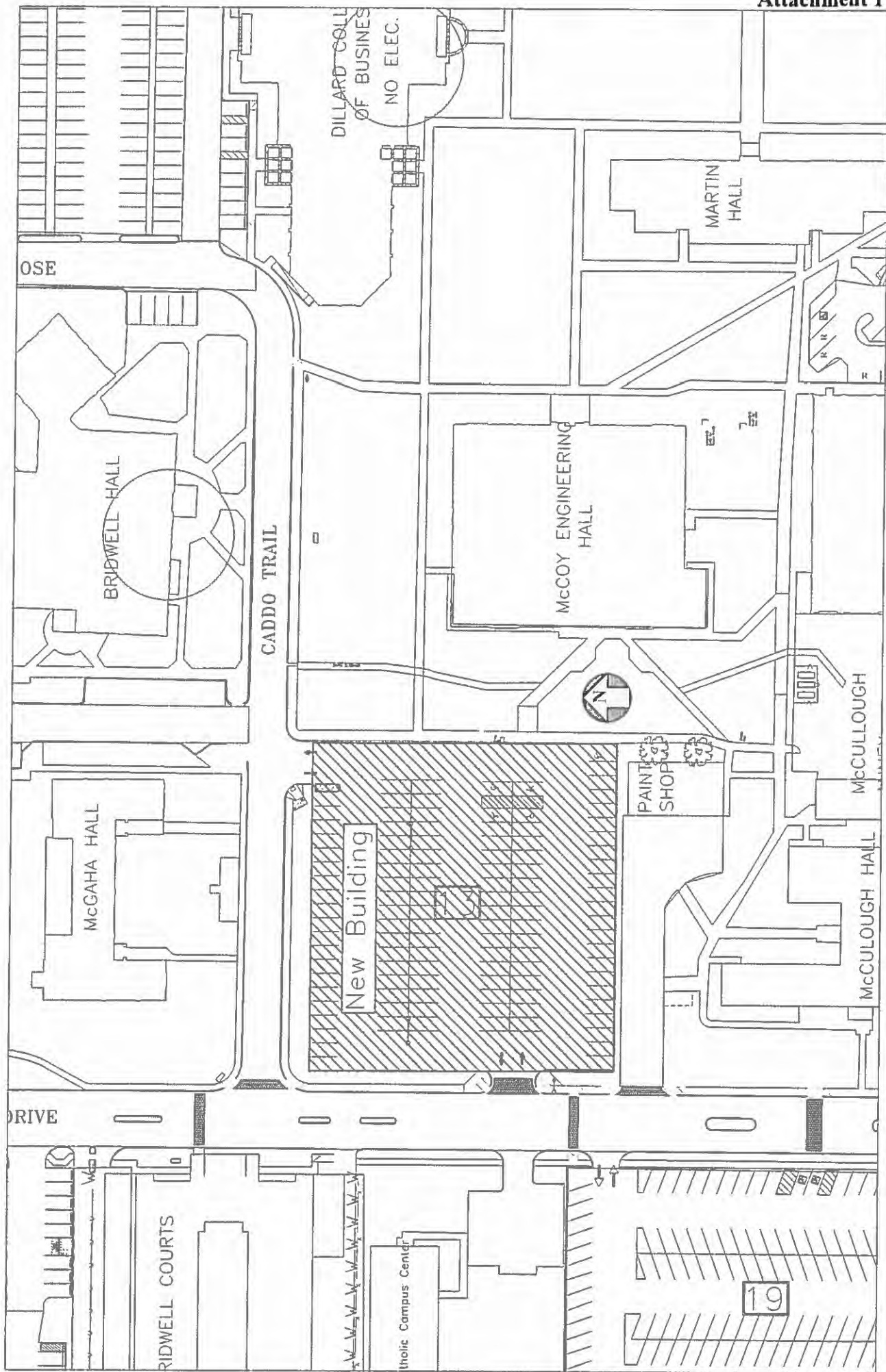
on these considerations the administration will recommend the following course of action at this special board meeting.

