



- I. STATEMENT OF INVESTMENT POLICIES, TRUST FOR EDUCATIONAL EXCELLENCE**
- II. POLICY STATEMENT:**

This policy establishes investment objectives, policies, guidelines and eligible securities related to all assets held by the Alabama State University Trust for Educational Excellence subject to review by the Board of Trustees of Alabama State University. This Statement of Investment Policies and Objectives is consistent with the United States District Court Decree in Knight v. State of Alabama entered August 1, 1995.
- III. SCOPE OF POLICY:**

See Attached.
- IV. EFFECTIVE DATE:**

Immediately upon approval by the ASU Board of Trustees.
- V. AUDIENCE:**

See attached.
- VI. DESIGNATED RESPONSIBILITIES AND APPLICABILITY OF THE STATEMENT OF INVESTMENT POLICIES, TRUST FOR EDUCATIONAL EXCELLENCE:**

See attached.
- VII. POLICY MANAGEMENT**
 - **Responsible Office(s):** Business and Finance
 - **Responsible Executive:** Vice President of Business and Finance
 - **Responsible Officer(s):** Vice President of Business and Finance
- VIII. DEFINITIONS:**

See attached.
- IX. PROCEDURES:**

See attached.

Document History
Approved by BOT, September 18, 2020

(July 23, 2019)

**ALABAMA STATE UNIVERSITY
Trust for Educational Excellence**

Statement of Investment Policies

Purpose

This policy establishes investment objectives, policies, guidelines and eligible securities related to all assets held by the Alabama State University Trust for Educational subject to review by the Board of Trustees of Alabama State University. This Statement of Investment Policies and Objectives is consistent with the United States District Court Decree in Knight v. State of Alabama entered August 1, 1995.

Delegation of Responsibilities:

The Board of Trustees has a direct oversight role regarding all decisions that impact the Trust for Educational Excellence's institutional funds. The Board has delegated supervisory responsibility for the management of our institutional funds to the Finance Committee of the Board of Trustees. Specific responsibilities of the various bodies and individuals responsible for the management of our institutional funds are set forth below:

Responsibility of the Board:

The Board will ensure that its fiduciary responsibilities concerning the proper management of the Trust for Educational Excellence funds are fulfilled through appropriate investment structure, internal and external management, and portfolio performance consistent with all policies and procedures and with the United States District Court Decree in Knight V. State of Alabama entered August 1, 1995. Within these guidelines, the Board of Trustees may assign the investment discretion of the Fund in whole or in part to professional investment managers.

The Finance Committee of the Board of Trustees will make a comprehensive report in writing to the Board of Trustees at least once a year or otherwise as requested. Based on the advice and recommendations of the Finance Committee of the Board of Trustees, the Board shall:

- select, appoint and remove members of the Committee.
- approve investment policies and objectives that reflect the long term investment-risk orientation of the Trust.

Responsibilities of the Finance Committee of the Board of Trustees:

Members of the Finance Committee of the Board of Trustees are not held accountable for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which

decisions are made in respect to Trust assets. In consideration of the forgoing, the Committee is responsible for the development, recommendation, implementation and maintenance of all policies relative to Trust for Educational Excellence funds and shall:

- Develop and/or propose policy recommendations to the Board of Trustees with regard to the management of all trust funds.
- Recommend long-term and short-term investment policies and objectives for our Trust funds, including the study and selection of asset classes, determining asset allocation ranges, and setting performance objectives
- Determine that Trust funds are prudently and effectively managed with the assistance of management and any necessary investment consultants and/or other outside professionals, if any.
- Monitor and evaluate the performance of all responsible for the management of Trust funds.
- Recommend the retention and/or dismissal of investment consultants and/or other outside professionals.
- Receive and review reports from management, investment consultants and/or other outside professionals, if any.
- Periodically meet with management, investment consultants and/or other outside professional management.
- Convene regularly to evaluate whether this policy, investment activities, risk management controls and processes continue to be consistent with meeting the goals and objectives set for the management of Trust funds.

