North Carolina High School Athletic Association

5.2011

Investment Policy Statement

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Introduction

This is a statement of the investment objectives and policies that govern the management of the investment assets of the North Carolina High School Athletic Association (the "Association") over which the Finance Committee of the Association has discretionary authority (the "Portfolio"). This Policy Statement is established to ensure that the Association's assets will be invested in a prudent manner consistent with the investment objectives clearly stated in this document. This policy further describes the standards utilized by the Finance Committee in constructing and monitoring the overall portfolio, as well as the criteria for retaining, overseeing, and evaluating investment managers. It is anticipated that this statement will be in effect until modified by the Finance Committee with the approval of the Board of Directors. The Finance Committee and Investment Consultant(s) are expected to propose revisions to the policy any time the existing guidelines would impede meeting the investment objectives of the Association. Assets will be invested in a prudent manner and a manner consistent with UPMIFA (Uniform Prudent Management of Funds Act) guidelines.

Investment Objectives

The investment objectives of the Association are to manage the Portfolio in a manner that will maximize the benefits intended by donors, support the programs of the Association and to generate sufficient long term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real (adjusted for inflation) purchasing power of the investments.

The goal is to achieve an average annual total return (net of fees and expenses) at least equal to (i) the rate of inflation on an annual basis as measured by the Consumer Price Index plus 4%.

The Association's investment objective is a compromise between the demanding need for current income and the long-term growth of assets. Due to the Association being an institution perpetual in nature, the portfolio should be viewed long term in its entirety, avoiding decisions based solely on short-term concerns and individual investments. The inevitability of the short-term market fluctuations is tolerable to allow for "real" growth of assets. A diversified investment structure, which is identified under the "Asset Allocation" section of this statement, is utilized in order to provide participation in rising markets, while mitigating risk in falling markets.

Scope

This Investment Policy Statement applies only to those assets for which the investment policy managers and Finance Committee have discretionary authority.

Standard of Investment Judgment

In seeking to attain the investment objectives set forth in this policy, the Finance Committee and its members must act with discretion, honesty, and good faith to the Portfolio. The adopted investment policies must be followed and held to a standard of ordinary business care and prudence under the facts and circumstances prevailing at the time of the Fiduciaries' actions or decisions. The Fiduciaries must remain loyal, placing the interest of the Portfolio first. Fiduciaries must provide full and fair disclosure to the Finance Committee of all material facts regarding potential "conflicts of interest".

Asset Allocation

Deliberate management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is highly desirable. The Finance Committee's general policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

In making asset allocation judgments, the Finance Committee is not expected to seek to "time" subtle changes in financial markets, or to make frequent or minor adjustments. Instead, the Committee is expected to develop and adopt expressed guidelines for the broad allocations on a long-term basis, in light of current and projected investment environments.

To ensure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percentage of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

Overall Fund

Types of Securities	Target	Range	
		Minimum	Maximum
Domestic Large Cap (Growth)	20%	12%	25%
Domestic Large Cap (Value)	20%	12%	25%
Domestic Small/Mid Cap (Growth)	5%	3%	7%
Domestic Small/Mid Cap (Value)	5%	3%	7%
International Equity	10%	7%	13%
Fixed Income (Bonds)	35%	30%	50%
Alternative Strategies	5%	0%	10%

Rebalancing the Portfolio

The Finance Committee, in conjunction with the Investment Consultant(s), will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class. If the Portfolio becomes over-weighted or exceeds the range of percentage for that asset class, a plan of action, either for immediate rebalancing of the Portfolio or a rebalancing that will occur over the subsequent few months. The plan of action will address the specific circumstances and needs pertaining to the Association and the Portfolio at that time.

Time Horizon

Due to the inevitability of short-term market fluctuations, the Finance Committee intends that the investment managers will achieve the following performance goals over a five-year moving period, net of investment management fees and expenses. Nonetheless, the Finance Committee reserves the right to evaluate and make any necessary changes regarding the investment manager over a shorter term using the criteria established in the "Evaluation of Investment Managers" section of this statement.

