



STATEMENT OF INVESTMENT POLICIES Guidelines and Objectives

October 9, 2009

DEFINITIONS

“University” means the Montana State University

“Foundation” means the Montana State University Foundation

“Directors” means the Montana State University Foundation Board of Directors

“Committee” means the Investment Committee of the MSU Board of Directors

“Fund Managers” means campus parties’ responsible for management of Foundation accounting funds.

“Long Term Pool” means assets invested for an indefinite period but no less than three years. Funds are deposited into this pool from donor directed gifts or by fund managers who wish to direct current (Short Term) funds to this pool for better returns or payout.

“Short Term Pool” means Assets invested for no more than three years or as directed by the donor. These assets are the liquid capital utilized to fund ongoing cash needs by the Foundation and the University. Initially all cash revenues are deposited into this pool. Donor directed gifts to the Long Term pool are transferred from the Short Term Pool to the Long Term Pool on a quarterly basis. The Short Term Pool balance will rise and fall depending on deposits and cash withdrawals, but is expected to increase because generally more cash is collected than spent over time.

PURPOSE

The Investment Plan of Montana State University Foundation, Inc. was established to facilitate a clear understanding of the Investment Policies, Guidelines and Objectives between the Board, the Investment Committee and the Pools’ Investment Managers. It also sets forth the guidelines and restrictions to be followed by the Investment Managers. It is the intent of this plan to be both sufficiently specific to be meaningful and flexible enough to be practical.

The Committee was established to carry out the Investment Policy of the Foundation, to provide guidance to the Foundation staff and the Investment Managers selected by the Foundation and to review investment performance on a regular basis.

The Directors expressly delegate to the Committee the selection of Investment Managers, Asset Allocation and other duties as required to effectively manage Foundation Investments. It is expected that the Committee, in performing such duties and making such selections and allocations, will seek to optimize achievement of the goal and the investment objective of the several Pools as described in their respective sections.

Investment Plan

The following investment plan has been adopted by the Foundation Board of Directors and may be amended as necessary from time to time:

LONG TERM POOL POLICY

The Investment Policy of Montana State University Foundation, Inc. shall provide for safety of principal through diversification in a portfolio of common stocks, bonds, derivatives, mutual funds, cash equivalents and other investments, including international investments, which may reflect varying rates of risk and return.

Investment Objective

Return: The return objective is to meet or exceed the long term target benchmark as defined below:

Asset Class	Allocation	Benchmark
Domestic Equity	20%	Russell 3000
International Equity	20%	EAFE
Private Equity	15%	Russell 3000 + 2%
Real Assets	15%	CPI + 5%
Absolute Return	20%	T-Bills + 5%
Fixed Income	10%	Barclays Aggregate Bond

Asset Allocation

The long term target asset allocation for the investment portfolio is determined by the Committee to facilitate the achievement of the fund's long-term investment objectives within the established risk parameters measured on a prospective basis. The table below reflects those targets.

Asset	Asset Class	Target %
Equities		
	Domestic Equity	20%
	International Equity	20%
	Sub-Total	40%
Fixed Income		
		10%
Alternatives		
	Absolute Return	20%
	Private Equity	15%
	Sub-Total	35%
Real Assets		
		15%
	Total	100%

Portfolio Rebalancing: The Committee is responsible for maintaining the target asset allocation. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets. Targets will be reviewed quarterly to determine if material deviations exist and rebalancing is necessary. When an asset class is outside its target allocation by 5% or more, and rebalancing to the target allocation would require a change of at least \$1 million, the Committee will consider rebalancing. The underlying principle is to keep all asset classes as close to their target allocation as practicable subject to liquidity, transaction costs and other considerations.

New cash flows (defined as new contributions and pledge payments) to the Foundation, shall be allocated to the Investment Managers by the Chief Financial Officer. As a general rule, new cash will first be used to rebalance the total fund in accordance with target asset allocation ratios listed above.

Investment Manager Rebalancing: Investment manager accounts should be rebalanced to support portfolio risk management. As a guideline, rebalancing occurs when a manager hits a min/max as defined below with a minimum of \$1 million change. This will be reviewed on a quarterly basis, preferably to correspond with the end of a fiscal quarter,

Minimum/maximum position sizes for each Manager (as a % of Portfolio NAV)

- 10% maximum on traditional core managers
- 5% maximum on all other managers
- 2% minimum on all managers

Target manager positions (as % of Portfolio NAV)

- 8% on traditional core managers (e.g. Wellington and Pimco)
- 4% on traditional specialty managers (e.g. Longleaf)
- 4% on hedged equity and absolute return managers
- 3% on illiquid alternative managers (private equity, real estate, etc.)

