

ADDITIONAL POLICIES
OF THE BOARD OF TRUSTEES FOR THE
CHAIRS OF EXCELLENCE ENDOWMENT FUND
(Revised and Restated)

Program Objective

The Chairs of Excellence (COE) program is essentially an endowment program whereby capital has been donated or contributed with the intent to provide a recurring source of income for each chair established by an eligible institution, as outlined in Tennessee Consolidated Annotated §49-7-502(b). If investment returns over a long term horizon exceeds the spending plan at a rate equal to or greater than inflation, then the level of annual income for each chair should continue to maintain its purchasing power by growing at no less than the inflation rate.

Deposits and Withdrawals

All deposits will be based on the current market value of the total Trust at the time of the transactions. All withdrawals will be based on the market value of the total Trust as of the previous month end. All withdrawals shall be made on the fifteenth day of the month after the quarter end (i.e. January 15th, April 15th, July 15th, and October 15th), or the first working day thereafter should the fifteenth not be a working day.

Separate Accounting for Private Contributions

The Trustees recognize that under Article II, Section 31 of the Tennessee Constitution, equity investments are restricted to those funds contributed to the Trust from private sources plus any reinvested income from such investments. In order to ensure compliance with this requirement, that portion of the privately contributed funds that are to be invested in equity (stocks) investments shall be accounted for separately.

Each participating eligible institution will designate, for new chairs, the percentage of private contributions to be deposited to the Stock Account; provided that a minimum of 25% of the total value of the newly created chair will be deposited to the Stock Account. The allocation will be conveyed in the letter notifying the State Treasurer's staff of the creation of the chair. The Trustees will either approve the allocation or recommend an alternative considering the long term financial viability of the chair. New contributions to a chair corpus in excess of the original funding commitment will be allocated in a manner consistent with the provisions of this paragraph.

Chair asset allocation after initial funding will be based upon long term investment objectives with consideration given for providing sufficient flow of income to the chair. Funds may be transferred from the Stock Account to the Bond Account at the request of the participating eligible institution with no approval by the Trustees if a minimum of 25% of the total value of the chair is maintained in the Stock Account and the chair is financially viable. The board reserves the right to call a meeting if questions arise about the financial viability of any chair. However, in order to ensure no public funds are invested in equity securities, funds may not be transferred from the Bond Account to the Stock Account.

Establishment of Accounts and Sub-accounts

For each chair there shall be two accounts established for purposes of investing and accounting for the assets of the Chairs of Excellence Trust. There shall be a Stock Account that represents the equity portfolio and a Bond Account that represents the fixed income portfolio.

The Stock Account shall be defined below:

Stock Trust

The Stock Trust shall represent contributed capital (corpus) as defined in this policy. This account will change in value from investing activity, deposits, withdrawals, and transfers.

Investing activity - Changes in value from investing activity includes: dividends, realized gains and losses, unrealized gains and losses, and other types of gains, losses, income, and/or investment expenses.

Deposits - The contributed capital (corpus) from private sources.

Withdrawals - Spending plan withdrawals for recurring expenditures, as set out in this policy, shall be made from the stock trust.

Transfers - An amount authorized each year under the spending plan that is not withdrawn may be transferred to the Reserve Bond Trust. Also, a chair may transfer an amount from the Stock Trust to the Bond Trust.

The Bond Account shall consist of two sub-accounts as defined below:

Bond Trust

The Bond Trust sub-account shall represent contributed capital (corpus) as defined in the policy. This sub-account will change in value from investing activity, deposits, withdrawals, and transfers.

Investing activity - Changes in value from investing activity includes: interest income, realized gains and losses, unrealized gains and losses, and other types of gains, losses, income, and/or investment expenses.

Deposits- The contributed capital (corpus) from public or private sources.

Withdrawals - Spending plan withdrawals for recurring expenditures, as set out in this policy, shall be made from the Bond Trust.

Transfers - An amount authorized each year under the spending plan that is not withdrawn may be transferred to the Reserve Bond Trust.

