ALAMO COLLEGES

ALAMO COLLEGES FOUNDATION

INVESTMENT POLICY STATEMENT

Introduction

The Endowment is an integral part of Alamo Colleges Foundation's (ACF) commitment to be good stewards of the gifts it is entrusted with, from individuals, businesses, organizations, foundations and other donors. Combining the talents of the Board of Directors, a committee composed of board and community members, staff and consultants oversees the investment of the assets of the ACF, and the management of the Endowment. The goal is to steadily grow the resources available for scholarships, academic programs and initiatives of the Alamo Colleges to empower its diverse communities for success.

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INTRODUCTION AND PURPOSE

This statement defines the basic investment policy and objectives for ACF.

The statement also identifies the broad strategy to be followed in the investment of ACF's assets and any general limitations on the discretionary authority to be given to the external investment managers.

The purpose of the Endowment is to support the mission of ACF by providing a reliable source of funds for current and future use.

PERFORMANCE GOALS AND OBJECTIVES

The long-term goal of the Endowment is to provide funds for the fulfillment of the mission of ACF. It is the objective of the Investment Policy Statement (IPS) to provide a framework for achieving a positive real rate of return on investments while maintaining a reasonable level of portfolio fluctuation.

- The absolute objective of the Endowment is to seek an average total annual return that exceeds the spending rate. All restrictions placed by donors on the interest and investment earnings on donated funds will be honored.
- The relative objective of the Endowment is to seek competitive investment performance versus appropriate capital market measures, such as securities indices.This objective shall be measured primarily by comparing investment results, over a rolling annualized three and five year time period.
- The comparative performance objective of the Endowment is to achieve a total rate of return that is above the median performance of a universe of similarly managed funds.

The careful management of the Endowment should be designed to preserve and enhance the principal of the Endowment and at the same time provide a dependable source of funding.

1. Return: The long term objective of ACF is to earn a return sufficient to preserve its financial strength for generations to come, as well as to support current needs. The minimum annual return should equal the spending rate, administrative costs and management fees. ACF has adopted a "total return" investment approach.

2. Risk: The Investments Committee will permit the Endowment to experience an overall level of risk consistent with the risk generally associated with the Committee-approved broad asset allocation policy parameters.

3. Liquidity: The Endowment must offer sufficient liquidity to meet payments of

philanthropic endeavors and operating expenses.

4. Time Horizon: The Endowment has a long life and should be managed with a time horizon much longer than the nominal investment cycle. A time horizon of perpetuity is appropriate.

5. Taxes: ACF shall comply with IRS Section 501(c)(3) for exempt non-profit corporations.

6. Legal and Regulatory: The State of Texas has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Tex. Prop. Code 163.001, et seq. UPMIFA allows an Endowment fund to expend the amount it deems prudent after considering the extent relevant, and the following factors:

a. Duration and preservation of the funds
b. Purposes of ACF and the funds
c. General economic conditions
d. Possible effects of inflation or deflation
e. Expected total return from income and the appreciation of investments
f. Other resources of ACF
g. Investment policy of ACF

UPMIFA, as adopted in Texas, creates a rebuttable presumption of imprudence for an expenditure in any year of an amount greater than seven percent of the fair market value of an endowment fund.

COMMITTEE MEMBERSHIP

To engage the wisdom of top practitioners and professionals in the field, committee membership will be open to non-board members. Board members must comprise a majority of the committee's membership. The committee shall consist of no more than seven (7) members. Members shall be appointed by the Board Chairman and approved by the full Board and may serve three (3) year terms.

Committee members will be barred from consideration as an Investment Manager for a period of two (2) years from last service on the committee.

ROLES AND RESPONSIBILITIES

DUTIES OF THE BOARD

The Board ultimately is responsible for making the decisions that shape the ACF's IPS, including spending rate, asset allocation and engagement of investment consultants. The Board may act through the Executive Committee.

The Board of Directors of the ACF can delegate responsibility for the execution of the IPS to the Investments Committee.

DUTIES OF THE COMMITTEE

The responsibility of the committee is to ensure that the assets of ACF are managed in a manner consistent with Board-approved policies and objectives.

Responsibilities include:

1. Interview and recommend investment consultants, managers or custodians to the Board.

2. Recommend to the Board for approval the IPS.

3. Monitor and evaluate investment results in the context of predetermined performance standards.

DUTIES OF THE INVESTMENT CONSULTANTS

Responsibilities include:

1. Assist in the development and implementation of investment policies, strategies, objectives and guidelines.

2. Prepare an asset allocation analysis and recommendation of an asset allocation strategy with respect to the IPS objectives.

3. Recommend investment managers

4. Prepare and issue evaluation reports for the Investments Committee according to industry standards and committee requirements. These reports should include performance results, portfolio listings and valuations, and transaction summaries. At fiscal year-end, prepare a full-year performance report. The format of the IPS performance evaluation report shall be developed with input from the Committee.

5. Attend Committee meetings at least four times per year to present evaluation reports, and at other meetings "as needed".