- 1) New HSHS Building – It will be recommended that this new building be constructed in the parking lot to the west of McCoy Engineering Hall (see Attachment 1). While the most recent discussion regarding the placement of the new building put it just south of Prothro-Yeager, this location on the north part of the campus will cause minimal disruption and maximum synergy by keeping the professional programs in close proximity. The administration has identified possible options for replacing the 72 parking spaces that will be lost as a result of placing the new building in this location. A recommendation concerning new parking options will be presented in February.
- 2) Parking Garage - The administration has considered the need for a parking garage given the construction of the new residence hall and the new HSHS building, as well as the cost of such a structure. The administration does not recommend proceeding with a parking garage at this time given funding limitations and the availability of other parking options. Additionally, this non-action will result in better options for soccer in the future as noted below.
- 3) Soccer Stadium – The administration will recommend that the existing soccer field be used for soccer competition until such time as a parking garage is deemed necessary and that a new soccer stadium complex not be built on the south campus at this time. Included in this recommendation will be a request for authorization to replace the current soccer stadium scoreboard, for which parts are no longer available. The administration's long-term thinking regarding soccer is that when a new football stadium is constructed, the stadium could include space for soccer as well as football. This action at this time would allow funds that would have been spent to build a separate soccer stadium to be redirected to a future football/soccer stadium.
- 4) Turf Playing Fields and Free-Play Basketball Courts – The administration will recommend the construction of two north-south running soccer/football artificial turf fields, a sodded grass field with irrigation, and two free-play basketball courts as outlined below. Both artificial turf fields would be lighted. If costs are below those budgeted, additional lighting for free-play fields may also be included.
 - a. South Campus – a new turf field would be built immediately east of the Wellness Center (see Attachment 2) in place of the two grass soccer practice fields. Improvements would be made to the sidewalk adjacent to the street for easier access to the field and areas south of the field. The turf field would be used for soccer team practice and would be open for free play/intramural use outside of intercollegiate sport practice times. The grass field to the east of the new turf field would be left as grass without irrigation and would be available for soccer team practice and free-play use.
 - b. Main (North) Campus – a new turf field would be built immediately west of the tennis courts (see Attachment 3). The turf field would be used for football team

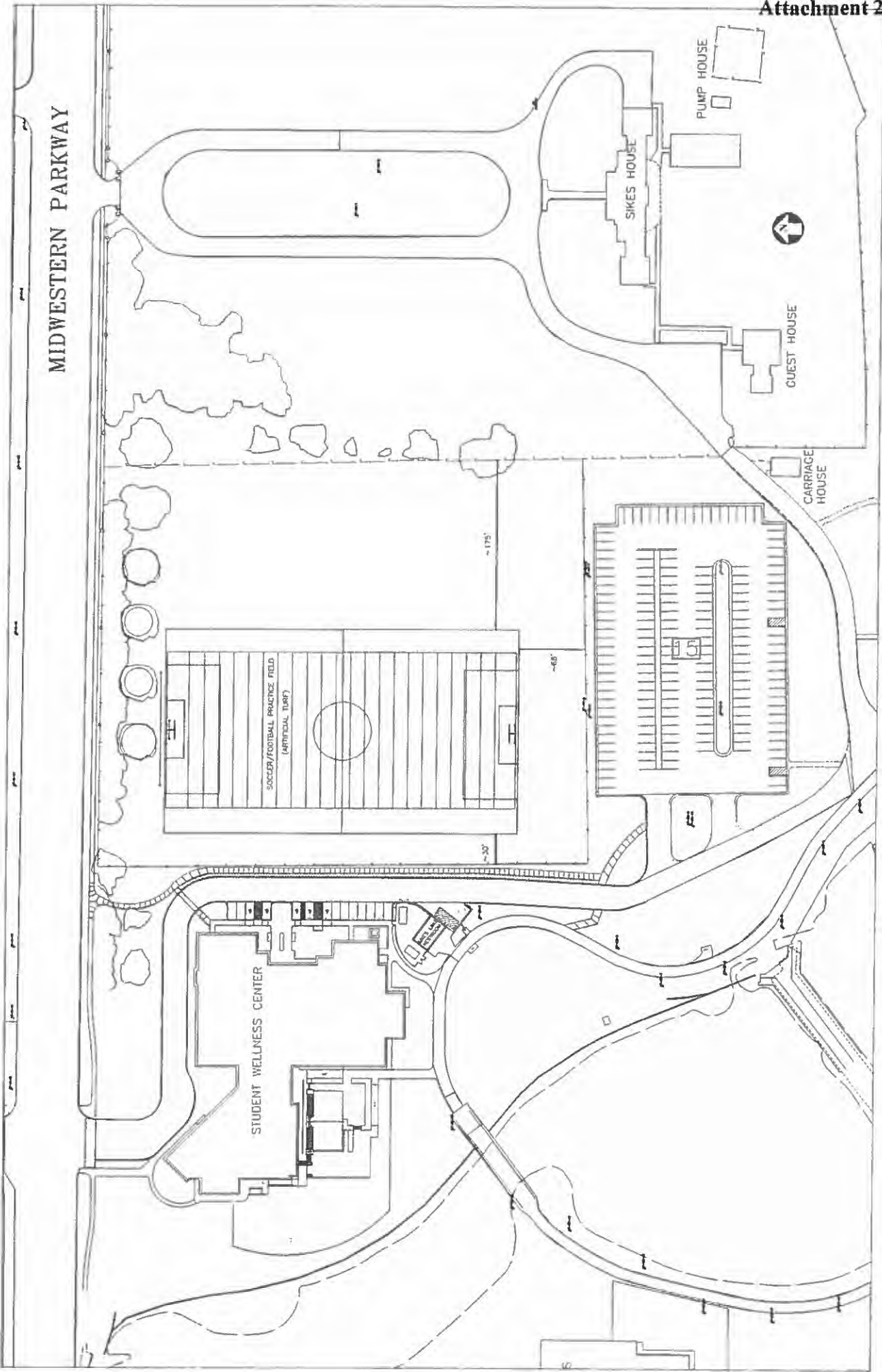
practice and would be open for free play/intramural use outside of intercollegiate sport practice times. The grassed area north of the tennis courts and the new turf field would be available for free-play and the placement of two free-play basketball courts. Grass sod would be laid in the area west of the new artificial soccer/football field (next to the softball field), and would be irrigated for football practice exclusively.

