KOREAN AMERICAN SCHOLARSHIP FOUNDATION
ENDOWMENT FUND

SECTION 1: INVESTMENT POLICY STATEMENT

A. PHILOSOPHY

1. The Endowment Funds shall be managed with the philosophy, objectives and guidelines expressed in this statement. Each investment manager is responsible for optimizing the return on the assets within these guidelines. Extreme positions or variations in the investment manager's style, unless specifically approved in writing by **the Investment Committee**, are not consistent with these objectives.

2. The Endowment Funds are permanent funds. As such, the investment objectives require disciplined and consistent application that accommodates all future events which are relevant, reasonable and probable.

3. Careful endowment asset management shall ensure a total return (yield plus capital appreciation) necessary to at least preserve, and ideally enhance, in real dollar terms the principal of the Funds, while providing a dependable source of return from the Funds for the organization's current purposes.

4. The purpose of equity investment is to provide current income, growth of income and appreciation of principal.

5. The purpose of fixed income investments is to provide a predictable and dependable investment return and to reduce portfolio volatility.

6. The purpose of cash and cash equivalents is to provide liquidity and reduce volatility during adverse investment conditions.

7. The fixed income and equity portions of the investment portfolio shall be adequately diversified in order to provide assurance that a single security sector or class of securities will not have a substantial negative impact on the total portfolio.

8. An investment manager or mutual fund shall have full investment discretion provided that the assets of the funds will be invested with care, skill, prudence and diligence.

9. Custodial responsibility for all securities shall be approved by the **Investment Committee.**

B. RESPONSIBILITY

Korean American Scholarship Foundation recognizes that ultimate responsibility for prudent investment and satisfactory investment performance of Endowment Funds rests with the **Investment Committee** as herein delegated by the **Board of Directors**. This responsibility is best achieved by “managing the investment management function” rather than by “being the investment manager.” To achieve this, **the Investment Committee** shall:

1. Periodically review the Investment Policy Statement for the Endowment Funds and recommend any changes to the Board of Directors.

2. Set policy guidelines and objectives for the Endowment Funds which shall be reviewed at least annually. Guidelines and Objectives are located in Section 2 of this document. Results of the annual review by the Investment Committee shall be reported at the National Board Meeting.

3. Employ, as needed, third party, independent consultants for evaluation of managers and special projects as needed.

4. Select and, if necessary, replace one or more qualified independent investment managers or mutual funds of the Endowment Funds.

5. Monitor investment results to assure that policy guidelines and objectives are being met.

6. Communicate closely with those responsible for investment results.

7. Ensure the investment objectives set forth in this document are consistent with the rate of return objective stated in Section 3, Distribution Policy.

C. INVESTMENTS

1. The Investment Committee may consider venture capital, real estate, or other types of investments; however, the Board of Director’s approval is necessary prior to implementation.

2 Investments shall not be made in restricted stock or unregistered or privately placed securities.

3. The lending of securities (Securities Lending Program) is prohibited.

SECTION 2: INVESTMENT MANAGER GUIDELINES AND OVERSIGHT

The primary purpose of the Funds is to maximize return on the assets within an appropriate level of risk. Investment managers/mutual funds shall be selected, reviewed periodically and replaced as **the Investment Committee** deems appropriate.

A. <u>ASSET ALLOCATION</u>

The asset mix of the Endowment Funds as a total shall range within the following limits:

	Range	Target
Cash and cash equivalent	2-35%	7%
Common stocks (Including convertibles)	20-50%	35%
Fixed income securities	35-70%	53%
Alternative Investments	0-30%	5%

Appropriate market benchmarks will be selected by the third Party evaluation consultants for each of the manager and funds in order to make reasoned decisions about a manager's performance.

B. <u>PEFORMANCE OBJECTIVES</u>

Performance measurement should span a market or style cycle, which may range in length from three years to in excess of five years.

1. <u>Total Plan</u>

The target total return for the Endowment Funds shall be based upon the funding needs of the Foundation. The formula will be Distribution %+ Inflation+2% real growth. The formula for determining the Distribution Rate can be found in Section 3.

2. <u>Investment Manager/Mutual Funds</u>

a) Each manager/ mutual fund will be evaluated versus a universe of equity managers with similar investment style (i.e. value, core, growth, etc) and will be expected to consistently rank above the median on a 3 year rolling basis.

b)Each manager/mutual fund will be expected to maintain a volatility (beta) of no greater than 1.20 times that of their respective benchmark (1.00)

c) The risk-adjusted performance (alpha) for each manager/ mutual fund will be expected to remain positive over a 3 year rolling basis.

C. <u>INVESTMENT MANAGER GUIDELINES</u>

1. Each Investment manager/ mutual fund shall have full investment discretion with regard to market timing and security selection.

2. Investments shall be made primarily in companies with adequate marketability. Quality is not synonymous with size or recognition. Further, it is recognized that equity investments in high-quality, well-established, smaller-companies (e.g. capitalization at $100 to $500 million) could represent superior vehicles for preservation and enhancement of capital.

3. An investment manager shall not invest more than five percent of assets, at cost, of their portion of the funds in securities of organizations having a record of less than five years of operation.

4. An equity investment manager shall not concentrate more than forty percent of the portfolio in any single economic sector without prior written approval of **the Investment Committee**.

