

Northside Education Foundation Statement of Investment Policy

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Amended 6/9/03
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I. FOUNDATION STATEMENT OF PURPOSE

The Northside Education Foundation is a non-profit organization created to foster community involvement in the innovative education programs by generating and disbursing funds and other resources to provide enrichment for Northside students, faculty, and staff.

II. OVERALL PHILOSOPHY OF FINANCIAL MANAGEMENT FOR THE NORTHSIDE EDUCATION FOUNDATION (NEF)

NEF finances are organized into three areas: short term cash management in the “Operating Funds”, the “Endowment Fund” and the “Restricted or Designated Funds” including scholarship funds in which donor directions are specific and followed to-the-letter. See Section III. Funds can be transferred to/from Operating Funds to sustain the operating cash or to transfer into the endowment, but the three areas are basically compartmentalized.

OPERATING FUNDS: Operating funds shall be defined as monies received from various sources that are used for daily cash management and operations. They are the principle focus of the budget and are expected to be managed on a daily basis by the Executive Director and staff to meet short term obligations. They are maintained in a checking account(s) and/or a money market fund(s). If a transfer is going to be made out of operating funds into the endowment, approval/notification of the President of the Board, Treasurer, and Chair of the Finance Committee is required. When an amount of cash is accumulated from a fundraising event or from a donation of a substantial amount, the cash should be transferred into the Endowment Account according to the adopted budget (generally 25% of income from fundraisers). The Executive Director, with oversight from the Board of Directors, is responsible for the Operating Funds.

ENDOWMENT FUNDS: Endowment funds shall be defined as assets that are invested in a diversified portfolio of securities for long term accumulation with an expectation of outpacing inflation over time.

The overall responsibility for the Endowment Funds rests with the Board of Directors. The Finance Committee will oversee and report the status of the Endowment to the Board of Directors on a regular basis. Any distribution from the Endowment requires the approval of the Executive Committee of the Board.

LEGACY GIFTS & BEQUESTS: Legacy Giving directives in officially probated wills are treated by NEF like restricted or designated funds to the extent that the wishes of the donor will be followed to the letter of the will document as long as it meets the mission of NEF to support Northside ISD educational programs, students, and staff, with grants or scholarships. Copies of the will become part of the Official Documents of Northside Education Foundation and may be reviewed/approved by NEF's legal counsel (at the expense of NEF) or by the NEF Board of Directors. Funds (under and/or over \$10,000) from legacy giving will be invested as part of the endowment pool and subject to the same rules as other designated or restricted funds where applicable. A legacy gift to the NEF general fund (classroom innovation or TEAM grants programs) may also be made and is subject to NEF Grants Program guidelines.

BUDGET: NEF's Annual Budget is adopted annually in June as a 3-year average of income and expenses. Funds raised in excess of budget (should that occur) will be awarded 50% to additional grants and 50% to endowment growth each fiscal year. 25% of the budget is dedicated to endowment growth, 4.5 - 6.5% is dedicated to operating expense, and the balance is to grants program. This does not include designated/restricted funds.

III. PURPOSE OF INVESTMENT POLICY

This document provides a governing basis for the management and disposition of assets held as investments by the NEF. The Directors believe that the best long-term performance will be achieved through a portfolio consisting of equities, fixed income, alternative investments, and cash.

The Directors will consider the following circumstances when investing and managing NEF assets:

- These funds are to be invested for the benefit of the Foundation
- NEF will deliver/pay obligations to donors through the operating account.
- Designated/Restricted funds of over \$10,000 can earn annual interest corresponding to the overall endowment. Only those restricted funds that have an average monthly balance in excess of \$10,000 for the calendar year can qualify. The foundation will contribute to, or withdraw from, each restricted account an amount equal to the average monthly balance of the restricted fund multiplied by the net internal rate of return of the endowment fund for the same calendar year. A positive internal rate of return for the endowment fund will result in a contribution and a negative internal rate of return will result in a withdrawal. Annual yield/loss will be effective as of December 31 of each year.
- Designated/Restricted funds of under \$10,000 cannot earn interest but there is no administration fee.

While speculative risks should be avoided, the NEF adheres to the traditional capital market pricing theory, which maintains that, over the long term, the risk of owning equities should be rewarded with a greater return than that available from fixed income investments. This investment philosophy is consistent with the long term time horizon of the NEF.

The investment and management decisions regarding individual assets must be evaluated not in isolation, but in the context of the NEF's investment portfolio as a whole, as part of an overall investment strategy, and having risk and return objectives reasonably suited to the NEF's purpose for the investment assets. The Directors will make a reasonable effort to verify facts relevant to the investment and management of NEF investment assets.