**Reserve
Bond Trust**

An amount authorized each year under the spending plan that is not withdrawn may be transferred from the Bond Trust or Stock Trust to this sub-account. This sub-account will change in value from investing activity, withdrawals, and transfers.

Investing activity- Changes in value from investing activity includes: interest income, realized gains and losses, unrealized gains and losses, and other types of gains, losses, income, and/or investment expenses.

Withdrawals- Non-recurring expenditures, as set out in this policy, shall be made from the Reserve Bond Trust.

Transfers - A chair may transfer an amount from the Reserve Bond Trust to the Bond Trust.

Calculation of Authorized Spending Plan Amount

The annual authorized expense under each chair shall be 4% of the 3-year average market value of the chair (excluding the Reserve Bond Trust) using December 31 balances in the preceding three calendar years. In the case of chairs fully funded for less than three years, the market value average will be based on the market values at fiscal year ends in which the chair was fully funded. However, no withdrawal shall be made that will reduce the market value of the Stock Account to an amount less than the corpus that is in Stock Account. No withdrawal shall be made that will reduce the market value of the Bond Account to an amount less than the corpus that is in the Bond Account.

The amount withdrawn under the spending plan shall be allocated to the Stock Trust and the Bond Trust in the same ratio as the average market value of the two trusts that was utilized to calculate the authorized expense. Upon written request from the governing board, the governing board may designate the specific amount of the spending plan withdrawal that is to be allocated to the two trusts.

Spending Plan

Annually, the governing board of each chair shall submit a spending plan for approval by the Trustees. No withdrawal may be made until a plan is submitted and approved by the Trustees.

In recognition that unusual circumstances arise subsequent to the approval of spending plans by the Trustees, such as the filling or creation of a chair, unexpected requirements for equipment purchases or other unforeseen recurring expenses, it shall be the policy of the Trustees to exercise the following authority regarding revisions to spending plans:

- A. Requests for revisions of spending plans shall be submitted to the Chairman of the Board of Trustees (Chairman). Any such request should detail the purpose of the revision to the spending plan.
- B. The Chairman shall notify each Trustee of the requested revision. In addition, the Chairman shall review such request and comment to the Trustees regarding whether funds are available within the chair to fund the revisions and whether providing such funds will require liquidation of current investments.
- C. If no objection to approval of the proposed revision is received by the Chairman within fifteen (15) days of notification, the revision shall be considered approved by the Trustees, and the Chairman shall be authorized to take action as is necessary to implement the approved revision. If a Trustee voices objection, the Chairman shall schedule a meeting of the Trustees to consider the spending plan revision.

Alternative Spending Plan

The Trustees recognize that newly established chairs might experience market

value declines resulting from negative investment returns due to the volatility of the financial marketplace. Accordingly, the spending plan of a chair may be based on realized income from stock dividends and bond interest. The spending of realized stock dividends and bond interest is not considered to be a part of the corpus.

Non-recurring Expenses Plan

The amount available for withdrawal in accordance with the spending plan policy that is not withdrawn will be transferred to the Reserve Bond Trust. This transfer will occur each year unless the governing board requests in writing that such funds are not to be transferred to the Reserve Bond Trust.

It is the intent to utilize the Reserve Bond Trust for non-recurring expenses; however, the final decision will rest with the appropriate governing board. The Trustees shall approve a governing board's request for withdrawal from the Reserve Bond Trust unless such withdrawal would cause an extraordinary liquidation of investments.

Transfers from Reserve Trust to the Trust

Upon written request from the governing board, accumulations in the Reserve Bond Trust may be transferred to the Bond Trust.

Certification of Expenditures

Each participating eligible institution shall annually report to the Trustees that all funds expended were expended for the chair for which the income was intended. In addition, each participating eligible institution will report the amount and percentage of each chair's budget, which is funded from the Trust, federal, institutional, and other funds. Said certification shall be made each year by September 1.

Policy Adoption

The Board of Trustees for the Chairs of Excellence Endowment Trust Fund adopted these revised and restated Additional Policies at its meeting held on October 11, 2017.

David H. Lillard, Jr., State Treasurer and
Chairman of the Board of Trustees for the
Chairs of Excellence Endowment Trust Fund