

Student Managed Investment Fund
Investment Policy Statement
Updated 11/18/2016

OVERALL FUND OBJECTIVES

To provide an experiential learning experience for NAU students in The W.A. Franke College of Business, by allowing them to actively manage the NAU Foundation portfolio.

To earn a risk-adjusted rate of return exceeding the appropriate Student Managed Investment Fund benchmark for each portfolio.

FUNDS UNDER MANAGEMENT

The Student Managed Investment Fund (SMIF) is comprised of three separate and distinct portfolios:

1. Fixed Income Portfolio (specific investment guidelines in Appendix A).
2. Traditional Equity Portfolio (specific investment guidelines in Appendix B).
3. ESG Equity Portfolio (specific investment guidelines in Appendix C).

On an annual basis, SMIF portfolio managers will recommend to the Foundation Investment Committee any changes in the overall allocations to the three portfolios.

ADVISORY BOARD

The Advisory Board for the fund will consist of no fewer than two faculty advisors and one member of the Northern Arizona University Foundation Investment Committee. The Advisory Board, by means of a majority vote, will hold veto power over investment recommendations and administrative matters.

MANAGEMENT STRUCTURE

The course instructor(s) will select student members for the fund from a pool of applicants that have completed the required curriculum, Principals of Finance (FIN 311). All members chosen will be part of the Investment Committee. Students will be selected from the Investment Committee to serve as members for other sub-committees, discussed below.

The Investment Committee

The Investment Committee will be responsible for performing quantitative and qualitative research on potential investments for the funds. Each member of the Investment Committee will be assigned to an industry(s) sector team. Sector teams will follow and research specific firms that are either currently held within the portfolio or firms the teams feels would be appropriate potential additions. Any deviations from specified performance guidelines detailed in the Risk Management Document must be presented to the Investment Committee in a timely manner. Recommendations to buy, sell, or hold individual investments will be presented to the entire Investment Committee for a majority vote.

The Reporting Committee

The Reporting Committee will be responsible for maintaining records of the funds. In addition, they will be responsible for enhancing the publicity of the funds through contacts with the media and the funds' website. Ideally, the Reporting Committee will consist of one member from each sector team, but this is not a requirement. The Reporting Committee will report on a semiannual basis to the NAU Foundation, Investment Committee, and faculty.

The Oversight Committee

The Oversight Committee will consist of three members that will monitor appropriate risk measures for the funds. In addition, the Oversight Committee will be responsible for ensuring that the portfolio composition is consistent with specified asset allocations, permitted investments, and the fund's "Risk Management" document. The Oversight Committee will be responsible for informing and advising the Investment Committee when corrective actions are needed.

OVERALL INVESTMENT POLICY

- Liquidity: Needs are minimal. Current income and realized capital gains generated by the fund will be reinvested.
- Taxation: Current income and realized capital gains generated by the fund are exempt from taxation.
- Time horizon: Perpetual.

ASSET ALLOCATION

Guidelines for the combined portfolio are as follows:

Asset Class	Range	Target
Cash Equivalents	0% - 10%	0%
Fixed Income Securities	5% - 15%	10%
Equities	75% - 95%	90%

EXECUTION OF TRADES

Only the faculty advisors may execute trades in the fund's accounts, based on the student recommendations. Students will not have direct access to the account.

Trades must be approved by one of the faculty advisors before execution.

Before any trade recommendation is voted on, the research committee must present evidence of appropriate due diligence, including a written report with:

- A statement of the purpose of the investment.
- Confirmation that the trade is within the asset allocation and diversification guidelines.
- The firm's most recent 10-K report.
- Other supporting documentation where possible, such as a Value Line Investment Survey report.

PORTFOLIO REBALANCING

The Investment Committee shall review the portfolio weights annually. Each sector team will independently research macroeconomic factors that will affect the fund, and decide whether any rebalancing between asset classes should take place. Each sector team shall prepare and present a brief presentation on their findings and recommendation for possible rebalancing. After the sector team presentations, the entire Investment Committee will vote on any changes to asset allocation. All rebalancing decisions must fall within stated asset allocation guidelines according to the IPS.

MODIFICATION OF BYLAWS

Modification of the bylaws of the fund requires a two-thirds vote of the members of the fund, as well as final approval by the Advisory Board.

Dr. David Allen, Ph.D. Faculty Advisor Date

Matthew Haertzen, CFA Faculty Advisor Date

Dr. Craig Van Slyke Date

Appendix A – Fixed Income Portfolio

INVESTMENT CRITERIA

These investments are used to generate periodic income and minimize risk in the portfolio. The following are assets we have classified to have the highest returns for the least amount of risk exposure which we can invest in:

- The U.S. Treasury
- U.S. government agencies
- Domestic corporations with a bond quality of BBB or higher
- Corporate Bond ETF or mutual fund as a short-term investment option until enough cash is available and the research can be completed to purchase an individual bond

PERMITTED INVESTMENTS

Cash equivalents: Are used to maintain a minimal level of liquidity, and as a temporary storage place for current income and realized capital gains.