5. No more than 50% of the total fund shall be invested with any single investment manager unless approved otherwise by the Investment Committee

6. Investment may not be made in restricted stocks or unregistered or privately placed securities.

7. Any use of derivates, short selling, and leveraged investing should not be the primary focus of the manager/fund but may be considered as tools to support the primary objective of the manager/fund. The goal of these investment tools is not to increase the risk to the Foundation but to employ these investments to lower the overall risk of the total fund, as measured by beta.

8. Investments in foreign securities either as ADRs or direct investment are appropriate as a form of diversification.

9. Total fixed income portfolio should comprise of a rating of A- or better. Individual issues need not be investment grade.

10. The duration of the fixed income portfolio should not exceed ten years unless approved in writing by the Investment Committee. Convertible bonds must be limited to the first five grades of any national rating system.

11. As a general guideline that applies to all managed assets, transactions shall be entered into on the basis of best execution, which normally means best realized price. Commissions and/ or fees may be designed for the payment of investment services rendered to the organization upon the written direction by **the Investment Committee** and with agreement by the investment manager. Soft-dollar arrangements by an investment manager are permitted.

12. There shall be no purchase which would cause a position in the portfolio to exceed 5% of the issue outstanding.

13. Short duration fixed income portfolio should have an average portfolio rating of A1/P1 even though individual issues may be of a lower grade.

14. Not more than the current FDIC insurance limit on investors deposits shall be invested in the bank certificates of deposit of any single issuer unless prior approval is granted by **the Investment Committee**.

15. Investment managers are responsible for frequent and open communication with the Investment Committee on all significant matters pertaining to the assets managed. An investment manager shall immediately notify **the Investment Committee** in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership or senior personnel.

D. <u>EVALUATION OF INVESTMENT MANAGERS</u>

The investment managers/ mutual funds will be reviewed on a quarterly basis to assure that the Funds' objectives are being accomplished, based upon the following criteria:

1. Ability to achieve or exceed the performance objectives based upon peer group performance, outperforming specific benchmark as established by the third party evaluation consultants, a beta of 1.2 and a positive alpha versus the specific benchmark for that manager on a rolling 3 year basis.

2. Adherence to the philosophy and style in which were articulated (either spoken or by prospectus) to **the Investment Committee** at the time when the investment manager/ mutual funds were retained or if revised at a later date. .

3. Continuity of personnel and practices at the firm.

E. INVESTMENT COMMITTEE OVERSIGHT

1. The investment managers are expected to meet the investment performance objectives established by **the Investment Committee**. Periodic objective evaluations of the investment managers shall be conducted according to the investment guidelines developed by **the Investment Committee** and communicated to the managers.

2. **The Investment Committee** will meet as necessary with the third party evaluation consultants or Financial Consultants. The frequency of these meetings will in part be determined by the performance evaluation results compared to predetermined objectives and manager characteristics.

3. The investment performance will be reviewed on a quarterly basis and a quarterly portfolio evaluation will be prepared by an independent third party.

4. Investment Manage Guidelines and Asset Allocation shall be reviewed at least annually **by the Investment Committee**.

SECTION 3: DISTRIBUTION POLICY

A. BACKGROUND

An Endowment is clearly a long-term asset, which has the potential to enhance programs of the institution on a permanent basis. To fully realize this potential, there must be a policy which is designed to protect and preserve the real purchasing power of the principal of the Endowment. Such a policy must not only protect against loss of principal, it must insure the steady growth of the principal so that it keeps pace with the effects of inflation. In order for increased spending to occur over time, the principal value of the Endowment must also be rising. The objective must be to have the funds' total rate of return of the Endowment cover spending and any inflation over time.

If the current yield and capital gain components of total return are individually used to determine the proportion to be distributed versus retained, this method is inappropriate. The answer lies in the concept of total return, inflation, and their relationship in the capital markets. Investors are led more by real rates of return (after inflation) than anything else. Thus, while the markets are not perfect and sometimes have a substantial time lag, there is an overall relationship between inflation rates and available investment return rates. Therefore, the minimum objective is really the following:

$$\text{Total Endowment Rate of Return} \geq \text{Spending Rate} + \text{Inflation Rate}$$

The Endowment must reinvest enough of its total return to allow for inflation, while also generating a rising stream of income that is sufficiently stable to be used in financial planning for the institution's programs. Many organizations achieve this result by constraining current expense from endowments to a fixed percentage of the Endowment's market value, regardless of the total return rate for a particular year or whether the return is from interest, dividends, or capital gains/losses. While individual practices vary, the range of practice is to allow a maximum of four to six percent of market value to be expended each year.

B. POLICY

The Endowment Income Distribution Policy for Korean American Scholarship Foundation will be:

5.0% Times Previous 12 Quarter Moving Average of Endowment Net Asset Value

This formula would be applied to the twelve calendar quarters ending on December 31st prior to the fiscal year for which the appropriation is being calculated, so that final budget guidance on available income can be determined.

Assuming the goal of rising principal value is achieved, the 5.0% applied to the market quarter average probably translates to less than 5.0% of the latest year's market value. Using the twelve quarter average base is preferable, as it smoothes out the peaks and valleys of market changes. This Endowment spending policy shall over time protect the inflation-adjusted value of the Endowment and, consequently, allow inflation-adjusted spending to occur into the distant future.

The Endowment Income Distribution Policy will be reviewed at least annually, and will be consistent with the objectives set forth in the "Investment Policy Statement" for Korean American Scholarship Foundation.

Acknowledged by: ________________________________ ______________
On behalf of Korean American Scholarship Foundation Dated: