

RADFORD UNIVERSITY

**COLLEGE OF BUSINESS AND
ECONOMICS**

SMIPO
*“STUDENT MANAGED INVESTMENT
PORTFOLIO ORGANIZATION”*

INVESTMENT POLICY STATEMENT

NOVEMBER 3, 2011

Approved by SMIPO Board of Directors, Nov. 3, 2011

1. Introduction

This Investment Policy Statement dictates the management of assets of the Radford University Foundation by the Student Managed Investment Portfolio Organization (SMIPO).

2. Purpose

This Statement is set forth by the Board of Directors in order to:

1. Clearly define and assign the responsibilities of all involved parties.
2. Clearly identify the goals, restrictions and requirements required by all involved parties regarding the management of Organization's investments.
3. Establish a basis for evaluating investment results.

3. Duties of the Board of Directors

The Board of Directors' duties regarding the management of the Organization's investments include:

1. Drafting and approving this Statement;
2. Developing and executing proper control procedures to assure compliance with this Statement.
3. Review this Statement at least annually and execute changes as deemed prudent and appropriate.

The Board of Directors serves as the governing body of the Student Managed Investment Portfolio Organization (SMIPO). The Board of Directors role shall always represent the fiduciary interest of the Radford University Foundation and the best interest of Radford University.

4. Delegation of Tasks

The Board is permitted to engage the services of the Student Managed Investment Portfolio Organization (SMIPO) for assistance in the management of its allocated investments.

SMIPO shall be required to perform all assigned duties in a manner consistent with this Statement. SMIPO may request that the Board modify this Statement, but until such Board action occurs, SMIPO must operate within the parameters of the current Statement.

Engaging the services of and delegating tasks to SMIPO does not relieve the Board of its duties and responsibilities regarding the prudent and faithful stewardship of the Organization's investments.

5. SMIPO

Unless otherwise stipulated by the Board, SMIPO shall have full discretion to make all investment decisions for the assets assigned, **provided** that execution of its duties are consistent with this Statement and applicable laws.

SMIPO must discharge its responsibilities in a manner consistent with the "Prudent Investor" standards and all other fiduciary obligations, provisions and regulations.

Unless otherwise stipulated by the Board, specific responsibilities SMIPO shall include:

1. Compliance with the "**Endowment Account Custodian**" as outlined by the Student Managed Investment Portfolio Organization's (SMIPO) Constitution and By-Laws, Article VIII sections 1,2 & 3 to facilitate the buying, selling and maintenance of the Organization's assets.
2. Reporting to the Board of Directors quarterly and at other times as directed by the Board. These reports shall include at a minimum:
 - a. Investment performance results, presented net of all fees and expenses, and compared to relevant benchmarks and market indices, for the following periods:
 1. most recent quarter
 2. year-to-date
 3. past one-year
 4. three-year

- b. All transactions, including purchases and sales, deposits, withdrawals, dividends, interest, capital gains and other asset movements, during the most recent quarter and year-to-date;
 - c. Current economic outlook;
 - d. Recommendations and/or explanations regarding actual or planned changes in investment strategy, asset allocation, investment process and any other material disclosures that pertain to the execution of SMIPO's duties.
- 3. Informing the Board of Directors of any material change in its investment management organization, including but not limited to changes in personnel, structure, fees, services or investment philosophy.

4. Investment Objective and Strategies

The investment objective is to achieve a long-term **“risk adjusted return”** that is competitive within the overall financial marketplace, and in accordance with the policies, procedures, objectives and long term investment goals of the Radford University Foundation, Inc.

This objective is to be achieved by the establishment and active management of the Organization's investments in a **“Small-to Mid Cap Value Portfolio”**, (hereafter, the “Fund”), as described in this Statement.

As a Small-to-Mid Cap Value fund manager, SMIPO maintains full investment (less than 5% cash) in equity securities, equity exchange traded funds, and (for hedging purposes) put option contracts

The Fund uses a primary benchmark of the **Morningstar Small-to-Mid Cap Value Index**. This choice of benchmark utilizes SMIPO's access to the Morningstar Direct investment management platform. Additional benchmarking, adhering to industry practice, will include the Russell 2000 Value Index.

The portfolio is actively managed, whereby members research and make purchasing decisions with the anticipation that each individual investment may be held for the long-term. This strategy allows the Organization to optimize the number of transactions made, therefore reducing transaction costs while also emphasizing the importance of thorough, in-depth research and analysis.

Portfolio Management

In managing the portfolio, Organization members exercise a top-down management approach. This approach encourages **sector allocation decisions** to be made **first**, to be followed by allocations within each asset type and then individual investments. At the beginning of each term a target asset allocation is established for the upcoming months.

Maintaining a flexible, active management approach ensures that members will continuously have the opportunity to adjust the asset allocation to seek maximum advantage from changing economic, social and political conditions.