Responsibilities of the Administration:

The University Vice President for Business & Finance shall be responsible for the day-to-day administration and implementation of policies established by the Board and/or the Finance Committee of the Board of Trustees concerning the management of Trust for Excellence funds. The University Vice President for Business & Finance shall also be the primary liaison between any investment consultants and/or other outside professionals that may be retained to assist in the management of such funds. Specifically, the University Vice President for Business & Finance shall:

- **Oversee the day-to-day operational investment activities of all Trust for Educational Excellence funds subject to policies established by the Board and/or the Finance Committee of the Board of Trustees.**
- **Contract with any necessary outside service providers, such as: investment consultants, investment managers, banks, and/or trust companies and/or any other necessary outside professional.**
- **Ensure that the service providers adhere to the terms and conditions of their contract; have no material conflicts of interest with the interests of the Board of Trustees of the Trust for Education Excellence and, performance monitoring systems are sufficient to provide the Finance Committee of the Board of Trustees with timely, accurate and useful information.**
- **Regularly meet with any outside service providers to evaluate and asset compliance with investment guidelines, performance, outlook and investment strategies; monitor asset allocation and rebalance assets, as directed by the Finance Committee of the Board of Trustees in accordance with approved asset allocation policies, among asset classes and investment styles; and tend to all other matters deemed to be consistent with the due diligence with respect to prudent management of trust funds and with all policies and procedures and with the United States District Court Decree in Knight V. State of Alabama entered August 1, 1995.**
- **Comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments, especially alternative investments. Prepare and issue periodic status reports to the Board and the Finance Committee of the Board of Trustees.**

Investment Considerations:

In accordance with the Board of Trustees' understanding of the United States District Court Decree in Knight V. State of Alabama entered August 1, 1995, the Board and Finance Committee of the Board of Trustees must consider the purposes identified in the United States District Court Decree in Knight V. State of Alabama entered August 1, 1995 and our assets in managing and investing Trust funds. The responsibility of the Board of Trustees includes the prudent investment of the Trust's funds. All individuals responsible for managing and investing Trust funds must do so in good faith and with the care that an ordinary prudent person in a like position would exercise under similar circumstances. Prudent investment management, by definition, requires that investments will be evaluated on their own merits, employing various factors of consideration, including the social and ethical implications of the investments.

In making any decision relative to the expenditure of Trust funds, each of the following factors must be considered, and properly documented, in the minutes or other records of the applicable decision making body:

- 1. General economic conditions;**
- 2. Possible effect of inflation or deflation;**
- 3. Expected tax consequences, if any, of invest decision or strategies;**
- 4. The role that each investment or course of action plays within the overall investment portfolio of the fund;**
- 5. Expected total return from the income and appreciation of investments;**
- 6. Other resources of the organization;**
- 7. The needs of the organization and the fund to make distributions and preserve capital;
and,**
- 8. An asset's special relationship or special value, if any, to the organization's purposes.**

Expenditure Consideration

The Board of Trustees and the Finance Committee are responsible for compliance with the United States District Court Decree in Knight V. State of Alabama entered August 1, 1995, which specifically outlines the spending policy for the Trust for Education Excellence as follows:

"While 75% of the annual income from the corpus of the Trust is available for expenditure by the Trust in that fiscal year, the Trustees are not required to expend all that portion of income in any particular year, but may allow the expendable portion of the income to accumulate in order to allow more flexibility in funding activities pursuant to the Trust."

The educational purposes for which the portion of the Trust for Educational Excellence income not committed to the corpus of the Trust can be used shall be limited to:

- 1. The granting of academic scholarships at Alabama State University based upon academic excellence, including the continuance of academic excellence by students enrolled in the University and receiving such scholarships**

2. The endowment of department chairs to assist in obtaining faculty of high quality and outstanding reputation.
3. Matching funds to endow chairs of eminent scholars under Alabama's Eminent Scholar Program.
4. For the subsidizing of salaries paid to full-time faculty members with outstanding reputations as scholars and academics and so recognized in the academic community.
5. The payment of fees and expenses for lectures and lecture series conducted on the campus by nationally known educators, public officials, writers, scholars and national and world business and government leaders together with the funding of other campus events of like quality.