They will consist of short-term investment-grade securities including:

- Money market funds
- U.S. Treasury Bills

Fixed-income securities: Are used to provide periodic income for the portfolio, and will consist of investment grade obligations of:

- The U.S. Treasury
- U.S. government agencies
- Domestic corporations with a bond quality of BBB or higher
- Corporate Bond ETF or mutual fund as a short-term investment option until enough cash is available and the research can be completed to purchase an individual bond

DIVERSIFICATION

With the exception of fixed income investments explicitly guaranteed by the U.S. government:

- No single investment security shall represent more than 5% of total Portfolio assets
- No single investment pool shall comprise more than 20% of total Portfolio assets
- The minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB)

Appendix B – Traditional Equity Portfolio

PERMITTED INVESTMENTS

Cash equivalents: Are used to maintain a minimal level of liquidity, and as a temporary storage place for current income and realized capital gains. They will consist of short-term investment-grade securities including:

- Money market funds
- U.S. Treasury Bills

Equities: Are used to provide capital appreciation, as well as providing some current income. They will consist of U.S. exchange and NASDAQ listed securities:

- Common stock and preferred stock of domestic corporations
- ADRs of foreign corporations
- S&P 500 INDEX ETF or mutual fund as a short-term investment option until the research is completed to purchase individual equity securities

DIVERSIFICATION

The diversification requirements for our Traditional Equity portfolio shall adhere to the following statements:

- No more than 5% of the fair market value of the fund shall be invested in any security at the time of purchase
- No more than an amount 30% greater than the benchmark industry sector weight or a 2% deviation from the benchmark sector weight, whichever is greater, shall be invested in any industry sector at the time of purchase
- At no time will any security comprise more than 10% of the fair market value of the fund

Appendix C - ESG Equity Portfolio

PERMITTED INVESTMENTS

Cash equivalents: Are used to maintain a minimal level of liquidity, and as a temporary storage place for current income and realized capital gains.

They will consist of short-term investment-grade securities including:

- Money market funds
- U.S. Treasury Bills

Equities: Are used to provide capital appreciation, as well as providing some current income.

They will consist of U.S. exchange and NASDAQ listed securities:

- Common stock and preferred stock of domestic corporations
- ADRs of foreign corporations
- S&P 500 INDEX ETF or mutual fund as a short-term investment option until the research is completed to purchase individual equity securities

DIVERSIFICATION

The diversification requirements for our ESG Equity portfolio shall adhere to the following statements:

- No more than 5% of the fair market value of the fund shall be invested in any security at the time of purchase
- No more than an amount 30% greater than the benchmark industry sector weight or a 2% deviation from the benchmark sector weight, whichever is greater, shall be invested in any industry sector at the time of purchase
- At no time will any security comprise more than 10% of the fair market value of the fund

ESG Methodology

The SMIF Environmental Social Governance (ESG) portfolio seeks to invest in companies that score high relative to their peers on specific ESG criteria. The companies included in the portfolio will be those that take proactive steps to advance sustainable development and provide solutions to environmental problems. Additionally, companies must maintain a diversified labor force with robust employee health and safety practices, sound employee relations, and a positive safety record. The products or services produced should be safe and enhance the health or quality of life of consumers. The companies will have sound corporate governance policies including a diverse board, executive compensation aligned with corporate performance, and a clean legal record.

The SMIF ESG portfolio seeks to avoid investing in companies that have shown a pattern of poor environmental compliance, been the subject of labor rights violations, such as child labor or forced employment, exhibited unethical behavior, or generated over 70% of revenue through the sale of tobacco, alcohol, armaments, adult entertainment, or gambling.

General Criteria

- The overall ESG Model Score on Bloomberg, if available, will be used as one of several screening criteria. As this is a voluntary disclosure, it will be used only as a starting point for further research. A firm's score will be compared to other firms in the same sector to account for differences between sectors
- The companies must have no major scandals in the past three years.
 - A major scandal is a newsworthy story that negatively impacts shareholders and violates the company's mission statement
 - If a major scandal has occurred in the past, there must be clear evidence of action to correct wrong-doing as well as attempts to ensure such actions will not be repeated
- The companies should have strong shareholder rights compared to their peers
- The companies should have above average employee satisfaction scores
- The company's senior management should demonstrate appropriate and fiscally responsible perquisite use
- The companies should demonstrate a commitment to high eco-efficiency. Eco-efficiency consists of actions the company is taking to reduce their carbon footprint
- To create an investment portfolio that meets specific Environmental, Social, and Governance (ESG) criteria while still earning compelling risk-adjusted returns

Environmental Criteria

- Include companies that minimize pollution and have a focus on renewable and alternative energy sources
- Exclude companies that greatly contribute to climate change

Social Criteria

- Include companies that contribute to the local community through company sponsored programs
- Include companies that show signs commitment beyond the law in terms of labor provisions and safe working environments
- Include companies that have above average customer satisfaction scores based on measurements taken by the American Customer Satisfaction Index (ACSI)

Governance Criteria

- Include companies with diversity in executive management and the board of directors
- Include companies with reasonable executive compensation given the industry in which they operate and the corporation's performance
- Include companies where the CEO's compensation is directly tied to shareholder performance
- Include companies with a strong employee code of ethics

Prohibited Investments

- No investment can be made in a company who generates over 70% of revenue through the sale of alcohol, gambling, tobacco, armaments, firearms or adult entertainment