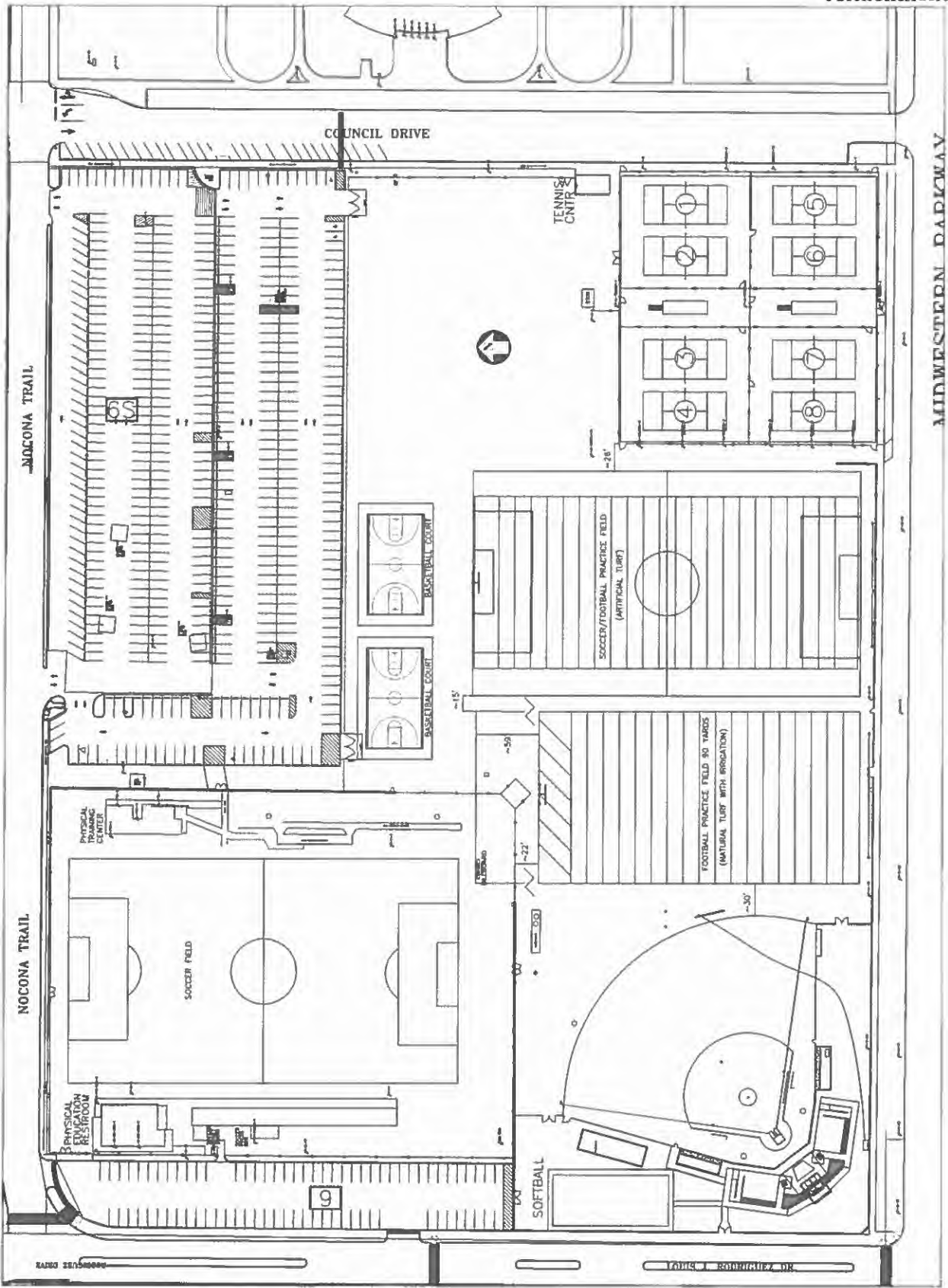
The financing of this plan is less than what was presented to the board in November because the soccer stadium would not be built at this time (see Attachment 4). The overall cost of the plan is approximately \$3.8 million with the majority of the cost financed over 12 years through the state's master lease program. The remaining cost of the plan (\$700,000) would be self-financed through the university's cash reserves and would be paid back over two years. After the self-funded portion of the plan is paid off, the university would have in excess of \$400,000 (without any estimated enrollment growth) available each year for other projects. At that time the university could finance approximately \$6.5 million in other athletic/intramural venue improvements (estimated \$500,000 a year, 4% interest rate, 20 years = \$6.8 million).

