The University of Texas Rio Grande Valley Foundation

INVESTMENT POLICY

- **PURPOSE**

This document is the official policy governing the investment practices of the University of Texas Rio Grande Valley Foundation (the "UTRGVF" or "Foundation"). The policies in this document have been adopted by the UTRGVF Board of Trustees (the "Board"), which has the fiduciary duty of overseeing the Foundation's investments. The policies are not to be deviated from without the prior written permission of the Board.

Responsibility for management of donations, gifts, endowments and other monies rests with UTRGVF Board of Trustees. The Chair of UTRGVF Board appoints the Finance Committee Chair and its committee members in accordance with the by-laws of the Foundation.

Investment management for the UTRGVF principally involves endowed funds. Endowed funds are invested in perpetuity to provide on-going income for operations, scholarships, endowed chairs, and fundraising events. Long-term investment objectives shall be established consistent with prudent management of similar endowments at other educational institutions. In instances where donors make requests, endowed funds will be invested as the donor has instructed as long as the instructions meet the prudent management requirements.

In addition, unrestricted funds may be available for short periods of time before being used for UTRGVF projects or operations. These funds are primarily invested for relatively short periods with maturities spaced to coincide with anticipated needs.

- **GOALS AND OBJECTIVES**

It is assumed that endowed funds will have a permanent life and that it is important to protect the principal and purchasing power of these funds. It is also assumed that some inflation will continue, thus the need to maximize the total return of the Foundation's investment portfolio. These assumptions call for an above-average investment performance while maintaining a prudent and reasonable risk level. It is anticipated that the return results for various asset classes will fluctuate and that each asset class will be impacted differently by changes in the economic environment. As an example, it is within the reasonable risk level that in times of economic recessions the equity markets will have negative returns. During the same timeframe, it is reasonably expected that certain fixed-income securities will experience market value increases. The Board recognizes that maintaining a disciplined strategy of diversification through targeted asset allocation will help mitigate return volatility. As long as the funds are invested in diversified portfolios, short-term negative returns are acceptable.

A primary goal is to provide a reasonably stable, predictable and increasing endowment income each year so that a balanced budget can be maintained. *During those times of economic recession, income from long-term endowments may decline because of declines in equity portfolio values.* The Foundation will seek to maintain an appropriate asset allocation to minimize, as much as possible, the volatility of investment returns.

A secondary goal is to reflect a disciplined and consistent investment philosophy that will encourage planned gifts and bequests. At the same time, it is important that the Board and all involved parties demonstrate honesty and integrity in consideration of the donors' generosity. All participants in the Foundation's investment process shall seek to act responsibly as custodians of the donors' trust.

A third goal is to encourage financial institutions to continue supporting the UTRGVF through donations and gifts, event sponsorships, and other financial commitments that will allow the organization to achieve its goals.

Performance goals will be established for each asset class authorized by the Board and will be evaluated on an annualized, net-of-fees basis for comparison to the appropriate benchmark.

- **INVESTMENT ADVISORS AND CONSULTANTS**

To fulfill the Board's objective of effectively managing the financial assets of the Foundation, the Board will contract with professional investment advisors. Investment advisors are selected from strongly established and financially sound organizations that have a proven and demonstrable record of experience in managing long-term money. The investment portfolio is diversified to provide reasonable assurances that no single security (investment) or class of securities (asset class) has a disproportionate or significant impact on the total portfolio. Contracts with each investment advisor will stipulate the composition and asset diversification to which that advisor must adhere. The Board will consider the cost-effectiveness of the decision involving the number of investment advisors with which to contract. The number of investment advisors under contract will be the minimum number required to effectively diversify according to the approved asset classes and from time to time the Board may determine that the most cost effective decision would be to invest in mutual funds in order to diversify with the least number of investment advisors involved.

Diversification of the portfolio through asset allocation is established by this Policy and any deviation must be formally approved by the Board prior to the execution of any trade that would violate the allocation objective. In the case where an investment transaction causes an unintended allocation violation, the investment advisor must take immediate prudent action to resolve the situation and must report the violation and resolution to the Board within two business days.