6. Review contracts and fees for both current and proposed investment managers.

7. Review and develop special investment strategies that complement existing asset classes or strategies to be considered by the Committee.

8. Communicate investment policies and objectives to the investment managers, monitoring their adherence to such policies and reporting all violations.

9. Notify the Committee of any changes in personnel or ownership of the consulting firm or portfolio managers.
10. Assist the Committee in special tasks.

11. Notify the Committee of any major moves in the Endowment's market value within a quarter. (Also covered during quarterly meetings)

12. Notify the Committee immediately of any litigation or violation of securities regulations in which any investment manager is involved.

DUTIES OF THE INVESTMENT MANAGERS

Investment managers are expected to pursue their own investment strategies within the performance guidelines created for individual managers. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Endowment

Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Endowment. The term "investment manager" is understood to include passive or indexed mutual funds, as well as funds that are under active management.
Responsibilities include:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions.

2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions.

3. Providing written documentation of portfolio activity, portfolio valuations, performance data and portfolio characteristics on a monthly basis, in addition to other information as requested by the Committee or consultant.

4. Voting proxies for the assets under management in the best interest of the Endowment.

5. Annually providing to the endowment either a copy of the investment managers' form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report and /or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

DUTIES OF ACF STAFF

Responsibilities include:

1. Ensure that the directives of the Board and the Investments Committee are implemented.

2. Carry out the necessary day-to-day actions association with the Endowment.

3. Invest new funds received as gifts or from whatever source in a timely manner and in accordance with the Asset Allocation.

4. Arrange for the Spending Rate withdrawal in accordance with the annual Rate

determination and the Asset Allocation while adhering to the utilization schedule and UPMIFA in doing so.

5. Ensure that reports are received timely from the Consultant and monitor the audit process for their content.

6. Act as liaison with the Consultant.

7. Communicate and coordinate with the Consultant in the preparation for Quarterly Investments Committee meetings.

CONFLICT OF INTEREST

All persons responsible for investment decisions or who are involved in the management of the Endowment or who are consulting to, or providing any advice whosoever to the Committee shall disclose at the beginning of any discussion or consideration by the Committee any relationships, material beneficial ownership, or other material interest which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee who are responsible for investment decisions or who are involved in the management of the Endowment shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. Failure to disclose any material benefit shall be grounds for immediate removal from the Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Endowment's custodian, investment managers or consultant in the ordinary course of business on behalf of the Endowment.

RELATED PARTY TRANSACTIONS

Funds will not be loaned to related parties defined as an officer, director, Investments Committee member, employee, or donor either current or prospective.

PERMISSIBLE INVESTMENTS

The target asset allocation of the Endowment is expected to include a wide range of asset classes. The permissible asset classes are as follows:

- Domestic Equities
- International Equities
- Domestic Fixed Income
- Inflation-protected Fixed Income
- Global Fixed Income
- High Yield Fixed Income

- International Emerging Markets Fixed Income
- Real Estate (including REITS)
- Absolute Return Strategies
- Natural Resource and Commodity Funds
- Cash Equivalents

Permitted Investments

In order to provide flexibility to invest in various types of assets, any assets that are readily marketable, which are not specifically prohibited and that are within the parameters of the guiding principles, are approved for investment.

Investments Not Permitted

In order to avoid high levels of risk, direct ownership in the following types of assets or transactions are expressly prohibited:

1. Commodities
2. Derivatives
3. Purchasing of Securities on Margin
4. Selling short

Mutual Funds, 40 Act Hedge Funds, Exchange Traded Funds and other commingled/pooled investments that utilize these strategies or hold such assets are exempt.

INVESTMENT GUIDELINES

Opportunities for specific investments requiring changes in investment restrictions will be considered when consistent with overall policy and will be subject to evaluation by the Investments Committee and approval by the full Board of Directors.

GUIDELINES FOR THE SELECTION OF FIXED INCOME SECURITIES

1. Diversification

   Except for U.S. governments, its agencies or instrumentalities...
   - No more than 5% of the fixed income portfolio at cost or 10% at market value, shall be invested in any one single guarantor, issuer, or pool of assets.
   - Fixed income mutual funds and exchange traded funds may be used when appropriate to achieve diversification.
   - Taxable or non-taxable instruments may be used.

2. Quality
   - The average quality rating on the total fixed income portfolio must be rated investment grade or better.
   - Securities downgraded in credit quality rating subsequent to purchase, may be held at the manager's discretion, but any downgrade will be promptly reported to the Investments Committee with the exception of an individual investment in a managed fund.

3. Duration

   At purchase, the average duration of the bond pool will be determined by the investment managers, based upon their analysis of market conditions and the yield curve. Duration analysis will be included in performance reports provided to the Investments Committee quarterly.

GUIDELINES FOR THE SELECTION OF EQUITY SECURITIES

1. Diversification
- Equity managers will have no more than 5% at cost, and 10% at market value (of the total portfolio), invested in securities of any one issuer.
- In addition, Managers are expected to exercise prudence in diversifying by sector and industry.
- Equities will also be diversified amongst- the different styles and market caps to further control risk and to smooth returns.

