Section 07.01

ENDOWMENTS POLICY

Endowments are types of funds that are invested or are available for investment to produce revenue. The income may or may not be restricted as to purpose. The funds may be classified as unrestricted, temporarily restricted/restricted expendable, or permanently restricted/restricted expendable. The different types of endowments including policies and spending calculations are available in this section that was provided by the A&M System Policy handbook Section 5.

5.1 Fund Name, Purpose, and Eligibility for Participation

5.1.1 The System Endowment Fund as herein established will be known as “The Texas A&M University System Endowment Fund” (SEF) and will be under the control of the board, as Trustee.

5.1.2 The purpose of the SEF is to provide for the collective investment of all endowment and trust funds held by the system or by the board in a fiduciary capacity. The SEF is to provide fundings for scholarships, fellowships, professorships, and academic chairs and other uses as specified by donors.

5.1.3 No endowment or trust fund will be admitted unless it is under the sole control, with full discretion as to investments, of the board and/or an official or officials of the system in their official capacity. However, no such official, other than the board, chancellor will have any control over the management of the SEF other than to request admittance or withdrawal of any endowment or trust fund under his or her control as designated trustee thereof. No endowment or trust will be admitted which contains a specific provision against commingling or whose investment restrictions prohibit purchase of securities authorized in this System Investment Policy.

5.2 Investments

Investments of system funds shall be accomplished in accordance with the following principles, objectives and purposes:

5.2.1 There are two primary investment objectives. One is to provide a continuing and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the Fund to appreciate, over time, exclusive of growth derived from donations.

5.2.2 The cash payout requirement on the SEF is substantial and continuous. Income and capital appreciation must be sufficient to provide an adequate and consistent cash stream for the development of excellence and distinction in the academic 22.02 System Investment programs of the system. In addition, the SEF needs to appreciate to ensure preservation of the purchasing power of the SEF, and also to satisfy the need for payout and growth in the future.
5.2.3 Management of the SEF attempts to meet these objectives by maximizing the return on the SEF’s investments, consistent with an appropriate level of risk. Additionally, the SEF shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the SEF.

5.2.4 A goal of the SEF is to maintain a balance between investment objectives and liquidity needs. Liquidity is necessary to meet the cash payout requirements and any extraordinary events. In many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

5.3 Asset Allocation

5.3.1 The SEF’s asset allocation policy will be consistent with the investment objectives and risk tolerances. These policies, developed after examining the historical relationships of risk and return among asset classes and integrating an analysis of both assets and liabilities, are designed to provide the highest probability of meeting or exceeding the SEF’s return objectives at the lowest possible risk. The overall objective of the SEF is to invest the funds in such a manner as to achieve a reasonable balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments, as can reasonably be achieved within the framework of the policy consistent with the system’s objective of the safety and preservation of capital. Although dynamic capital markets may cause fluctuating risk/return opportunities over a market cycle, the following standards will be used as a flexible framework for asset allocation as measured at market value. The targets outlined below represent the current allocation objective of the board and shall be adhered to within the range for each asset class as outlined below. The board recognizes markets will fluctuate and accordingly charges the Office of Treasury Services with aligning the actual allocation towards these targets on a quarterly basis.

**Types of Securities Target Range**

Fixed Income 15% 13% - 17%

Domestic Equity 27% 23% - 31%

International Equity 20% 17% - 23%

Inflation Hedging* 10% 9% - 11%

Absolute Return 16% 14% - 18%

Private Equity** 12% 9% - 12%

*Inflation Hedging allocation, which is committed but not funded, will be added to the Fixed Income allocation.
**Private Equity allocation, which is committed but not funded, will be added to the Domestic Equity allocation.

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5.3.2 Fixed income will be managed with duration of +/- 20% of the effective duration of the appropriate index while seeking to outperform such index and to attain performance in the top quartile when compared to an appropriate manager universe over a five-year moving time period. Long term preservation of capital is the primary objective when making any fixed income investment.

5.3.3 Bank loans will be invested through institutional commingled funds.

5.3.4 The equity allocation will be diversified among the various management styles in order to attain the desired expected return within appropriate risk tolerances. These assets will be managed at a risk level (beta) of no greater than 1.20 times an appropriate index while seeking to outperform such index and to attain performance in the top quartile when compared to an appropriate manager universe over a five-year moving time period. Diversification of each equity manager's portfolio will require no more than 25% of equities in one industry.

Each equity manager is expected to stay fully invested in equities. In general, cash or cash equivalents should not exceed 5% of the market value of each equity portfolio. In the event of severe economic/market conditions or strong liquidity needs, the investment managers may raise a significant amount of cash.

Any such decision arising from economic/market conditions must be explained in writing to the system staff within 10 working days thereafter. Any other deviations must first be communicated to, and approved in writing, by the designated member of the system staff. Long-term appreciation of the fund is the primary objective when making any equity investment.

5.3.5 Inflation Hedge, Absolute Return and Private Equity funds will be selected and evaluated based on, but not limited to, the following criteria: Tenure and track record of management team; expertise in targeted areas of investment; diversification strategy; use of leverage; liquidity of investments; and, performance relative to similar investments.

5.4 Distribution of Income

Distribution will be made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the SEF during the respective quarter. The income distribution per unit for each fiscal year will be to distribute, excluding fees, 5% of the 20-quarter average market value per unit as of the end of the previous February.

5.5 Amendment or Termination of Plan
The board reserves the right to amend or terminate the SEF as it deems necessary or advisable.