Equity Investments

Equity holdings can be investments in domestic common stocks, American depository receipts (ADRs), other securities that are convertible into common stock and funds containing these securities (i.e. exchange traded funds (ETFs)). These securities are listed on major U.S. exchanges (such as the NYSE, NASDAQ, and AMEX) or on the Over the Counter Bulletin Board (OTCBB) market.

To ensure **diversification**, equities are broken into sector allocations.

The sector allocations are to be first outlined using the eleven (11) sectors identified in the Morningstar Small-to-Mid Cap Value Index. Current weightings in the Index reflect the benchmark allocations for the Fund. SMIPO members will make the decision on whether to overweight, underweight, or market weight each sector.

Individual investments (i.e. stocks) in each sector will be extensively evaluated and analyzed using traditional tools including:

financial ratio analysis, historical trend analysis, discounted cash flow (DCF) model, free cash flow analysis, capital asset pricing model (CAPM) analysis, the Altman bankruptcy model, etc.

A detailed cover sheet of analysis figures will be generated for each equity security that is presented for investment potential. After reviewing the presentation, research and analysis given by a group member(s), **a vote will be held**. Once a purchase decision is made, it is the responsibility of the Vice President of Investments, the Vice President of Finance, and the Risk Manager, to see that each position is continuously evaluated and monitored.

1. Investable Equity Universe

- a. "All stocks" in the Morningstar Small-to-Mid Cap Value Index are eligible for investment.
- b. Otherwise, for Value Stock Screening, for initial investment, equities must fall within the lowest 1/3rd of Price-to-Earnings ratios, the lowest 1/3rd of Price-to-Book Value, or highest 1/3rd of Dividend Yield of stocks within the sector for stocks residing outside the Standard and Poor's 500 Index, by capitalization.
- c. Constituents of the Russell 2000 Index that meet the Value Stock Screening cutoff values are eligible for initial investment.
- d. Any equity that increases in market capitalization to the top 250 U.S. stocks (Morningstar definition of Large Cap) must be sold within 30 days (or immediately upon resumption of Fund activities in Fall semester, if the threshold is exceeded during summer session).

2. Allocation Guidelines:

- a. If, at any point, any one (1) sector holds market value of 25% or more of the equity allocation, the sector allocation is to be **re-evaluated**.
- b. **At no point is any one (1) sector to be valued at 35% or more of the equity allocation.**
- c. If, at any point, any one (1) security holds market value of 15% or more of the equity allocation, the position is to be **re-evaluated**.
- d. **At no point is any one (1) security to be valued at 15% or more of total equities.**

3. Risk Management Guidelines:

If a security loses market value:

- a. **by 30%** at any point within a rolling five (5) trading day period or
 - b. **by 45%** at any point within a rolling ten (10) trading day period
the security **can be sold immediately** by the Vice President of Investments, **in consultation** with the Risk Manager and the Faculty Advisor.
- If a security loses or gains market value
 - a. **by 10%** within a rolling five (5) trading day period or
 - b. **by 20%** within a rolling twenty (20) trading day period,
the security **is to be re-evaluated** by an investment analysis group.

The purpose of re-evaluation is not necessarily to sell the security but to be informed of the factors for the rapid movement and propose appropriate action if necessary.

4. Cash and Cash Equivalents:

Cash Equivalents are high quality liquid short-term money market securities, U.S. treasuries, and other funds. Usual cash holdings will be in the Money Market account provided by the Fund's broker, however, on occasion other cash equivalents may be used for a short period to provide liquidity in the process of making portfolio transitions. The Fund's obligation to be fully invested in equities and equity ETFs does not require the holding of cash equivalents for the general support of liquidity trading.

5. Acceptable Investments:

- a. Common stocks listed on major U.S. exchanges, such as the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and securities traded through the NASDAQ;
- b. Common stocks registered and traded on the Over The Counter Bulletin Board (OTCBB) market;
- c. Any issues of the U.S. government (i.e. T-bills, T-bonds, etc.);
- d. Real estate investment trusts (REITs) traded on major U.S. exchanges;
- e. Exchange traded funds (ETFs) traded on major U.S. exchanges;
- f. Preferred stocks of listed corporations;
- g. Money market funds and money market instruments of an investment grade commonly held in money market funds such as repurchase agreements, bankers acceptances, commercial paper, etc.;
- h. **For hedging purposes only**, the buying and selling of put and call options on stocks, bonds, indexes, and futures contracts;

6. Prohibited Investments:

- a. Mutual funds and closed end mutual funds with concentrated holdings in any investments other than equities;
- b. Real estate, oil and gas drilling properties and partnerships;
- c. The buying of securities on margin;
- d. The buying and selling of stock warrants;
- e. The buying and selling of foreign stocks, bonds, and securities not listed on U.S. exchanges;
- f. All stocks and securities not offered through an SEC registration filing;
- g. The buying and selling of put and call options on stocks, bonds, indexes, and futures contracts for speculative purposes;
- h. U.S. and foreign interest rate futures.

7. Distributions of Income:

- a. Investment Income generated by the Organization will be automatically available to the Radford University Foundation, Inc. at the end of each calendar quarter to supplement their quarterly endowment payout.