Investment Policy Statement

Student Managed Investment Fund (SMIF)

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This Investment Policy Statement ("IPS") governs the management of the Student Managed Investment Fund ("the Fund") of the Gordon Ford College of Business at Western Kentucky University. It is binding on all parties involved in the management of the Fund, and no provision may be waived, suspended, or amended except through the formal amendment process described in Section 14.

1 PURPOSE OF THIS STATEMENT

The IPS defines the Fund's objectives, permissible and prohibited investments, risk limits, governance structure, decision-making procedures, and reporting requirements. It exists so that every participant—student, faculty, and board member—operates from a single, unambiguous set of rules, and so that the Fund's conduct can be audited against a written standard at any time.

2 FUND BACKGROUND AND MISSION

The Fund was established with an allocation of $1.5 million and operates as an ongoing, equity-only portfolio managed by students enrolled in FIN 439 (Security Analysis & Portfolio Management) under the supervision of the Faculty Advisor and the oversight of the SMIF Oversight Board.

The Fund is perpetual, and each cohort of students inherits the portfolio left by the last. Investment decisions should therefore reflect a long-term horizon; the Fund is not managed to any semester-end or fiscal-year date. The Fund seeks a long-term total return sufficient to support an annual withdrawal of 4% of Fund assets (Section 10) while preserving the real value of its capital. Its performance objective is to outperform the Russell 3000 Total Return Index over rolling three-year periods, net of costs (Section 3). Within each sector budget, student selections aim to outperform the sector ETF they replace.

The Fund accepts equity market risk commensurate with its benchmark, and only the risks a disciplined professional equity manager would accept. It does not accept leverage risk, derivative risk, or short-sale risk. The annual withdrawal is a standing obligation of the Fund, and investment decisions shall be made with that ongoing distribution in mind.

> *The Fund is established to advance student learning and long-term investment performance in equal measure, under the standards of care expected of a professional fiduciary.*

The Fund exists to give students direct, accountable experience in security analysis, portfolio management, compliance, and fiduciary decision-making, and to manage its capital with the discipline expected of a professional portfolio. Neither objective is subordinate to the other. A well-run learning process is expected to produce sound investment decisions, and sound investment decisions are the clearest evidence of what students have learned. All policies in this IPS shall be interpreted in light of this dual commitment.

3 PERFORMANCE BENCHMARK

3.1 Policy Benchmark

The Fund's benchmark is the Russell 3000 Total Return Index, which covers nearly all of the investable U.S. equity market. A total-market benchmark matches the universe from which students may select: any U.S.-listed company that meets the criteria in Section 6.3, including mid-sized and small companies outside the S&P 500.

The Fund's passive core is held in S&P 500 sector ETFs (Section 5), which cover the large-company portion of the benchmark. The Fund's return relative to the benchmark therefore has two parts, which are reported separately (Section 15):

- *Selection*: the return of student selections relative to the sector ETFs they replace, which measures the value added by students;
- *Structure*: the return of the sector ETFs relative to the Russell 3000, which reflects the market's small- and mid-sized companies that the passive core does not hold.

3.2 Sector Benchmarks

The benchmark for each sector budget is the sector ETF in which that budget's base is held. Each team's contribution to Fund performance is evaluated against the sector ETFs of its assigned sectors.

3.3 Measurement

Returns are measured as time-weighted total returns, net of trading costs and fund expenses, so that the annual withdrawal and any other external cash flows do not affect the comparison with the benchmark. Performance is evaluated over rolling three-year periods and reported annually and since inception. The benchmark may be changed only by amendment under Section 14.

4 ROLES AND RESPONSIBILITIES

4.1 Oversight Board

The Oversight Board consists of five members: the Finance Department Chair; two finance faculty members, one of whom shall be the Faculty Advisor; a representative of the Investment Department of Cerity Partners; and Donald Smith. The Board:

- Meets once annually;
- Reviews Fund performance and compliance with this IPS;
- Approves all amendments to this IPS;
- As a body, does not participate in security selection, which rests with the Student Investment Committee and the Faculty Advisor.