From time to time, the Board may contract with professional investment consultants to perform duties related to developing investment policy, asset allocation, selection of investment advisors and other non-transactional advice. In the course of its duties, the consultant may be given authority to oversee the performance of the investment advisors and to report to the Board the advisors' activities and the effectiveness of their management relative to established benchmarks.

- **FIDUCIARY CONDUCT**

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the Foundation or who renders, for a fee, advice for the Foundation. The term investment fiduciary includes, but is not limited to, the members of the Board, the Foundation staff, the investment consultant, investment managers and bank custodians.

An investment fiduciary shall discharge his or her duties exclusively in the interest of the beneficiaries of the Foundation and shall:

1. Act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
2. Act with due regard for the management reputation, and stability of the issuer and the character of the particular investments being considered;
3. Make investments for the sole purpose of providing for the educational funding objectives developed by the Board and of defraying reasonable expenses of supervising, safeguarding and investing the assets of the Foundation; and
4. Give appropriate consideration to those facts and circumstances that an investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role which the investment or investment course of action plays in that portion of the investments for which an investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the Foundation, to further the purposes of the Foundation, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The Board shall give consideration of the following factors as they relate to the total Foundation's investment course of action:
    a. the diversification of the investments of the Foundation;
    b. the liquidity and current return of the investment of the Foundation relative to the anticipated cash flow requirements of the Foundation; and
    c. the projected return of the investments of the Foundation relative to the funding objectives of the Foundation.
5. Act in accordance with these guidelines and all applicable policies, laws and statutes.

- **INVESTMENT RESPONSIBILITY**

Board of Trustees

The Board of Trustees has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will select, contract with, monitor and evaluate the investment consultant, investment managers, bank custodian and other parties to ensure that actual results meet objectives.

Finance Committee

The Finance Committee is established in accordance with the by-laws of the Foundation. The Committee shall interview, screen and recommend outside investment-related service providers to the Board. The Committee, within the framework of guidelines set by the Board, shall have direct responsibility for the oversight and management of the Foundation's investment assets. Should investment consultants be engaged, the Committee shall meet quarterly with the investment consultants to review and understand the investment performance of the portfolio's assets and to recommend changes to the Board that the review indicates, as necessary. The Committee will meet with the investment advisors of the Foundation as necessary or at least annually.

Investment Consultant

The investment consultant's duty is to render competent, professional advice and assistance and to work with the Board with respect to the investment process. This includes meeting regularly with the Board to provide perspective as to the Foundation's goals, structure and the investment management team as well as the progress being made in fulfilling each. The consultant will advise, consult and work with the Board to develop and maintain a properly diversified portfolio.

The investment consultant will perform its duties and obligations to the Board in conformance with generally accepted industry standards, and its contract with the Foundation.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. The consultant will assist the Board in investment manager selection, when needed, and will promptly inform the Board and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, the investment consultant assumes fiduciary responsibility for advice given regarding the management of the investment process.

Investment Advisors

The investment advisors will construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement and which are specified in this document and in the respective investment advisor agreement they execute with the Foundation. Investment advisors will select specific securities or funds, buy and sell such securities/funds and manage the investment portfolio within the terms, provisions and requirements set forth in the investment policies, the applicable local, state and federal laws and the investment advisor agreement. Full discretion is delegated to the investment advisors to carry out the investment of the respective portfolios within stated guidelines.

Each investment advisor is expected not only to maintain a consistent philosophy and style, but also to perform well versus others utilizing the same style and to add incremental value after costs.

Each investment advisor will be responsible for preparing a quarterly report on the performance of the portfolio, including comparative returns of their respective benchmark. The quarterly report will contain a complete accounting of all transactions involving the portfolio during the quarter, the beginning and ending market values of each position, detail of gains/losses and income for the portfolio.