The administration will request approval of the plan as presented and request authorization to enter into contracts for artificial turf, lighting, and the state master lease program for financing.



MIDWESTERN PARKWAY





Athletics/Intramural Facilities Cost Estimates

	11/15 Proposal	12/15 Proposal
Soccer		
Dirtwork	\$150,000	\$150,000
Hardscaping	150,000	50,000
Utilities/Lights	600,000	600,000
Grass Turf replacement field	0	100,000
Artificial Turf	2,000,000	2,000,000
Bleachers	300,000	
Press Box	65,000	
Concessions/RR/Storage	350,000	
Team locker rooms/umpire	250,000	
Fencing	80,000	
Scoreboard	25,000	35,000
Signage	25,000	
	<hr/> \$3,995,000	<hr/> \$2,935,000
Softball		
Artificial Turf	450,000	450,000
Outdoor basketball court/courts	<hr/> 75,000	<hr/> 150,000
Subtotal	\$4,520,000	\$3,535,000
Architect/General Conditions (20% w/o scoreboard)	814,000	150,000
Insurance and Bonds	44,450	35,350
Project management fee (construction only - 1%)	45,200	35,350
Total	\$5,423,650	\$3,755,700
<u>Source of Funds</u>		
Fee Revenue		
140,000 SCH * \$6.00 * 80%	672,000	672,000
Master Lease		
Amount to finance	\$3,560,000	\$3,050,000
12 year lease at .5%	306,026	262,185
Balance to finance	\$1,863,650	\$705,700
Annual Fee Balance available after master lease	365,974	409,815
Annual Payoff at 5% for 6 years (Use own cash)	363,364	
Annual Payoff at 5% for 2 years (Use own cash)		375,175
Balance after payment		34,639
Financing available for \$500,000 a year for 20 years		(\$6,838,870)

Policy 4.182 INVESTMENT POLICY – OPERATING FUNDS

Date Adopted/Most Recent Revision: 5/9/14

A. Purpose

The purpose of this investment policy is to establish cash management and investment guidelines for the investment and protection of university operating funds in order to ensure that the university's investments are duly authorized, properly managed, and adequately protected. This policy will be reviewed annually by the Board of Regents. This policy is intended to:

1. Establish prudent investment procedures.
2. Assure that investment assets are adequately safeguarded.
3. Assure that adequate accounts and records are maintained which reflect investment position and results.
4. Assure that a system of good internal controls is maintained.