4.2 Faculty Advisor

The Faculty Advisor is the faculty member currently teaching FIN 439 (Security Analysis and Portfolio Management). If the course is not offered in a given term, or more than one faculty member is teaching it, the Department Chair shall designate the Faculty Advisor for that term. The Faculty Advisor:

- Verifies each proposal's pre-trade compliance checklist before the proposal goes to a vote (Section 4.4);

- Decides every proposal that receives exactly two votes against, approving it if it meets the Fund's analytical standard and rejecting it if it does not. Each such decision is recorded with a brief written rationale that responds to the team's analysis and to the votes cast;
- Is the sole authorized trader on the Fund's brokerage account and executes every approved proposal;
- Assigns GICS sectors to sector teams at the start of each semester;
- Designates, on a rotating basis, the two sector teams responsible for each month's compliance reports;
- Certifies each compliance report to the Oversight Board;
- Monitors the portfolio throughout the year, including during Maintenance Mode, as set out in Section 11.3;
- May trade without a team proposal only for initial deployment and rebalancing (Section 5), cash reinvestment (Section 9), the annual withdrawal (Section 10), corporate actions during Maintenance Mode (Section 12), and breach remediation (Section 11.4).

Students shall not execute trades directly under any circumstances.

4.3 Student Investment Committee

The Student Investment Committee consists of the students enrolled in FIN 439 each semester, organized into sector teams. At the start of each semester the Faculty Advisor assigns each team two GICS sectors of the S&P 500, so that every sector is covered, and each team manages the sector budgets described in Section 5. Because there are eleven sectors, one team covers a single sector.

Students originate every investment decision. Each purchase or sale of a stock begins as a written proposal from a sector team, which the team presents and defends before the Faculty Advisor and the class. The class questions and critiques each proposal, and once its pre-trade compliance checklist is complete and verified, the other sector teams vote on it under Section 4.4. A team whose proposal is rejected may revise and resubmit it. The Fund trades a stock only on a student proposal; the Faculty Advisor trades without one only for the purposes listed in Section 4.2.

Each sector team shall complete:

1. *Buy-side analyst reports.* Written reports on stocks within the team's assigned sectors, each recommending either (a) the purchase of a security the Fund does not hold, or (b) the sale of a security the Fund holds;
2. *A compliance report.* When designated by the Faculty Advisor, a month-end report testing the full portfolio against every IPS limit. Two teams are designated each month and prepare their reports independently of one another;
3. *Team presentations.* Two presentations each semester to the Faculty Advisor and the class.

No individual student or team holds trading authority.

4.4 Proposal Voting

A proposal goes to a vote only after its pre-trade compliance checklist (Section 11.1) is complete and verified by the Faculty Advisor. Each of the five sector teams other than the proposing team then casts one vote, for or against, as decided by its members. The outcome follows from the number of votes against:

Votes for	Votes against	Outcome
5 or 4	0 or 1	Approved
3	2	Referred to the Faculty Advisor, who approves or rejects
2 or fewer	3 or more	Rejected

The Faculty Advisor executes every approved proposal within two business days of its approval. Each vote, and any Advisor decision on a referred proposal, is recorded with the proposal. A rejected proposal may be revised and resubmitted.

5 PORTFOLIO STRUCTURE

The Fund operates under a *Base Camp Model*. Under the Base Camp Model, the sector ETF is the base camp for every dollar. Capital leaves the ETF only to fund an approved selection and returns to it when that selection is sold. Each student selection is therefore a deliberate decision to outperform the ETF it replaces, and each team's contribution to Fund performance can be assessed directly against its sector ETF. Within each sector budget, capital moves as follows:

- Sector ETF Base. At initial deployment, the Faculty Advisor invests each sector's budget in an ETF tracking the corresponding S&P 500 sector. Any portion of the budget not committed to student selections remains in this ETF.
- Student Selections. When a team's proposal is approved (Section 4.4), the purchase is funded by selling the sector ETF, so that individual securities replace part of the ETF within the same sector budget.
- Back to Base. When a student selection is sold, the proceeds are reinvested in the same sector ETF unless they are committed to an approved replacement proposal in the same sector (Section 9).

5.1 Sector Budgets

Each GICS sector's budget equals that sector's weight in the S&P 500 multiplied by total Fund assets, set at each rebalancing date. A team's budget is the sum of the budgets of its assigned sectors. The Faculty Advisor pairs larger sectors with smaller ones so that workloads are comparable across teams. Table 1 shows an illustrative assignment.

5.2 Initial Deployment

When the College Heights Foundation transfers the Fund's assets, the Faculty Advisor shall invest all Fund assets, less the cash permitted under Section 9, in the sector ETFs at S&P 500 sector weights, in five approximately equal daily purchases over the first five trading days. Spreading the purchases over a week averages the entry price. The Fund is therefore fully invested within its first

Team	Assigned sectors	Weight	Budget
1	Information Technology, Materials	39.7%	$595,500
2	Financials, Real Estate	13.7%	$205,500
3	Communication Services, Consumer Staples	13.8%	$207,000
4	Consumer Discretionary, Energy	12.9%	$193,500
5	Health Care, Utilities	11.9%	$178,500
6	Industrials	8.0%	$120,000
	Total	100.0%	$1,500,000

Table 1: Illustrative sector budgets for a $1.5 million Fund, using approximate S&P 500 sector weights as of October 23, 2026. Actual budgets are set at each rebalancing date.

week, and student selections are added over time as proposals are approved, within the limits of Section 5.4. The Fund does not use mutual funds at any stage.