Bank Custodian(s)

The bank custodian(s) will hold all cash and securities and will value the securities monthly, list and summarize these holdings for the Board's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment advisor and to invest such cash in liquid, interest-bearing instruments.

- **AVAILABILITY OF FUNDS**

Funds available for the current fund budget are limited to a maximum of 5% of each unrestricted endowment as of the August 31 value each year. The 5% withdrawal may be from interest, dividends, realized and unrealized capital gain and principal. All other earnings are adjusted to the principal for growth.

- **INVESTMENT PROGRAM GUIDELINES**

Asset Allocation

The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Foundation's investment portfolio consistent with market conditions. Due to fluctuation of market values, allocations within a specified range constitute compliance within the policies. An extended period of time may be required to fully implement the asset allocation plan and periodic revisions will be required. The policy will include a targeted allocation table to be authorized to include all funds not segregated to provide for normal operating expenses and projected cash needs. Such segregated funds will not be in excessive amounts and will be periodically monitored to ensure that all available funds are invested as effectively as possible.

Guidelines for Short-Term Investments

Short-term investments are made with maturities spaced to coincide with anticipated needs. The highest rate of return is sought with minimum risk. The Finance Committee will perform a rate review at least quarterly and report findings at each Board meeting. To achieve these goals, the following procedures are to be followed:

1. All major funds are pooled into one account not to exceed FDIC coverage;
2. A projection of cash needs for the next 18 months will be kept;
3. Short-term and cash equivalent investments will be selected that impose minimal liquidity and price volatility risk;
4. The economic environment and relative interest rates should be monitored; and
5. Investments in financial institutions should be only those with FDIC insurance and limited per entity to the amount that would carry full FDIC insurance, or have pledged collateral with a market value equivalent to no less than 102% of deposit balances.

Guidelines for Long-Term Investments

The Long-term Investments portfolio shall:

1. Honor requests by donors relating to investment of donations to the Foundation, provided that the request does not compromise prudent safety and risk limitations;
2. Hold no more than 10 percent of the portfolio at cost, or 15% at market, in securities of any one issuer (except the U. S. Government and its agencies), except for additional shares of an issue that are contributed from time to time. Diversification should be a consideration with no more than 20% of the portfolio at cost, or 25% at market, in any one industry;
3. Invest only in equity securities listed on the New York Stock Exchange, American Stock Exchange, the NASDAQ, or any major exchange outside of the U.S.;
4. Hold no more than 5% of the outstanding stock of any one company, except for shares that may be contributed from time to time;
5. Not invest for the purpose of exercising control of management;
6. Not invest in letter stock, except for shares that may be contributed by donors from time to time;
7. Not invest in commodities, or commodity contracts;
8. Not invest in securities on margin or sell short, nor in mutual funds that leverage;
9. Make no loans, except by the purchase of bonds or other obligations of the type commonly distributed publicly or privately to financial institutions. Investments will not be made in church bonds or loans to churches, except those received from donors;
10. Make no investment in stock options, unless in sales of call options against stock held in the portfolio; and
11. Use short-term cash held as the result of sales of stock or options for investment in interest-bearing instruments, with the understanding that such cash will be reinvested in equity securities from time to time.

- **AUTHORIZED INVESTMENTS**

The Foundation's portfolio will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, quality and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund.

Cash and Equivalent Securities

The investment advisors may invest in the highest quality commercial paper, repurchase agreements, U.S. Treasury obligations, bank certificates of deposit and money market funds to provide income, and liquidity for expense payments or other distributions.

Investment advisors should keep cash and equivalents to a minimum since short-term, cash equivalent securities are usually not considered an appropriate investment vehicle for long-term strategies. However, such investments are appropriate as a depository for income distributions from longer-term investments or as needed for temporary placement of funds directed for future investment to the longer-term capital markets.

Funds segregated to cover short-term operating needs of the Foundation will be held in money market or other cash equivalent positions authorized by the Finance Committee.

