STATEMENT OF PURPOSE

This policy statement provides a framework for the management of the investable assets (the Fund) of the University of Central Oklahoma Foundation. This policy will assist the Board of Trustees in supervising and monitoring the investments of the Fund. A subcommittee of the Board of Trustees, or Investment Committee (the Committee), may be established to implement and monitor the Fund in accordance with this policy statement. The guidelines allow for flexibility and a process to capture investment opportunities, while prudently and carefully setting forth risk control parameters for the investment program.

The statement of investment policy is intended to address asset deployment, liquidity and diversification requirements, which should not be violated over the planning horizon. Policy issues relate directly to the return requirements and risk parameters of the Fund and are to be considered the general principles governing the investment management of the Fund. The management of the Fund will be diversified to help minimize the overall risk of the portfolio, unless under the circumstances, it is clearly prudent not do so.

This policy addresses the following issues:

- The goals and objectives of the Fund and the investment program; and
- The investment strategy including asset allocations, spending policy, rebalancing procedures and investment guidelines.

GOALS AND OBJECTIVES

Objectives of the Fund

The primary investment objectives of the Fund are to:

- Preserve the real purchasing power of the principal; and
- Provide a stable source of perpetual financial support.

The Fund shall be managed for a growth and income objective with a moderate risk tolerance.
Performance Goals
On an annualized, net of fees basis, the total return of the portfolio will be expected to:

- Equal or exceed the spending rate plus inflation (HEPI-Higher Education Price Index) over a rolling five-year period.

Additionally, the returns should show favorable, relative performance characteristics. These returns should:

- Equal or exceed the average return of appropriate capital market indices weighted by the asset allocation target percentages over a rolling five-year period; and
- Equal or exceed the average return of a universe of similarly managed funds.

Performance goals are based upon a long-term investment horizon; therefore interim variations should be expected.

Investment Philosophy
The Fund has a long-term investment horizon and the Committee believes that asset allocation is the major determinant of the investment performance. Consequently, a long-term asset allocation plan, consistent with the Fund’s investment objectives and performance goals will be developed.

The assets will be managed on a total return basis. Although the policy recognizes the importance of preserving capital, it also must reflect that varying degrees of investment risk are generally rewarded with increased returns that compensate for the additional risk. Additionally, risk greater than that of stable long-term low risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the beneficiaries’ best interest. Selection of investment strategies will be evaluated on a risk-adjusted basis as needed to meet the investment objectives of the Fund.

INVESTMENT PROGRAM POLICIES AND PROCEDURES

Investment Program Policy
The investment program shall invest according to an asset allocation plan that is designed to meet the goals of the Fund. The plan will be based on a number of factors, including:
The projected spending needs;
  • The maintenance of sufficient liquidity to meet spending payments; and
  • The return objectives and risk tolerance of the Fund.

This asset allocation plan provides for diversification of assets in an effort to maximize the
investment return and manage the risk of the Fund consistent with market conditions. Due to
the fluctuation of market values, allocations within a specified range constitute compliance
with the Policy.

**Investment Program Strategy**
The Fund shall be allocated across a number of investment classes to provide diversification
and achieve the Fund’s investment objectives. The following table defines the Fund’s target
asset allocation and range for each asset class:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>10%</td>
<td>5-25%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>30%</td>
<td>25-45%</td>
</tr>
<tr>
<td>Equity Securities</td>
<td>45%</td>
<td>40-70%</td>
</tr>
<tr>
<td>Alternatives-other than</td>
<td></td>
<td></td>
</tr>
<tr>
<td>income producing real estate</td>
<td>10%</td>
<td>5-15%</td>
</tr>
<tr>
<td>Income Producing Real Estate</td>
<td>5%</td>
<td>2-10%</td>
</tr>
</tbody>
</table>

The Committee will be responsible for monitoring the aggregate target allocation of the asset
classes for the entire Fund. The Committee will place assets with qualified external
professional Investment Managers and provide those managers with sufficient information
about the Fund’s total assets so that the external Investment Managers can modify the
portfolio that they manage to accommodate the total target allocation. The external
Investment Managers will have full discretion and authority for determining investment
strategy, security selection and timing of purchases and sales of assets subject to the guidelines
specific to their allocation.
PORTFOLIO SPENDING POLICY

The Foundation’s distribution policy is to be computed according to the following formula:

Distributions will be made semi-annually based on a 4% annualized rate (2% each semi-annual period, June 30th and December 31st) on endowed assets. No distributions will be made from endowments (or additions to existing endowments) that have been in existence for less than one year. The appropriate distribution rate will be applied to the value of the endowment fund assets, including income producing real estate holdings, over an average of three years (the calculation will utilize the average of the last 6 semi-annual values of endowment assets).

The distributions will be made semi-annually in advance (January and July). The University shall be paid 87.5% of the distribution and the Foundation shall retain 12.5% for administration.

The distributions will be appropriated for distribution effective with the approval by the executive committee.

Underwater Accounts

In the event any of the endowment accounts are underwater (underwater accounts are defined as accounts whose values are less than their historic dollar value), then the Investment Committee shall meet and specifically approve any distribution. If the endowment agreement specifically prohibits distributions for any reason, including underwater situations, the endowment agreement shall prevail and the distributions will be eliminated or reduced in accordance with the donors’ intent. In judging whether a distribution is prudent, the Committee shall consider the following factors:

1. the duration and preservation of the endowment fund;
2. the purposes of the institution and the endowment fund;
3. general economic conditions;
4. the possible effect of inflation or deflation;
5. the expected total return from income and the appreciation of investments;
6. other resources of the institution; and
7. the investment policy of the institution.