Equities

The purpose of the equity segment is to provide principal appreciation that exceeds inflation. It is recognized that equity investments carry greater market price variability and risk than other asset classes, which could result in certain investments reflecting a market value below acquisition cost from time to time.

Fixed Income

The purpose of the fixed income segment is to provide a hedge against deflation, provide a stable component of return and to mitigate the overall volatility of the portfolio.

The percentage of assets allocated to fixed income should be sufficient to ensure that neither the current income nor the principal value of the portfolio declines by an intolerable amount during a period of extended deflation

Alternative Investments

The purpose of the Alternative segment of the portfolio is to provide diversification from the Capital Market Investments primarily on the Equity side of the portfolio. Hedge strategies, either long/short equities or absolute return strategies generally have low correlations to domestic equities as well as fixed income and provide the ability to generate positive returns when the other components of the portfolio are not experiencing positive results.

Cash Equivalents

The percentage of total assets allocated to cash equivalents should be sufficient to assure enough liquidity to meet disbursements and general operational expenses of the Long Term pool. Consistent with the cash flow needs of the Foundation and the securities rating standards set forth herein, the Foundation's Chief Financial Officer may accumulate and upon approval of the Committee invest amounts received by the Foundation in U.S. Government obligations, commercial paper, certificates of deposits, collateralized repurchase agreements, and money market accounts. Other liquidity requirements of the Foundation will be communicated to the Investment Managers on a regular basis.

Expenditure of Funds

The Foundation Board retains discretion to use the funds for any purpose connected to the institution and not expressly prohibited by the donor. The Foundation Board also has broad discretion as to the amount of the expenditures. Under the Montana State Uniform Prudent

Management of Institutional Funds Act expenditures should be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.

PROCEDURES

Performance Monitoring

All guidelines and objectives shall be in force until modified in writing. If, at any time, an Investment Manager believes that a specific guideline or restriction is adversely impeding his ability to implement his process or meet the performance objective, he should present this fact to the Committee.

Investment Managers' performance will be reviewed by the Committee at least semi-annually. Investment Managers will report portfolio holdings, transactions and performance on a quarterly basis. The Managers are required to inform the Committee of any change in firm ownership, organizational structure, professional personnel, or fundamental investment philosophy.

Managers' Investment Objectives and Guidelines

The Investment Managers shall have complete discretion in the management of the assets subject to the guidelines set forth herein.

Fixed Income Managers

The general investment objective for the fixed income segment is to outperform the Barclays Aggregate Bond Index by 1% (100 basis points) per annum net of manager fees at a risk level not materially dissimilar from benchmark.

The performance of each fixed income manager will be measured against this index and an appropriate peer manager universe. It is expected that the manager(s) will meet the fixed income objective established and will consistently provide investment returns placing the fund's performance at least in the second quartile of a peer manager universe. In addition to short-term performance reviews, the managers will be evaluated over rolling three and five year periods.

The fixed income manager(s) may employ active management techniques such as interest rate anticipation and inter-sector arbitrage, but changes in average duration should be moderate and incremental. It is expected that the portfolio duration of fixed income manager(s) shall be within the guidelines of the duration of the Barclays Aggregate Bond Index plus or minus 2 years.

In general, the fixed income portfolio shall be well-diversified with respect to type, industry, and issuer in order to minimize risk exposure. Additionally, from time to time, the Committee may consider the merits of shortening the overall duration of the portfolio or considering a tactical allocation to high yield. In either of these situations, an appropriate benchmark will be chosen by the committee for the specific manager or investment strategy chosen.

The Foundation may choose to invest in a commingled trust or mutual fund which may or may not adhere to each of the above constraints but will, in general, adhere to this policy and its intent.

Equity Managers

The investment objective for the total equity fund is to outperform the S&P 500 by 100 basis points per annum net of fees over a full market cycle at a risk level not materially dissimilar from the benchmark. The performance of each manager will be measured against an appropriate benchmark and against a universe of managed equity funds. In addition to short-term performance reviews, the managers will be evaluated over rolling three and five-year periods.

Specific portfolio management decisions (including security selection, size, quality, number of industries or holdings, emphasis on income levels, portfolio turnover, and the use of options or financial futures) are left to the Managers' discretion subject to standards of fiduciary prudence and the guidelines set forth herein.

The following transactions shall be prohibited: selling short, dealing in puts and calls, options, warrants, commodities, straddles, or margin transactions.

Equity managers may hold investment reserves of either cash equivalents or bonds (including convertible issues) without limitation in assets or time but with the understanding that their performance will be measured against stock indices as described below.