Specific Performance Objectives

Total Fund

The total Portfolio is expected to achieve an annual return (net of fees and expenses) through both principal appreciation and income that exceeds the rate of inflation plus the level of spending adopted by the Association. The specific objectives of the Portfolio includes:

1. The total return shall exceed the Consumer Price Index plus 4%.
2. The total return shall exceed a target Balanced Index composed of: 20% of the Russell 1000 Growth Index, 20% of the Russell 1000 Value Index, 5% of the Russell 2000 Growth Index, 5% of the Russell 2000 Value Index, 10% of the MSCI EAFE (Morgan Stanley Capital International Europe, Asia, and Far East) Index, 35% of the Lehman Brothers Aggregate Bond Index, and 5% of the HFRI Composite Index.

Equity Managers

1. The total return for each active equity manager shall exceed the relevant style specific equity benchmark:

Domestic Large Cap – Russell 1000 Value Index, Russell 1000 Growth Index
Domestic Small Cap – Russell 2000 Growth Index, Russell 2000 Value Index
International – MSCI EAFE Index

Each passive equity manager shall approximate the total returns of the relevant equity benchmark.

2. Each active equity manager will be expected to rank above the median versus the appropriate equity manager universe.

3. Each active equity manager will be expected to maintain volatility (beta) no greater than 1.0 versus the relevant style specific equity benchmark. Each passive equity manager will be expected to maintain volatility (beta) of approximately 1.0 versus the relevant equity benchmark.

4. The risk-adjusted performance (alpha) for each active equity manager is expected to be positive. The risk-adjusted performance (alpha) for each passive equity manager is expected to be approximately 0%.

Fixed Income Managers

1. The total return for each fixed income manager should exceed the Lehman Brothers Aggregate Bond Index.

2. Each fixed income manager will be expected to rank above the median versus the appropriate fixed income universe.

Alternative Strategy Managers

1) Alternative managers are expected to maintain a beta of no greater than .50 versus the S&P 500 index
2) Performance over a full market cycle should exceed the aggregate bond market.

Investment Manager Requirements

1. In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such lists is likely to be too inflexible to be suitable of the market environment in which investment strategies and decisions are developed, analyzed, adopted, implemented, and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for the Association's investments.

2. Although there are no strict guidelines that will be utilized in selecting investment managers, the Finance Committee will consider length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Association already has invested with the firm.

3. The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate discretionary account on behalf of the Endowment. Although the Finance Committee cannot dictate policy to pooled/mutual fund investment managers, the Finance Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.

4. Unless prior written approval is obtained from the Finance Committee to the contrary:

a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.

b. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with this Investment Policy Statement.

c. The investment managers shall be evaluated on a quarterly basis and should be prepared to meet with the Finance Committee at least annually.

d. Each investment manager shall handle the voting proxies and tendering of shares in a manner that is in the best interest of the Association and consistent with the investment objectives contained herein.

e. Excluding those managers classified as alternative investments, investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the portfolio. Subject to other provisions in this Investment Policy Statement, the use of primary derivatives, including but not limited to, Structured Notes, lower class tranches of Collateralized Mortgage Obligations (CMOs), Principal Only (PO) or Interest Only (IO) Strips, Inverse Floating Securities, Futures Contracts, options, short sales, margin trading and such other specialized investment activity is prohibited.

Moreover, non-alternative investment managers are precluded from using derivatives to affect a leveraged portfolio structure (if options and futures are specifically approved by the Finance Committee, such positions must be offset in their entirety by corresponding cash and securities.)

The Finance Committee must explicitly authorize the use of such derivative instruments, and shall consider certain criteria including, but not limited to, the following:

i. Manager's proven expertise in such category,
ii. Value added by engaging in derivatives,
iii. Liquidity of instruments,
iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers), and
v. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

f. The equity and fixed income managers shall not invest in non-marketable securities.

g. The fixed-income managers will be expected to maintain a duration no greater than ±25% that of the Lehman Brothers Aggregate Bond Index.

h. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies.

i. The equity and fixed income investment managers shall not effect a purchase, which would cause a position in the portfolio to exceed 5% of the issue outstanding at market value.

j. Each investment manager must recognize that the Association is a tax-exempt entity for federal tax purposes and will take no actions that might jeopardize the tax-exempt status of the Association.