Rebalancing

The purpose of rebalancing is to maintain the long-term policy asset allocation with the targeted ranges while contributing to controlling portfolio risk. The assets will be rebalanced within the stated ranges on a uniform basis to reduce portfolio expenses as far as practicable as
defined in the Target Asset Allocation Table. The portfolio will be evaluated quarterly by the members of the Committee charged with the oversight of the portfolio’s investments and rebalanced at least annually. Tactical rebalancing of asset classes within their ranges is also permissible to take advantage of near-term market conditions as long as the changes or reallocations do not cause undue risk or expense to the portfolio.

**Roles and Responsibilities**
The Investment Committee, within the framework of policy set by the Board of Trustees, shall have direct responsibility for the oversight and management of the Fund and for establishment of investment policies and procedures. Upon recommendation of the Investment Committee, the Board of Trustees shall have the power to employ or discharge fiscal agents or advisors.

**INVESTMENT MANAGEMENT POLICIES, GUIDELINES AND RESTRICTIONS**

The investment policies, guidelines, and restrictions in this policy statement are a framework to help the Fund and its Investment Managers achieve the investment objectives at a level of risk deemed acceptable. The Fund 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. As a result, the risk level associated with the portfolio investment is reduced.

**Cash and Equivalents**
The Investment Managers may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposits and money market funds to provide income, liquidity for expense payments, and preservation of the Fund’s principal value. No more than 5% of the Fund’s total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over timing the purchase, sale and selection of cash and cash equivalents.

**Fixed Income**
Domestic and international fixed income investments provide diversification dependable source of current income. Diversification within fixed income investments will be flexibly allocated among maturities of different lengths according to interest rate prospects and the goals of the Fund. Fixed income instruments should reduce the overall volatility of the Fund’s assets, and provide a deflation or deflation hedge, where appropriate.
Fixed income includes both the domestic and foreign fixed income markets. It includes, but is not limited to U.S. Treasury and government agency bonds, non-U.S. dollar denominated securities, 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, bankers’ acceptances, repurchase agreements, and U.S. Treasury and agency obligations. The Investment Managers must take into account credit quality, sector, duration and issuer concentrations in selecting an appropriate mix of Fixed Income Securities. Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturities.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over timing the sale, purchase, and selection of Fixed Income Securities.

**Equity Securities**

The purpose of equity investments, both domestic and international, in the Fund 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 goals. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world’s stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to high quality, readily marketable securities of corporations that are traded on the major exchanges and have the potential for meeting return targets. Equity holding must generally represent companies meeting a minimum market capitalization requirement of respective asset class profiles with reasonable market liquidity. Decisions as to individual security selection, number of holdings, current income levels and turnover are left to Investment Managers’ discretion, subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20 percent of the Fund’s total value, and no single security shall represent more than five percent of the Fund’s total value, unless approved by the Committee.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over timing the sale, purchase, and selection of the Equity Securities.
**Alternatives**

Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus or trust document. Investments in these vehicles carry special risks. The Fund may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The Fund may invest in illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn.

Investments may include hedge funds, managed futures funds, venture capital or private equity funds, real estate or leveraged buy-out funds. Investments in other strategies shall be reviewed and approved by the Investment Committee prior to purchase.

Alternative investments shall be limited to diversified co-mingled trust fund vehicles or limited partnerships offered through a third party distribution channel, such as what is offered through many broker-dealer firms. The Investment Committee has not authorized any investment vehicle where the Fund’s liability can exceed the value of the Fund’s investment.

Alternative investments shall also be diversified by investment style and Investment Manager. The maximum allocation to any one fund shall not exceed 33% of the total alternatives commitment. If an allocation to a fund exceeds this limit at any point in time, the Investment Committee shall rebalance the allocation to the fund at the next opportunity when the fund permits liquidation of fund holdings.

**Restrictions**

The Investment Committee may waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a thorough review of the Investment Managers and the investment strategy involved. An addendum supporting such investments will be maintained as a permanent record of the Investment Committee. All waiver and modifications will be reported to the Board of Trustees and the meeting immediately following the granting of the waiver or modification.

**INVESTMENT MANAGERS REPORTING AND EVALUATION**

The Investment Managers responsible for the investment of the Fund’s assets shall report quarterly on the performance of the portfolio, including comparative returns for the funds and their respective benchmarks. In addition, the performance report shall include comparative
returns of the entire portfolio against a short term conservative bond fund index (e.g. Standard and Poors 500 Index). Included will be a complete accounting of all transactions involving the Fund during the quarter, and a statement of beginning market value, fees, capital appreciation or depreciation, income and ending market value, for each account. Investment Managers should review the portfolio with the Investment Committee annually; and will be supplemented by other meetings as necessary for proper review.

The Committee recognizes market conditions may greatly influence the ability of a manager to meet year-to-year investment goals and objectives. Further, the Committee realizes that significant cash flow may also affect the ability of a manager to meet a specific short-term objective. Accordingly, the Committee expects to monitor performance through absolute return objectives, relative performance against identified benchmarks, and comparatively against other Investment Managers when possible.

The Committee will review the Investment Managers’ investment performance, fees and service on an annual basis and make recommendations for changes as necessary.

CHANGES TO INVESTMENT POLICY STATEMENT AND GUIDELINES

Any changes in the investment policies and investment guidelines will be recommended by the Investment Committee and approved by the Board of Trustees.

ACCEPTANCE OF INVESTMENT POLICIES AND GUIDELINES

The foregoing investment policy statement is adopted by the University of Central Oklahoma Foundation Investment Committee this ___14th___ day of ___January____________, 2010, and is to be effective for the fiscal year beginning July 1, 2009 and thereafter.