I. Large Cap Equity - Domestic

The investment objective of the Large Cap Domestic segment is to outperform the Standard and Poor's 500 Index by 100 basis points per annum net of fees over a rolling three year basis as well as the median of a universe of equity managers. The percentage not allocated to equities shall be invested in short-term interest bearing securities. Commingled trust and mutual funds may be used.

II. International Equity

The investment objective for the international equity segment is to meet or exceed the Morgan Stanley Europe, Australia and Far East (EAFE) Index net of fees. Commingled trust and mutual funds may be used.

III. Small Cap Equity - Domestic

The investment objective for the Small Cap segment is to outperform the Russell 2000 Index by 100 basis points per annum net of fees over a rolling three year period as well as a median of managers of similar style. Commingled trust and mutual funds may be used.

Alternatives Managers

The benchmark for absolute return managers will be T-Bills plus 500 basis points. The benchmark for hedged equity managers will be the S&P 500 over time.

I. Absolute Return

The objective for the Absolute Return segment is to exceed the return of the T-Bills plus 500 basis points.

II. Hedged Equity

The investment objective for the Hedged Equity segment will be the S&P 500 Index over a rolling three year basis.

The Committee would expect these managers to meet those objectives while having less volatility than long only equity managers. The Committee recognizes that their investments in the alternative area will be through the partnership vehicle format. The foundation will not own the underlying securities nor have the transparency that they may be accustomed to having with other managers.

III. Private Equity

The investment vehicle used to invest in private equity will be a partnership with a 10-15 year life. The partnership will draw down capital as investment opportunities present themselves and return capital as investments are sold. The evaluation of returns in the short term will be very difficult and essentially meaningless due to the "J Curve". The success of the partnership will be measured once assets begin to be returned to investors, typically around year 5 of the investment's life,

The investment objective for the private equity asset class will be to exceed the annualized return of the S&P 500 by 3%, net of fees on a rolling 5 year basis. Benchmark returns should be calculated on a "cash matched basis", that is, taking into account cash flows into and out of the underlying private equity investments.

IV. Real Assets

In general, short term performance reviews are not appropriate for this asset class. The investment objective for the private equity asset class will be to exceed the annualized return of T-Bills by 3%, net of fees on a rolling 5 year basis. Benchmark returns should be calculated on a "cash matched basis", that is, taking into account cash flows into and out of the underlying private equity investments.

SHORT TERM POOL POLICY

The assets in the Short Term Pool exist to meet the expected operating cash requirements of the Foundation and The University including cash needs designated for the construction of buildings. Accordingly, the Investment Objectives and philosophy of the Short Term Pool is to

1. Preserve the capital of the Pool
2. Provide necessary liquidity to meet the Foundation's and University's operating and building requirements
3. Earn a superior return on the investments held in the Pool subject to the capital preservation and liquidity objectives listed above.

The Committee, in consultation with the Investment Consultant, shall select and monitor benchmarks for the pool.

PROCEDURES

- A. **Investment Managers:** Investment Managers for the Short Term Pool will be selected and monitored in the same fashion as those utilized for the Long Term Pool.
- B. **Investment Guidelines:** It is the intention of the Committee to give each Investment Manager full investment discretion within the scope of this Statement and, should they exist, the respective mutually agreed upon investment guidelines. Each Investment Manager must adhere to this Statement and such investment guidelines unless specifically otherwise advised in writing by the Committee.
- C. The investment benchmark for the Short Term Pool is the Merrill Lynch 1-3 Year Government/Corporate Index

The Short Term Pool may be invested in:

1. Money Market funds managed by firms that have assets under management of at least \$12 billion;
2. Insured Certificates of Deposit not in excess of the FDIC insured amount each;
3. Direct obligations of the Federal Government;
4. Federal agencies such as Federal Farm Credit, Fannie Mae, Freddie Mac, etc.;
5. Bankers' Acceptance or Repurchase Agreements backed by direct obligation of the U.S. Government or Federal Agencies.
6. Fixed income securities generally having an average maturity of three years or less. The weighted average credit quality of holdings will be at least AA or the equivalent and will never be below A as rated by either Standard & Poor's or Moody's Investors Service. Holdings shall not include any security with a credit quality rating of less than A-/A1

- D. **Short Term Amounts Invested in Long Term Pool:** To maximize invested returns and to promote diversification, it is the desire of the Committee to invest a portion of Short Term Pool in the Long Term Pool.
1. A Quasi-Endowed fund will be created to manage the Short Term Pool investment in the Long Term Pool where the corpus usage for annual payout will be set to 0%
 2. No more than 25% of the Short Term Pool balance may be invested in the Long Term Pool at the time the investment is made.
 3. The Short Term Pool fund will abide by the same rules and policies that govern other participating Long Term Pool funds.