This policy provides investment guidelines for all operating funds invested by Midwestern State University to ensure compliance with university standards, the Public Funds Investment Act (TX Govt. Code 2256), Texas Education Code 51.0031, and all other state and federal laws.

B. Investment Objectives

1. Safety of Principal:

Each investment transaction shall seek to reduce the likelihood of capital losses, whether from security defaults or erosion of market value.

2. Liquidity:

The investment portfolio shall remain sufficiently flexible to enable the university to meet all operating requirements which may be reasonably anticipated in any funds.

3. Public Trust:

In managing the investment portfolio, officials shall avoid any transaction that might impair public confidence in the university. Investments shall be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived. No security shall be purchased that has either a limited or nonexistent secondary market.

4. Rate of Return:

The investment portfolio shall be designed with the purpose of regularly exceeding the average return of three month U.S. Treasury bills and the State of Texas Treasury yield. The investment program shall seek returns above this threshold, consistent with the overall investment policy and other investment objectives.

C. Investment Fund Administration

1. Investment Responsibility

Investment responsibilities are delegated by the Midwestern State University Board of Regents to the President and the Vice President for Business Affairs and Finance. Each member of the Board shall attend at least one (1) training session relating to the person's responsibilities under the Public Funds Investment Act within six (6) months after taking office. The university's chief financial officer and controller shall attend at least one (1) training session relating to that person's responsibilities within six (6) months after assuming duties and shall attend a training session not less than once in a two (2) year period and prepare a report to the Board of Regents on

such training. This training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act (TX Govt. Code 2256.007). The university's chief financial officer shall also provide a report within six months of the end of each legislative session on any changes to the Public Funds Investment Act passed that session.

2. Day-to-Day Supervision

The Controller shall be responsible for the daily supervision and implementation of the investment program and shall be authorized to purchase, sell and invest university funds in accordance with the Public Funds Investment Act and Education Code 51.003 and this investment policy, with approval of the President or the Vice President for Business Affairs and Finance.

3. Record Keeping

Transaction and accounting records shall be complete and prepared on a timely basis with consideration at all times to the adequacy of an audit trail. Internal controls will assure responsible separation of duties and diminish the real and prospective burden on individual employees.

4. Custody

Custody of investment assets shall be in compliance with applicable laws and arranged to provide as much security, trading speed, and flexibility as possible.

D. Investment Strategy - Short-term Operating Funds

1. The daily cash position will be monitored by the Controller to ensure that non-interest bearing cash is minimized. The collection time of all dividend and interest payments will be accelerated to the extent possible. The university will maintain a minimum of \$1,000,000 available in overnight funds which will be kept in Texpool, Logic, or repurchase agreements. Should balances fall below this amount for any reason they will be replenished at the earliest opportunity from the first available cash receipts.
2. Overnight or short-term (thirty [30] days) funds shall be invested through a competitive bid or offer process as frequently as the market dictates as follows:
 - a. Banks in the local area are to be contacted by telephone to obtain their current certificate of deposit rates.
 - b. An unaffiliated investment broker is to be contacted to obtain statewide Texas banks' certificate of deposit rates.
 - c. Texpool or LOGIC, or other Board-approved cash investment pools are to be contacted to obtain current overnight rates.
 - d. Funds shall be placed based on the best rate quoted.
3. Transactions to purchase or sell securities shall be entered into on the basis of "best execution," which normally means best realized net price for the security. Settlement of all transactions except investment pool funds must be on a delivery versus payment basis.
4. The goal of the university will be that the portfolio shall be adequately diversified at all times in accordance with these investment guidelines. Specific investment ranges and investment policy limitations are as follows:

