Lock Haven University Foundation

Statement of Investment Objectives and Policies

Amended June 2014

Approved June 2006

I. DESCRIPTION AND MISSION OF THE LOCK HAVEN UNIVERSITY FOUNDATION ("Foundation")

The Foundation is a 501(c)3 organization under the U.S. Internal Revenue Code. The mission of the Foundation is to solicit, receive, and administer contributions, in cash or in kind, consistent with the provisions of the Internal Revenue Code, from alumni and friends of Lock Haven University, and to distribute those contributions, and the income therefrom, for the benefit of the University with the primary focus on direct student scholarship grants. Distributions shall be made in strict compliance with the written instructions of donors, or, in the event of unrestricted contributions, in accordance with Lock Haven University Foundation By-Laws.

II. PURPOSE OF STATEMENT

This Statement of Investment Objectives and Policies (the "Statement") is intended to:

A. Outline the investment-related responsibilities of the Board of Directors (the "Board"), the Finance & Investment Committee (the "Committee"), the Foundation staff, including the Executive Director (the "staff") and the providers of investment services retained to assist with the management of the Foundation's assets.

B. Establish formal investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.

C. Provide a framework for regular constructive communication between the Board, the Committee, the staff and the Foundation's providers of investment services.

D. Create standards of investment performance by which the Investment Manager agrees to be measured over a reasonable time period.

E. Encourage review of this statement periodically by the Board and the Committee to ensure the relevance of its contents to current capital market conditions and the needs of the Foundation.

III. FINANCE & INVESTMENT COMMITTEE

The Board of Directors of the Foundation has established the Finance & Investment Committee. The President of the Board will appoint the Committee and the chair in accordance with the by-laws. The Committee will be composed of the treasurer, directors, and the Executive Director (ex-officio).

The Committee shall have full power and discretion to make investments and to change the investments of any of the funds of the Foundation within the guidelines established in this policy. The Board, or the Executive Committee of the Foundation, between board meetings, will have the power to change the investment policy. The Committee will have the authority to temporarily alter the implementation of the policy under radical changes in market conditions.

A. RESPONSIBILITES

The specific duties and responsibilities of the Committee shall be to:

1. Set the investment objectives and policies as outlined in this statement;

2. Select and hire investment service providers for the Foundation and monitor performance;

3. Provide the Board with information regarding fund investment structure and performance against established objectives and policies;

4. Monitor the investments with regard to the Foundation's fiduciary considerations;

5. Set the specific asset allocation percentage ranges;

6. Establish specific asset allocation targets for each investment agent;

7. Negotiate compensation arrangements for investment service providers;

8. Receive, review, and retain the reports of the investment service providers and other external reports on the financial condition of the Foundation, including receipts, disbursements and investment performance.

9. Directors, officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Directors, officers and employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

B. COMMITTEE OPERATION

1. The Committee shall meet as required, but not less than three times each year.

2. The actions of the Committee shall be recorded in formal minutes.

3. The Committee may adopt procedures necessary to conduct its affairs.

4. The Committee authorizes members of the Executive Committee to execute or deliver any instrument on its behalf.

5. The Executive Director, or his/her representative, is authorized to carry out all administrative functions required by Committee action.

IV. INVESTMENT POLICY

A. LONG-TERM GOALS

The long-term goals of the Foundation's investment and spending policy will be:

1. To protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk;

2. To provide a relatively predictable, stable and inflation adjusted pay-out stream for operations and other periodic expenditures;

3. To maintain a balance between operational or other spending and protect the real (i.e., inflation adjusted) value of the Foundation's assets;

4. To maintain a position which permits the budgeting and expenditure of prior year income rather than anticipated income;

5. To adhere to a spending rule consistent with the donor's gift instrument, if specified, within Foundation policy guidelines.

B. INVESTMENT RETURN AND RISK PARAMETERS

1. Annualized Return

The objective is to achieve an annualized total return that, at a minimum, will grow the assets by the rate of inflation, after having allowed for operating expenses and periodic expenditures.

2. Total Return

Investment objectives will be achieved using a total return strategy, where long-term return may come from both market value increases (realized and unrealized capital appreciation) and/or from current yield (interest and dividends).

3. Volatility

In light of the Foundation's long-term horizon and limited liquidity needs over and above withdrawals for operations and other expenses, the fund can assume volatility consistent with a long-term investment return objective. The asset allocation and investment agent guidelines are designed to provide a balance that will avoid concentrations in any single asset class or risk (volatility) level.

C. INVESTMENT CONSIDERATIONS

1. Liquidity

Liquidity needs are low. Except for investment purposes and occasional operational requirements, the fund requires no sizable liquid reserves. In addition, investing in marketable securities will enable the fund to raise cash on short notice as necessary.

2. Time Horizon

The funds have a long time horizon which extends well beyond a normal market cycle, and for the purposes of investment strategy, can be considered to be in "perpetuity".