5.3 Replacement Mechanics

- An approved purchase is funded by selling the sector ETF of the sector to which the purchased security belongs;
- The proceeds of an approved sale or trim are reinvested in the same sector ETF;
- No trade may move assets from one sector budget to another, except at rebalancing (Section 5.5).

5.4 Replacement Limit

Student selections may make up only a limited share of each sector budget, with the remainder held in the sector ETF. The limit increases in phases, measured by semesters of Fund operation from the date of initial funding:

- First semester: no more than 20% of any sector budget;
- Second semester: no more than 40%;
- Third semester: no more than 60%;
- Fourth semester and thereafter: no more than 80%.

The limit is tested at the time of each purchase. A sector whose student selections exceed the limit solely because of market movement, or because sector ETF shares were sold to fund the annual withdrawal (Section 10), is not required to sell, but no new purchase may be made in that sector until the proposed purchase would keep selections within the limit.

The 80% limit is the standing maximum. The Oversight Board may, at its discretion, raise the limit for any sector up to 100% of that sector's budget, or lower it for any sector, for example after repeated IPS breaches or sustained underperformance of that sector's selections. A lower limit applies to new purchases at once. Selections already held above a lowered limit need not be sold immediately; the covering team brings the sector within the new limit through its own sale proposals before the end of the following semester, unless the Board sets a different schedule.

5.5 Rebalancing

At the start of each semester, the Faculty Advisor shall reset sector budgets to current S&P 500 sector weights by trading sector ETFs only. The Faculty Advisor sells sector ETF shares in each sector whose total holdings (sector ETF plus student selections) exceed its new budget, and uses the proceeds to buy the sector ETFs of sectors whose holdings fall short of their budgets. Student selections are never sold to rebalance. If a sector's student selections alone exceed its new budget, that sector's ETF is sold in full and the sector is treated under the replacement limit in Section 5.4. In the semester designated for the annual withdrawal, the reset is made on Fund assets after the withdrawal (Section 10).

6 PERMITTED INVESTMENTS

6.1 Sector ETFs

One ETF for each of the eleven GICS sectors, each tracking the corresponding S&P 500 sector index and each with an expense ratio not exceeding 0.10%. The Faculty Advisor selects the ETF family; the Fund intends to use the Select Sector SPDR ETFs.

6.2 Portfolio Positioning

The Fund is a U.S. equity portfolio anchored in large companies. Its core is large-capitalization: every sector ETF holds S&P 500 companies. Students may also select mid-sized and small companies meeting Section 6.3, within the replacement limits of Section 5.4. Micro-capitalization companies are excluded by the $300 million minimum market capitalization. The Fund holds no fixed income, alternative investments, leverage or derivatives (Section 7); its only cash equivalent is a money-market fund (Section 9).

6.3 Individual Securities

Common stock of U.S.-listed companies meeting all of the following criteria at the time of purchase:

- Market capitalization of at least $300 million;
- Average daily trading volume of at least $10 million over the trailing three months;
- Listed on the NYSE or NASDAQ;
- Classified in one of the proposing team's assigned GICS sectors.

7 PROHIBITED INVESTMENTS AND PRACTICES

The following are prohibited without exception:

- Derivatives of any kind, including options, futures, forwards, and swaps;
- Short selling;
- Purchases on margin or any use of leverage;
- Initial public offerings within six months of listing;
- Leveraged and inverse ETFs;

- Open-end and closed-end mutual funds, unit investment trusts, and any exchange-traded fund other than the sector ETFs in Section 6.1, except a money-market fund used to hold cash;
- Cryptocurrencies and digital-asset products;
- Private placements and unregistered securities;
- Fixed-income securities, other than money-market instruments held as cash equivalents;
- Securities lending.