Equity Securities

The purpose of equity investments, both domestic and international, in the portfolio is to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return objectives. This component includes domestic and international common stocks, American Depository Receipts (ADR), preferred stocks and convertible stocks traded on the world’s stock exchanges or over-the-counter markets. Investments in international equities should limit exposure to emerging markets to no more than 5% of the Foundation’s aggregate portfolio.

Equity securities shall generally be restricted to high-quality, readily marketable securities of corporations that are traded on the major stock exchanges and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of their respective asset class profile with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to the investment advisor’s discretion, subject to the standards of fiduciary prudence and the limitations set forth in the “Guidelines for Long-Term Investments” section of this Policy.

Fixed Income Securities

Domestic and international fixed income investments provide diversification and a dependable source of current income. Diversification within fixed income investments will be allocated among maturities of different lengths according to interest rate prospects and the goals of the Foundation. Fixed income instruments should reduce the overall volatility of the Foundation’s assets, and prove a deflation or inflation hedge, where appropriate.

Fixed income includes, but is not limited to, U.S. Treasury and government agency obligations, public and private corporate debt mortgages and asset-backed securities and non-investment grade debt. Fixed income also includes money market instruments, including but not limited to, commercial paper, certificates of deposit, time deposits, banker's acceptances and repurchase agreements. The investment advisor must take into account credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of fixed income securities. Private placement bonds are not permitted.

Alternative Investments
At the manager's discretion, the Foundation's portfolio may include alternative investments, as described below, in any combination that falls within the aggregate allocation set forth in the Asset Allocation schedule for Alternative Investments:

Real Estate
Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed, pooled real estate investment trusts (REIT), as offered by leading real estate managers with proven track records. This restriction does not apply to property acquired as a donation to the Foundation.

Natural Resources and Commodities
Investments may include agricultural, metal, oil, gas, and timber investments, held in the form of shares of professionally managed mutual funds.

Hedge Fund of Funds
Investments may include mutual funds that are used for bona fide hedging purposes and to manage risk in the portfolio.

Mutual or Commingled Funds
Any investment that is made in a mutual fund and/or commingled fund will be reviewed and approved by the Finance Committee, unless it is selected by an investment advisor under contract to make such decisions. It is understood that for mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund will govern the investment guidelines and allocation limitations of the fund investments and will take precedence over this Policy. It is appropriate however for the investment advisor to select funds that have guidelines that are similar in nature to those authorized in this Policy governing credit quality and risk profiles.

- **ASSET ALLOCATION**

The purpose for establishing target asset allocation bands is to ensure that the program remains diversified in order to mitigate, as much as possible, the impact of volatility of individual markets. The Board by this Policy has authorized the following asset allocation schedule and has established appropriate benchmarks for each category of asset:

Asset Class	Minimum Weighting	Target Weighting	Maximum Weighting	Benchmark Index
Domestic Equities – Large Cap	15.0%	20.0%	25.0%	Russell 1000
Domestic Equities – Mid Cap	15.0%	20.0%	25.0%	Russell Mid-Cap
Domestic Equities – Small Cap	5.0%	7.5%	10.0%	Russell 2000
Alternative Investments:	0.0%	5.0%	7.5%	
Domestic Real Estate				S&P U.S. REIT
Natural Resources/Commodities				Bloomberg Commodity Index
Hedge Fund of Funds				HRFI Hedge Fund of Fund Index
International Equities	5.0%	7.5%	10.0%	MSCI- EAFE
Fixed Income	30.0%	32.5%	40.0%	Barclays Gov/Corp
International Fixed Income	0.0%	5.0%	7.5%	Barclays Capital Global Aggregate
Cash & Equivalents	0.0%	2.5%	10.0%	90-day Treasury Bill

Rebalancing

The purpose of rebalancing is to maintain the long-term asset allocation within the targeted bands in accordance with the objective of controlling portfolio risk. The asset allocation will be rebalanced within the stated ranges on no less than a calendar quarterly basis.

- **POLICY REVIEW**

This Policy document will be reviewed on an annual basis by the Finance Committee. Any changes must be recommended by the Finance Committee and approved by the Board.