	Minimum	Maximum
U.S. Treasury Obligations	0%	100%
Federal Agency Obligations	0%	90%
Federal Agency Mortgage-Backed	0%	25%
Municipal Obligations	0%	50%
Certifications of Deposit (Insured)	0%	20%
Purchase Agreements (Collateralized)	0%	20%
Mutual Funds	0%	15%
Approved Investment Pools	0%	50%
University System Cash Concentration Pool	0%	90%

5. The university's pooled investment fund is comprised primarily of operating funds, and fund balance equity that carries forward from year to year. At the beginning of each fiscal year, the Controller and Vice President for Business Affairs and Finance will analyze current operating cash needs as well as any cash requirements for capital projects that will occur within the next two (2) years. If the university is not using a University System Cash Concentration Pool arrangement, the university will be required to more closely monitor its investments and maturities. This monitoring and analysis will include a two (2) year time line which clearly identifies any known cash requirements and the approximate month in which the cash must be available. Once an analysis of project needs has been assembled, an analysis of current economic conditions and interest rate levels and projections from third party outside sources should be reviewed. Investment maturities are to be structured in such a way as to maintain a liquid or currently maturing balance for all operating funds budgeted for expenditure during the fiscal year. If interest rates are rising or anticipated to increase these funds may be kept in short-term investment pools such as TEXPOOL. If interest rates are falling or are projected to fall, these funds should be invested to match projected cash needs as determined. Funds in excess of operating funds may be invested, preferably by staggering maturities, for longer than a year.
6. Bond proceeds are to be invested separately and apart from the university's pooled investment fund and maturities are to be structured in such a way as to provide sufficient cash to meet construction expenditures.
7. Endowment funds are to be invested in accordance with the university's separate Investment Policy – Endowment Funds.
8. Investments donated to the university for a particular purpose or for a specific use as specified by the donor may be held in investments other than those identified as authorized investments in this policy. Such investments shall be held apart from the university's pooled investment fund. Those investments shall be subject to all other requirements of this policy.
9. The investment staff shall be responsible for following the "prudent person" standard which shall be applied in the management of the portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

E. Investment Brokers/Dealers

1. The Board of Regents and the President may hire independent investment advisors or investment managers to assist university personnel in the execution of their investment responsibilities. All routine investments will be purchased or sold utilizing an established list of qualified firms. The Board of Regents shall annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the university. Qualified firms must be regulated by the Securities Exchange Commission and be members of the ~~National Association of Securities Dealers, Inc.~~ **Financial Industry Regulatory Authority (FINRA)**.
2. A written copy of this investment policy shall be presented to any person offering to engage in an investment transaction with the university. The qualified representative of the business organization shall execute a written instrument substantially to the effect that the business organization has:
 - a. Received and reviewed this investment policy; and
 - b. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the university and the organization that are not authorized by the university's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the university's entire portfolio or requires an interpretation of subjective investment standards.
 - c. The investment officer may not acquire or otherwise obtain any authorized investment described in this investment policy from a person who has not delivered the written instrument to the university as described above.
 - d. Nothing in this section relieves the university of the responsibility of monitoring the investments made by the university to determine that they are in compliance with this investment policy.

F. Investment Ethics

Officers and investment staff involved in the investment process shall refrain from personal business activity, as defined by the Public Funds Investment Act (TX Govt. Code 2256.005), that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. A member of the Board shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is significantly affiliated. Securities will not be purchased from or sold to a member of the Board. All investment staff must report any personal business relationship or relationship within the second degree of affinity or consanguinity with an individual or another firm or organization to the President and the Internal Auditor. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

G. Investment Guidelines

Funds must be invested at all times in strict compliance with the Public Funds Investment Act (TX Govt. Code 2256) and other applicable laws, unless invested according to Texas Education Code Section 51.0031 which allows the Board of Regents to contract with another institution under prudent person investment standards.

1. **Authorized Investments.** Authorized investments include the following.
 - a. Obligations of the United States or its agencies and instrumentalities.