3. Laws and Regulation

Most funds of this nature are governed by state regulation, which as of this writing, is the Prudent Investor Rule as adopted by the Commonwealth of Pennsylvania on June 25, 1999. The Prudent Investor Rule places greater responsibility on fiduciaries in the selection and management of portfolios (as opposed to individual assets). The Prudent Investor Rule is a flexible legal investment standard that embraces the tenets and practices of Modern Portfolio Management Theory. The new rule provides that, in general, a fiduciary shall invest and manage property as a prudent investor would "by considering the purposes, terms and other circumstances" of the portfolio and by pursuing an overall investment strategy reasonable suited to the portfolio. The Prudent Investor concept is consistent with the goals of the Committee and thus should dominate investment manager conduct.

4. Tax Consideration

The Foundation is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code. Consequently, tax considerations are not a meaningful constraint, other than the fact that securities with tax-exempt features should be avoided.

5. Other

Other investments may be considered by the Committee when desired. These may result from gifts to the Foundation or recommendations for alternative asset classes.

D. DERIVATIVE USAGE

1. Investment counselors have the right to utilize derivatives, primarily as a risk mitigating tool and to enhance returns. The Committee should have a clear understanding of the investment counselors' use of derivatives due to the risky nature. Derivatives can be used by investors to earn income or to hedge a risk profile, or to replace a more traditional direct investment and to obtain exposure to otherwise inaccessible markets. Derivatives, which include options, forwards, futures, and swaps, may have more risk associated than the traditional investments in securities or other traditional instruments. The Committee should exercise great care when picking an investment counselor, and understand their philosophy and strategy in the use of derivatives in their investment strategy. Explanations of Derivatives, Forwards Contracts, Futures Contracts, and Options are outlined in Exhibit B.

V. WITHDRAWAL POLICY

A. WITHDRAWALS FOR PERIODIC EXPENDITURES

The Committee's recommendation regarding withdrawals for periodic expenditures will be consistent with the long term facility construction, maintenance and growth objectives of the Foundation.

B. WITHDRAWALS FOR OPERATIONS

The Board may use a percentage of the Foundation's asset base for operations.

VI. ASSET ALLOCATION AND REBALANCING GUIDELINES

Asset allocation is widely recognized as the single most important determinant of long-term returns. The asset allocation guidelines and targets are designed to strike a balance among several competing objectives: Maximizing long-term investment returns, hedging against disasters (inflation and deflation) and moderating year-to-year volatility.

The Investment Committee will set specific percentage asset allocation ranges. The major asset categories will be: Cash, Fixed Income, Equity and Other Assets. A change in the asset allocation guidelines can occur at any time. The current Board policy for asset allocation is attached in Exhibit #1.

The allocation targets will be maintained by using cash inflows or outflows to rebalance the funds among asset classes and investment service providers. If cash flows are not sufficient, the Committee or its investment service providers may rebalance the components to the target levels as is deemed appropriate.

Asset allocation will be based on market value.

VII. PORTFOLIO GUIDELINES

A. Equities

The purpose of the Foundation's equity investment portfolio is to provide growth of principal. The equity portfolios shall consist of marketable securities that may be purchased on recognized exchanges in the U.S. and, in the case of international stocks, throughout the world. In any case, the following restrictions apply:

1. The equity securities of any one corporate issuer or within any one mutual fund should not exceed 5% of the equity portion, based on market value, of any manager's portfolio, and;

2. Broad diversification must be maintained with an exposure to any one market sector equaling 135% of the relevant underlying index weighting for that asset class or 10% of that asset class, whichever is greater.

3. For these purposes, regulated investment companies (mutual funds) shall be considered and evaluated based on the underlying holdings as to their asset classes and concentration. Moreover, mutual funds shall not be considered derivative securities unless their underlying holdings contain or rely heavily on such holdings for their performance.

B. Fixed Income

The purpose of the Foundation's fixed income portfolio is to preserve principal by hedging against deflation, provide stability in the level of current income, and limit the volatility of total fund. The following restrictions apply: Individual securities shall be limited to obligations of U.S. Government and its agencies, and corporate obligations regarded as investment grade by Moody's and Standard and Poors.

Where fixed income domestic or international fixed income mutual funds or ETFs are employed, their average rating should be regarded as investment grade, consistent with the foregoing. However, a portion of these fixed income mutual funds or ETFs can be composed of high yield, non-investment grade bonds subject to the range limits for such asset classes as outlined in Exhibit #1 of this Statement of Investment Guidelines and Policies.

C. Cash

Cash includes short-term (maturity less than one year) fixed income instruments issued by the U.S. Government or its agencies high quality corporate debt securities or money market instruments and bank certificates of deposit. Any cash position in the portfolios will be included in the calculation of total return.

D. Other

Other investments may be considered by the Committee when the need occurs. These may result from gifts to the Foundation or recommendations for alternative asset classes.

E. Restricted Securities

Any investment strategy, security, scheme, or money-making enterprise that does not fall within the Portfolio Guidelines as outlined in Section VII, A-D is prohibited.