Guidelines for Transactions

Managers will generally be expected to enter into transactions on the basis of best execution, which is interpreted normally to mean best-realized price.

Monitoring of Performance Objectives

1. All objectives and policies are in effect until modified by the Finance Committee, which will review these at least annually for their continued pertinence.

2. If at any time a manager believes that any policy guideline inhibits its investment performance, it is the manager's responsibility to clearly communicate this view to the Finance Committee, Investment Consultant(s), and Association staff.

3. The Portfolio's managed accounts will be monitored on a continual basis for consistency in investment philosophy, return relative to objectives, and investment risk measured by asset concentrations, exposure to extreme economic conditions, and market volatility. The Finance Committee at each meeting will review portfolios, but results will be evaluated over rolling three to five-year periods. The Finance Committee will regularly review each manager in order to confirm that the factors underlying the performance expectations remain in place.

4. Each investment manager will report the following information at least quarterly: total return net of all commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases for sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform Finance Committee of any changes in firm ownership, organized structure, professional personnel, or fundamental investment philosophy.

Evaluation of Investment Managers

The investment managers will be reviewed on an ongoing basis and evaluated upon the following additional criteria:

1. Ability to meet or exceed the performance objectives and comply with the investment manager requirements stated in this Investment Policy Statement.

2. Adherence to the philosophy and style that were articulated to the Finance Committee at, or subsequent to, the time the investment manager was retained.

3. Continuity of personnel and practices at the firm.

Consultant's Responsibilities

The Investment Consultant(s) is (are) responsible for assisting the Finance Committee in all aspects of managing and overseeing the Association's Investment Portfolio. The consultant(s) is (are) the primary source of investment education and investment manager information. On an ongoing basis the consultant(s) will:

1. Provide the Finance Committee with quarterly performance reports within 45 days following the end of the quarter.

2. Meet with the Finance Committee as frequently as needed.

3. Provide the Finance Committee with an annual review of the Investment Policy Statement, including an assessment of the Association's current asset allocation, spending policy and investment objectives; and

4. Supply the Finance Committee with other reports or information as reasonably requested.

Other Policies

1. Annual Review. The Finance Committee shall review this policy at least once a calendar year to determine if modifications are necessary or desirable. The review will include a discussion of present asset allocations in view of an investment horizon of 30 years or more. If modifications are deemed necessary, they will be recommended to the Board of Directors for approval (if Board approval is required). All modifications shall be communicated to all investment managers and other interested persons. Any changes in asset allocations shall be made over time to minimize the effects of inadvertent market timing and to reduce transaction costs.

2. Special Investments. From time to time, the Portfolio may receive special investments such as real estate, partnership interests, limited liability company membership interests, or closely held stock. The policy of the Association is to sell or liquidate such special investments for the best price possible, recognizing that to obtain the best price may require holding special investments for an indefinite time period. The Finance Committee shall review all special investments as each meeting

and determine at each meeting the future steps, such as continuing to hold or dispose and on which terms, to take.

3. Planned Gifts. The Association or Trust from time to time may act as trustee of or in some other fiduciary capacity be responsible for, the investment of various planned gifts such as charitable remainder trusts, charitable land trusts, and charitable gift annuities. These gifts may be invested as part of the Portfolio or may be invested elsewhere. The Finance Committee will review the investments of each planned gift for which the Association or Trust is a trustee or other fiduciary at least once a year to determine if the investment strategy for that planned gift is then appropriate. Association staff will monitor each planned gift and will inform the Finance Committee, if, in its opinion, a change is needed between annual reviews.

Acknowledgement

Acknowledged on behalf of :

_____ Date: 5-17-11

North Carolina High School Athletic Association