- b. Direct obligations of the State of Texas or its agencies and instrumentalities.
- c. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maturity of 10 years or less.
- d. Other obligations, the principal of an interest on which are unconditionally guaranteed or insured by the State of Texas or United States.
- e. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
- f. Certificates of deposit issued by a state bank, and national banks, or savings bank having a main office or branch office in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or collaterally secured by those obligations as listed above in a.- e.
- g. ~~Certificates of deposit issued by a savings bank having a main office or branch office in this state that are guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor, or collaterally secured by those obligations as listed above in a.- e.~~
- h. Fully collateralized repurchase agreements having a defined termination date, secured by obligations described in a. above, and the securities are pledged to the university, held in the university's name and deposited at the time the investment is made with the university or with a third party selected and approved by the university, and is placed through a primary government securities dealer as defined by the Federal Reserve, or a financial institution doing business in this state. Repurchase agreement means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in a. above, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. This term includes a direct security repurchase agreement and a reverse security repurchase agreement. The term of any reverse security repurchase agreement may not exceed ninety (90) days after the date the reverse security repurchase agreement is delivered. Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.
- i. Prime domestic bankers' acceptances with a stated maturity of two-hundred-seventy (270) days or less from the date of issuance and will be liquidated in full at maturity, are eligible for collateral for borrowing from a Federal Reserve Bank, and are accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1, P-1, or the equivalent by at least one nationally recognized credit agency and is fully secured by an irrevocable letter of credit issued by a bank.
- j. Commercial paper with a stated maturity of two-hundred-seventy (270) days or less from the date of its issuance that is rated not less than A-1, P-1, or the equivalent by at least two (2) nationally recognized rating agencies, or is rated at least A-1, P-1, or the equivalent by at least one (1) nationally recognized credit agency and is fully secured by an irrevocable letter of credit issued by a bank.
- k. SEC-registered, no-load money market mutual funds and no-load mutual funds as described in and limited by the Public Funds Investment Act (TX Govt. Code 2256.014).
- l. Guaranteed Investment contracts for bond proceeds as described in the Public Funds Investment Act (TX Govt. Code 2256.015)
- m. Investment Pools as described in the Public Funds Investment Act (TX Govt. Code 2256.016).

- n. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.
- o. A contracted arrangement with a university system as defined under Education Code 51.0031 which allows the university to invest its cash into a system's cash concentration pool.

2. Unauthorized Investments

Effective September 1, 1995, in compliance with the Public Funds Investment Act (TX Govt. Code 2256.009b), the following are not authorized investments:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest-only).
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only).
- c. Collateralized Mortgage obligations that have a stated final maturity date of greater than ten (10) years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

H. Performance Measurement

The investment performance of the funds will be measured by an unaffiliated organization with recognized expertise in this field, and compared against the stated performance goals. Measurement will occur at least monthly and will be used to evaluate the results on investment holdings and will include monitoring any rating changes in the university's investments. Reports will be prepared in compliance with generally accepted accounting principles and will describe in detail the investment position of the university and will include, by individual investment, the book value, market value, accrued interest, maturity dates, any purchases, sales, gains or losses and the fund or pooled account for which each individual investment was acquired. Reports shall be distributed to the President, the Vice President for Business Affairs and Finance, and the Internal Auditor. The Board of Regents shall receive the report no less than quarterly. The reports to the Board of Regents must be prepared and signed by the investment staff of the university and certified as to the portfolio's compliance with these policies and the Public funds Investment Act (TX Govt. Code 2256.023), unless the funds are invested under Texas Education Code Section 51.0031, for which the reporting will be provided by the contracted institution. The university Internal Auditor will perform a compliance audit at least once every two years with results reported to the State Auditor, President, and the Board of Regents not later than January 1 of each even-numbered year on those funds held locally and not invested through contract according to Texas Education Code Section 51.0031.

I. Interest Rate Risk Measurement

The university will measure on a quarterly basis the interest rate risk of its securities. The university will monitor and be aware of the overall interest rate and market value risk it is taking.

4.196 INVESTMENT POLICY – ENDOWMENT FUNDS

Date Adopted/Most Recent Revision: 8/6/10

A. Purpose

The purpose of this investment policy is to establish cash management and investment guidelines for the investment and protection of university endowment funds in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Texas Property Code Chapter 163. Endowment funds include, but are not limited to, gifts of property, stock, and real assets that have been donated to the university to provide funding for scholarships, professorships, and other uses as specified by the donors.

This policy applies to all individual and quasi-endowment funds held by Midwestern State University. Funds functioning as endowments (often referred to as quasi-endowments) are used to account for resources that the governing board, rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board.