2. Instruments
- Equity exposure will generally be achieved through mutual funds, exchange traded funds, or separately managed accounts with style specific managers.
- When Separately Managed Accounts are used, those managers will hold individual securities which are actively managed consistent with their dedicated investment style, category or index.

ASSET ALLOCATION OBJECTIVE

Strategic targets are designed for a long term horizon over a market cycle. Tactical target goals will be short term in nature and will facilitate rebalancing based on current market conditions (within small bands).

ASSET ALLOCATIONS

Investment Category	Minimum	Maximum	Strategic Target
Cash & Equivalents	0%	25%	1%
Fixed Income Assets	20%	50%	29%
U.S. Investment Grade	10	40	24%
High Yield	0	10	5
International	0	10	5%
Equities	40%	70%	55%
Large Cap Domestic	5	35	22%
Mid Cap Domestic	0	15	11%
Small Cap Domestic	0	15	11%
International Developed	0	20	10%
Emerging Markets	0	20	5%
REITs	0	10	5
Alternative Assets	0	20%	15%

*— exemptions not permitted

TITLE V FUND INVESTMENTS

Funds received through Title V funding, shall be invested in compliance with requirements of the Elementary and Secondary Education Act of 1965, Office of Postsecondary Edu., Department of Education, 34 CFR Ch. VI (7-1-03), 628.43. "A grantee shall invest, for the duration of the grant period, the Endowment fund established under this part in savings accounts or in low-risk securities in which a

regulated insurance company may invest under the law of the State in which the institution is located." Regulations are outlined in the Insurance Code of the Texas Department of insurance TIC Ch. 424 for Casualty Insurers, Title 4, Subtitle B, Chapter 424, Subchapter A.

TITLE V FUND INVESTMENT GUIDELINES

A summary of what the code recommends is to: invest conservatively for the duration of the grant period by emphasizing income with growth as a secondary consideration.

Permitted Investments:

1. A federally insured bank savings account
2. A comparable interest bearing account offered by a bank; or
3. A money market fund
4. An institution may invest its endowment fund in low-risk securities permitted under Title V.
   a. Certificates of deposit;
   b. Mutual Funds;
   c. Stocks; or
   d. Bonds

Prohibited Investments:

1. Title V prohibited investments (equity and fixed income) are the same as stated in the original Investment Policy Statement

ASSET ALLOCATIONS

Investment Category	Min	Max	Strategic Target
Money Fund	0%	100%	5%
Fixed Income	0%	100%	75%
Dividend Paying Stocks	0%	30%	20%

PORTFOLIO REBALANCING

Since policy Asset Allocation is the most critical component of the Endowment's return, it is desirable to rebalance the Endowment periodically to minimize deviations from the policy Asset Allocation mix.

The Consultants may rebalance the portfolio to achieve the Policy Asset Allocation at any time and notify the Committee at the close of any calendar quarter in which rebalancing the portfolio is necessary.

PERFORMANCE BENCHMARKS

Performance of ACF and its component asset classes will be measured against benchmark returns of comparable portfolios.

The endowment can also be measured against a custom benchmark made up of the weighted percentages of the investment categories in the endowment. The committee will also take under consideration the amount of risk and the defined strategy of a manager in monitoring performance.

Domestic Equities—

Large Cap Growth-Russell 1000 Growth Index
Large Cap Value Russell 1000 Value Index
Small Cap Core-Russell 2000 Index
Small Cap Growth-Russell 2000 Growth Index
Small Cap Value-Russell 2000 Value Index
International Equities-MSCI EAFE Index
Emerging Markets-MSCI Emerging Markets Index
Fixed Income - Barclay's Aggregate Bond Index

SPENDING POLICY

The objective of our Endowment Spending Policy is to balance the need for current spending with the goal of supporting future expenditures into perpetuity. This embraces UPMIFA policies and best practices, which advance prudent decision making.
At its October meeting, the Alamo Colleges Foundation Investments Committee determines an appropriate percentage of the rolling 36-month average net market value of each endowed fund to be paid out of the accumulated earnings, interest, dividends, and realized and unrealized gains.

Guiding principles include:

1. Ensure that the purchasing power of the revenue stream and the endowment assets do not decline over the long term

2. Provide current programs with a generally predictable and stable stream of revenue

3. Reduce the lagging effects of market variability

The determination of the annual spending rate takes into consideration:
- The past investment performance of the investment funds
- The expected total return from income and the appreciation of investments
- Payout rates established by comparable organizations
- General economic conditions
- The possible effect of inflation or deflation
- Other funding resources of the Alamo Colleges Foundation
- The investment policy statement in existence

The recommendation is reported to the full board of the Alamo Colleges Foundation for action at its October meeting. The new endowment spending rate goes into effect in January 1st for existing endowed funds; any new endowed funds received during the year are applied a pro rata spending rate.

Approved by Alamo Colleges Board of Directors February 10, 2016.