Some examples of prohibited investments are included, but not limited to those listed, below:

1. Purchasing and selling commodities or commodity contracts.

2. Selling securities short.

3. Purchasing securities on margin.

4. Writing, purchasing, or selling naked options.

5. Any investment or scheme that would violate the Prudent Investor Rule.

6. Derivative securities, except (a) mutual funds as provided above, and (b) hedging transactions, limited to exposure, for principal protection.

VIII. INVESTMENT AGENTS OF THE FOUNDATION

A. INVESTMENT PROGRAM

Investment agents must assume the following responsibilities:

1. To acknowledge in writing acceptance of the objectives, guidelines and performance benchmarks as defined in this Statement of Investment Objectives and Policies, and to invest the assets of the Foundation accordingly.

2. To exercise full discretionary authority for funds under management as to all buy, hold and sell decisions for each security under management, subject to the guidelines as defined in this Statement.

3. To rebalance the asset classes in the portfolio as deemed appropriate by the investment agent to comply with Board policy.

4. To recommend changes in this Statement based upon material and sustained changes to capital markets.

5. To protect securities by using insurance, **i.e.** SIPC, or by segregating such as in a bank trust department.

B. REPORTING

1. Investment agents shall produce a statement at the end of each quarter displaying the cost, market values, and percentage distributions for each portfolio asset class.

2. Investment agents shall produce a statement at the end of each quarter demonstrating the time-weighted rates of return for the trailing quarter, year-to-date and calendar 1, 3 and 5 years performance, if available. These reports shall include the performance of the relevant benchmark index.

   Time-weighted rate of return measures performance and allows comparison of them to recognizable indices. This method ignores the impact timing can have on additions to and withdrawals from investments.

   Return calculations should employ CFA Institute, formerly Association of Investment Management and Research (AIMR) standards.

C. REVIEW MEETINGS

At the request of the Committee, but not less than once each year, each investment agent will participate in a review meeting, the agenda to include:

1. A review and reappraisal of the investment program.

2. A commentary on investment results in light of the appropriate stands of performance.

3. A discussion of the Agent's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

D. COMMUNICATION

Each Investment Agent is responsible for maintaining communication with a designee of the Committee on all material matters pertaining to investment policies and the management of the Foundation's assets. In particular, each Investment Agent will:

1. Provide timely notice of any material changes in its investment outlook, strategy, and portfolio structure.

2. Provide timely notice of material changes in its firm ownership organizational structure, financial condition, senior staffing and management that could substantially affect the ability of the agent to manage the assets of the Foundation, where permissible by law.

3. Provide timely notice of involvement in any litigation or regulatory investigation relating to the organization's investment activities that could substantially affect the ability of the agent to manage the assets of the Foundation.

IX. REVIEW PROCESS FOR INVESTMENTS

Investment performance review of all portfolios will be conducted quarterly to ascertain progress against the objectives of the Foundation. The quarterly reports should cover three basic areas:

- returns,
- comparison of returns to benchmarks,
- compliance with relevant policies and objectives.

Beyond these customary reviews, certain circumstances or events, as outlined below, will trigger automatic formal reviews and where appropriate, reconsideration by the Investment Committee of the appropriateness of continuing to use the affected agent. None of these circumstances or events shall serve as automatic cause for changing investment agents, but will merely indicate the need for review.

A. DISAPPOINTING RELATIVE PERFORMANCE

1. Three-year cumulative return trails weighted composite benchmark index by more than 75 basis points;

2. Five-year cumulative return trails benchmark weighted composite index by more than 75 basis points.

A. FUND MANAGEMENT ORGANIZATION CHANGES

1. Turnover of portfolio manager or other personnel significant to the portfolio management process;

2. Involvement in relevant regulatory investigations or litigation.

B. DEVIATION FROM INVESTMENT METHODS THAT BUILT HISTORICAL RECORD

1. Portfolio characteristics do not match stylistic expectations;

2. Significant change in fees.

BENCHMARK INDICES

Each component asset class will be measured against the appropriate benchmark (benchmarks can be varied to reflect value, growth or core investment strategies as market opportunities present themselves or conditions change:

Asset Class	Index
U.S. Large Cap Stocks:	S&P 500 Index
U. S. Mid Cap Stocks:	S&P Mid Cap Index
U.S. Small Cap Stocks:	Russell 2000 Index
Non U.S. Stocks:	Morgan Stanley Capital International Europe Australia, Far East: (EAFE) Index
Non-U.S. Real Estate:	S&P/Citigroup World (ex. U.S.) Property Index
Fixed Income:	Barclays Intermediate Govt/Credit Index Barclays 1-3 Year Government Index
Non-Investment Grade Fixed:	Barclays High Yield Index CS Leveraged Loan Index Value (Bank Loan)
Non-U.S. Fixed Income:	JP Morgan Global Gov.-non U.S.
Cash:	U.S. 3 Month Treasury Bill