The endowment funds may be invested as authorized by this policy and, for short periods of time, be placed in authorized university depositories for the processing of receivables and disbursements.

B. Investment Objectives

This policy is designed to fulfill the following objectives:

1. provide security of invested principal;
2. provide for appreciation of principal;
3. provide a continuing and dependable cash payout within market constraints;
4. provide for planned liquidity for anticipated cash flow purposes;
5. manage market risks;
6. maximize overall total return within the established risk constraints; and
7. provide for diversification of investment assets.

The long term objective of an endowment is to preserve the intergenerational equity of the endowment while providing an appropriate current spending policy. All endowment funds will be managed by the “prudent person standard.”

Endowment funds should be invested to provide funding for scholarships, fellowships, professorships, and other uses as specified by donors or the Board of Regents. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the endowment accounts should appreciate over time, exclusive of growth derived from donations, to ensure preservation of purchasing power, and also to satisfy the need for future growth in payouts.

Endowment funds will be invested to meet these objectives, by maximizing total return consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally,

the investments shall be diversified to provide reasonable assurance that investment in a single security, a class of securities, or market sector will not have an excessive impact on the funds.

C. Investment Fund Administration

1. Investment Officers

Investment responsibilities are delegated by the Midwestern State University Board of Regents to the president and the vice president for administration and finance. Investment officers, as designated by the board, are responsible for all investment management decisions and activities of the endowment funds.

Each investment officer must attend ten hours of investment training within twelve months of assuming the position and attend ten hours within each succeeding two-year period.

Each investment officer shall disclose any personal or business relationship with any business organization engaging in an investment transaction with the university. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the university shall file a statement disclosing that relationship. The disclosure shall be filed with the president and the board. No investment officer of the university may accept anything of value in connection with investment transactions. All soft dollar transactions are strictly prohibited.

No investment officer may engage in an investment transaction except as provided under terms of this policy.

2. Investment Committee

The responsibilities of the Board of Regents Committee with investment oversight are to:

- a. assist in the development and implementation of investment policies, objectives, and guidelines;
- b. prepare an asset allocation analysis and recommend an asset allocation strategy with respect to the endowment's objectives;
- c. review investment managers, including search, selection, and recommendation to the investment officers and/or MSU Board of Regents;
- d. review performance evaluation reports, and
- e. review contracts and fees for both current and proposed investment managers.

3. Day-to-Day Supervision and Record Keeping

The controller shall be responsible for the daily supervision and implementation of the investment program under the direction of the vice president for administration and finance.

D. Standard of Care

The "prudent person standard" shall be the standard used in all investment functions and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.

All investments shall be consistent with the board's approved Investment Policy – Endowment Funds. Investment officers shall not be held personally liable for a specific security's credit risk or market

value change as long as actions were in accordance with this policy and procedures, unexpected deviations were reported to the president in a timely manner, and all appropriate actions were taken to control adverse developments.

E. Investment Strategies

The endowment performance objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a three to five year period) without undue exposure to risk. The endowment is particularly risk-adverse to the probability of not meeting the total return goal. Liquidity must be considered and sufficient to meet the spending needs and expenses.

The total return goal can be achieved while assuming acceptable risk levels commensurate with “market volatility”. To achieve the total return goal, the endowment’s assets will be invested to generate appreciation and/or dividend and interest income.

Because the portfolio is expected to endure into perpetuity, and because inflation is a key component in the performance objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but it is a residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification and incremental total return.

The cash payout requirement for endowment funds is significant and continuous. The target distribution will be between four and five percent.

The portfolio shall be diversified to diminish risks associated with particular securities, market sectors, or industries with an excessive impact on the funds.

The university shall pursue an active portfolio management strategy for endowment funds. The investment officers and investment managers will regularly monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions. Quarterly reviews of performance shall be made by the investment officers.

Strategic Asset Allocation Parameters (maximums) are as follows:

- | | |
|----------------------------|-----|
| • U.S. and Global Equities | 70% |
| • Alternative Assets* | 30% |
| • Fixed Income and Cash | 40% |

*No more than 20% in any one class of alternative assets. The administration will monitor the level of alternative investments to maintain a target level of 30% or less of all endowment fund investments.