The Decree further states that "neither income or principal from this trust shall ever be used in any manner for payment of compensation to its Trustees or for the construction of buildings or other physical facilities, it being the intent that this Trust shall forever be used for only the enhancement of educational quality in academics, instruction and public service. Clerical assistance and the maintenance of records necessary in the operation and maintenance of this Trust shall be provided by the University through its staff and compensated by the University from funds other than Trust Funds."

For each decision to appropriate Trust funds for expenditure, an appropriate contemporaneous record should be kept and maintained describing the nature and extent of the consideration that the Board of Trustees gave to each of the stipulated factors.

The definition of annual income shall include all dividend and interest income earned and all realized gains. Accumulated annual income may be transferred into a sub-account within the Trust in an amount equal to 75% of the accumulated, but not distributed annual income.

Investment Objectives:

The primary investment objectives are: (1) to maximize the total financial return on assets, using prudent management techniques and (2) to preserve the growth of principal in constant dollars so as to provide under the Decree spending rule policy a consistent level of real growth of budgetary support from the Trust for Educational Excellence Fund. The Trust Fund will be substantially enlarged by virtue of superior investment management and limitation of cash withdrawals.

Guidelines for Investing

The investment goal of the total return fund is to achieve a total return (income and appreciation) of 7% after inflation, over a full market cycle (3-5 years) The following guidelines apply to the three main investment asset classes:

Money Market Funds: Allowable range: Minimum 5%; Maximum 45% of total assets

A quality money market fund will be utilized for the liquidity needs of the portfolio whose objective is to seek as high a current income as is consistent with liquidity and stability of principal. The fund will invest "money market" instruments with remaining maturates of one year or less, that have been rated by at least one nationally recognized rating agency in the highest category for short-term debt securities. If non-rated, the securities must be of a comparable quality.

Equities: Allowable range: Minimum 20%; Maximum 60% of total assets

The equity component of the portfolio will consist of high-quality securities traded on the New York, NASDAQ or American Stock exchanges. The securities must be screened for above average financial characteristics such as price-to-earnings, return-on-equity, debt-to-capital ratios, etc.

No more than 5% of the equity portion of the account will be invested in any one issuer. As well, not more than 20% of the equity portion of the account will be invested in stocks contained within the same industry.

It is acceptable to invest in an equity mutual fund(s) adhering to the investment characteristics identified above, as long as it is a no-load fund, without 12(b)(1) charges, which maintains an expense ratio consistent with those of other funds of similar investment styles as measured by the Lipper and/or Morning Star rating services.

Prohibited equity investments include: initial public offerings, restricted securities, private placements, derivatives, options, futures and margined transactions.

Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Fixed Income: Allowable range – Minimum 35%; Maximum 75% of total assets

Bond investments will consist solely of taxable, fixed income securities that have an investment-grade rating (BBB or higher by Standard & Poor's and Baa or higher by Moody's) that possess a liquid secondary market. If the average credit quality rating disagrees among the two rating agencies, then use the lower of the two as a guideline.

No more than 5% of the fixed income portfolio will be invested in corporate bonds of the same issuer. As well, not more than 20% of the fixed income portfolio will be invested in bonds of issuers in the same industry.

The maximum *average maturity* of the fixed income portfolio will be 10 years, with no more than 25% of the bond portfolio maturing in more than 10 years.

Prohibited securities include: private placements, derivatives (other than floating-rate coupon books), margined transactions and foreign denominated bonds.

Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return

Performance Measurement Standards

The benchmarks to be used in evaluating the performance of the two main asset classes will be:

- **Equities: S&P 500 Index-** Goal: exceed the average annual return of the index over a full market cycle (3-5 Years)
- **Fixed Income: Lehman Brothers Government/Corporate Index-** Goal: exceed the average annual return of the index over a full market cycle (3-5 years)

It will be the responsibility of the Finance Committee of the Board of Trustees to regularly review the performance of the investment account and investment policy guidelines, and report to the Board of Trustees at least quarterly with updates and recommendations as needed.

General Rule:

- Custodial responsibility for all securities will be determined by the Finance Committee
- On a continuing basis, the Vice President for Finance and Chief Financial Officer, through the President, will monitor activity in the Fund to insure that there is compliance with the Statement of Investment Policy and Objectives, and will report such findings to the Finance Committee at least quarterly and to the Board of Trustees upon request.

- **Any exception to this policy shall be recommended by the Finance Committee and approved by a majority of the members of the Board of Trustees at a regularly scheduled meeting.**

**FINDING OF FACT
CONCLUSIONS OF LAW,
AND
REMEDIAL DECREE**

**JOHN F. KNIGHT, JR.
V.
THE STATE OF ALABAMA**

A
USES AND PURPOSES OF THE TRUST

The Trust shall have the following uses and purposes: to receive public funds, gifts, grants income, interest, dividends, real estate, choses in action and any and all property rights of every kind and character to be held, invested, and reinvested for educational purposes at Alabama State University. The principal of any public funds, gifts, grants, monies and property of every kind and character received by the Trust shall be maintained in perpetuity as the corpus of said Trust with at least 25% of the annual income therefrom to be reinvested in the corpus of the Trust and with the portion of the Trust income not annually reinvested in the corpus to be used for educational purposes at Alabama State University.

The educational purposes for which the portion of the Trust income not committed to the corpus of the Trust can be used shall be limited to: 1) the granting of academic scholarships at Alabama State University based upon academic excellence, including the continuance of academic excellence by students enrolled in the University and receiving such scholarships, 2) the endowment of department chairs to assist in obtaining faculty of high quality and outstanding reputation, 3) matching funds to endow chairs of eminent scholars under Alabama's Eminent Scholar Program, 4) for the subsidizing of salaries paid to full-time faculty members

with outstanding reputations as scholars and academics and so recognized in the academic community, 5) the payment of fees and expenses for lectures and lecture series conducted on the campus by nationally known educators, public officials, writers, scholars and national and world business and government leaders together with the funding of other campus events of like quality.

Neither income nor principal from this Trust shall ever be used in any manner for payment of compensation to its Trustees or for the construction of buildings or other physical facilities, it being the intent that this Trust shall forever be used for only the enhancement of educational quality in academics, instruction and public service.

Clerical assistance and the maintenance of records necessary in the operation and maintenance of this Trust shall be provided by the University through its staff and compensated by the University from funds other than Trust funds.

It is expected that the lecture series and other such programs and events be open to faculty and students attending other institutions of higher learning in the Montgomery Alabama area when feasible and practicable. The Trustees and the University Administrators shall also make such programs and events as are appropriate available and

open for visits and participation by students and faculty from the secondary schools in the area on occasion and when compatible with educational interest and advancement on the secondary educational level.

It is expected that certain of the lectures and events funded from this Trust will be of interest to the general public and the University Administration will publicize same and invite public attendance on appropriate occasions.

The Trustees and the University Administration shall use the proceeds of the Trust on appropriate occasions to encourage all segments and races in the Montgomery area onto its campus to participate in functions supported by the Trust.

In managing the Trust and in receiving its benefits the Trustees and the University Administration shall at all times and in all activities funded by the Trust bear in mind that educational excellence requires the racial integration of the University in all its activities, its administration, staff, faculty and student body.

While 75% of the annual income from the corpus of the Trust is available for expenditure by the Trust in that fiscal year, the Trustees are not required to expend all that portion of the income in any particular year, but may allow the expendable portion of the income to accumulate in order to allow more flexibility in funding activities