In carrying out their responsibilities, the Directors will act in accordance with these Investment Policies (IP) and all applicable laws and regulations. In particular, the Directors will discharge their responsibilities in accordance with generally accepted fiduciary standards as set forth in the Texas Uniform Management of Institutional Funds Act (V.T.C.A. Texas Property Code 163.00 to 163.009) as such statute, and applicable rules and regulations may be amended from time to time. The Directors will invest and manage the NEF's investment assets as a prudent investor would, by considering the purpose, terms, distribution requirements, and other circumstances of those assets. In satisfying this standard, the Directors will exercise care, skill, and caution.

IV. RESPONSIBLE PARTIES AND FIDUCIARY DUTIES

NEF Board of Directors (Directors)

The Directors have the responsibility for maintaining the investment policy for the Foundation to specify the parameters for the management of all foundation assets. The Directors:

- Approve this Investment Policy (IP) as an expression of their expectations for the management of NEF investments
- Amend the IP as needed to accommodate changes in the objectives of the NEF or the investment environment.

Finance Committee (Committee)

The Committee has the responsibility to make recommendations regarding the investment policy. The Committee:

- Serves as the Investment Advisory and Investment Manager for the Directors unless this activity is transferred by a vote of the Board of Directors to another company or agency.
- Requires monthly statements and quarterly summaries.
- Will provide a performance report at each Board meeting.
- Will evaluate the performance of the Investment Advisory on a periodic basis and review the investment advisor service options at least annually if the investment activity of the Endowment Funds is contracted.

Investment Advisor(s)

The Investment Advisor(s) have the responsibility to recommend and monitor appropriate Investment Manager(s). The Investment Advisor(s) shall advise the NEF promptly of any event that is likely to adversely impact, to a significant degree, the management, professionalism, integrity or financial position of the firm, including events such as:

- A significant change in investment policy
- The appointment of a new portfolio manager(s) to the NEF's Account

Within the guidelines and restrictions set forth in this IP, it is the intention of the Directors to give full investment discretion to the Investment Advisor(s) with respect to assets under its management.

V. INVESTMENT OBJECTIVES

The primary investment objective for the endowment fund is to generate a return which exceeds the rate inflation over time. Historically, the best way to accomplish this is to own a diversified portfolio of stock and bond mutual funds. Over multi-year periods, the Finance Committee expects the inflation adjusted purchasing power of the Endowment Fund to increase, before accounting for subsequent purchases. Over single-year periods, the Finance Committee expects the return of the Endowment portfolio to resemble the return of an appropriate blended market index benchmark, allowing for management and advisor fees.

VI. ASSET ALLOCATION

The following long-term and short-term investment objectives have been established for all NEF investments.

- Core Fixed Income – range of 20% to 80% with an initial recommended allocation of 30%
- Core Equities – range of 0% to 60% with an initial recommended allocation of 33%. Core Equities includes U.S. equities and foreign equities of developed countries.
- Core Non-Correlated – range from 0% to 30% with an initial recommended allocation of 25%. Non-correlated investments include non-publicly traded Real Estate Investment Trusts (REITs) and managed futures.
- Satellites – range of 0% to 30% with an initial recommended allocation on 12%. Satellites include, but are not limited to, emerging markets equities, energy (ETFs or mutual funds), precious metals (ETFs or mutual funds), convertible bonds, high yield bonds, market neutral strategies, natural resources (ETFs or mutual funds), and timber (ETFs or mutual funds.)

Specific assignments and additional guidelines may be established by way of addendums to this IP for each Investment Manager(s), according to their respective investment objective and style.

The Finance Committee adheres to modern portfolio theory, in an effort to provide solid, long-term risk-adjusted returns for the Endowment Fund. The Finance Committee requires that the Endowment Fund be invested across multiple categories of investments. The underlying principle in asset allocation is the documented observation that different broad categories of investments have shown varying rates of return and levels of price volatility over time. By diversifying investments over asset classes, NEF can potentially reduce risk and volatility. Generally, downturns in one investment class are expected to be tempered (or even off set) by favorable returns in another.

Caution: It is important to note that asset allocation does not guarantee a profit or protect against loss in a declining market. Asset allocation is a method used to help manage risk.

VII. PROHIBITED INVESTMENTS

Investments in the following are prohibited:

- Individual Commodity Contracts
- Individual Foreign Stock Issues

Guidelines for other investments:

- Non-publicly Traded REITs are permissible.
- Managed Futures Funds are permissible.
- Exchange-Traded Funds (ETFs) are permissible.
- BB or higher average credit rating at the time of the initial investment on any individual fixed income investment (bond, mutual fund or exchange-traded fund) with an average credit rating of A or higher for the entire bond portfolio (across all fixed income investments).

VIII. COMMUNICATION AND REVIEW

Investment Manager(s) Performance Review and Evaluation:

The Committee shall compile performance reports generated by the Investment Advisor(s) and the Investment Manager(s) at least quarterly for review. The investment performance of the total portfolio will be measured against commonly accepted performance benchmarks.