8 TRADING PRACTICES

To keep the Fund long-term in outlook and simple to administer:

- *Minimum holding period.* No individual stock may be sold within 30 calendar days of its purchase, except to remedy an IPS breach (Section 11.4) or following a position review (Section 11.2);
- *Sector turnover limit.* Turnover in any sector during a semester shall not exceed 25% of that sector's budget. Turnover is measured as the lesser of the value of individual stocks purchased and the value of individual stocks sold in the sector during the semester. Trades to remedy an IPS breach, semester rebalancing, the annual withdrawal and dividend reinvestment are excluded;
- *No day trading.* Day trading and other short-term trading are prohibited;
- *One account, one trader.* All trades are placed by the Faculty Advisor in the Fund's single account. Students have no access to the account;
- *Recording.* Every trade is recorded in the Fund's trade blotter on the day it is executed.

9 CASH POLICY

The Fund is fully invested under normal operations. Cash and money-market holdings should not exceed 2% of Fund assets and shall not exceed 5% at any time. Each dividend is credited to the sector budget of the holding that paid it and, at each month-end, reinvested in that sector's ETF. Dividends therefore remain in the sector that earned them, and each security's, sector's and team's return includes its own income. During Maintenance Mode dividends accumulate in cash, recorded by sector, and are reinvested in their sectors' ETFs at the next rebalancing. Other cash receipts are reinvested in the sector ETFs in proportion to sector budgets. Uninvested cash shall be held in a money-market fund or equivalent. Proceeds raised to fund the annual withdrawal (Section 10) and awaiting transfer are excluded from these limits.

10 ANNUAL WITHDRAWAL

The Fund is subject to an annual withdrawal of 4% of its assets. The withdrawal is a standing obligation of the Fund and is made as follows:

- *Amount.* The withdrawal equals 4% of the average of the Fund's month-end market values over the twelve months preceding the withdrawal date. Averaging smooths the withdrawal against short-term market movements.
- *Timing.* The withdrawal is made once each fiscal year, at the start-of-semester rebalancing designated by the Oversight Board.
- *Funding.* The Faculty Advisor funds the withdrawal by selling sector ETFs in proportion to sector budgets. Student selections are not sold to fund the withdrawal. If a sector holds too little of its ETF to meet its share, the shortfall is drawn from the remaining sector ETFs in proportion to their budgets.
- *Measurement.* The withdrawal is an external cash flow and does not affect the Fund's measured return (Section 3).

Any change to the withdrawal rate or method requires amendment under Section 14.

11 RISK MANAGEMENT AND COMPLIANCE

11.1 Pre-Trade Compliance

Before any proposal goes to a vote, the sector team sponsoring it shall complete a written pre-trade compliance checklist documenting that the proposed trade complies with every provision of this IPS. The Faculty Advisor shall independently verify the checklist before the vote. No proposal may be voted on, and no trade executed, without a completed and verified checklist.

11.2 Position Review Trigger

Any position declining 25% or more from its cost basis triggers a mandatory review: the covering sector team shall prepare a written re-underwriting of the position recommending to hold, trim, or exit, and that recommendation is decided by vote under Section 4.4. The trigger compels a documented decision; it is not an automatic stop-loss.

11.3 Ongoing Monitoring

Every position is monitored continuously, at three levels:

- *Sector teams.* Each team monitors every holding in its sectors while FIN 439 is in session: earnings releases, guidance changes, material news and corporate actions. A team reports any development that could change its investment thesis to the Faculty Advisor within two business days and, where warranted, submits a sale or trim proposal;
- *Month-end compliance.* At each month-end, the two sector teams designated by the Faculty Advisor each independently test the full portfolio against all IPS limits and submit a compliance report. Any breach is reported to the Faculty Advisor within two business days of discovery, and the Faculty Advisor reconciles any difference between the two reports;
- *Faculty Advisor.* The Faculty Advisor reviews all positions, cash and IPS limits at least weekly throughout the year and certifies each month's compliance report to the Oversight Board;
- *Cerity Partners.* The Cerity Partners representative on the Oversight Board receives each month's certified compliance report and trade blotter and reviews the Fund's trades and hold-

ings as an independent second set of eyes, raising any concern with the Faculty Advisor and the Board.

During Maintenance Mode (Section 12), when no class is in session, the Faculty Advisor performs the month-end compliance test and continues the weekly review. Any position that crosses the review trigger in Section 11.2 during a break is flagged, and its covering team completes the re-underwriting within the first two weeks of the following semester. Material developments during a break are logged and briefed to the incoming teams at the start of that semester.

11.4 Breach Remediation

Any IPS breach shall be remedied within 30 days. If the Student Investment Committee fails to act within that period, the Faculty Advisor is authorized to execute the minimum transaction necessary to restore compliance. All breaches and remediation actions shall be reported to the Oversight Board.

12 MAINTENANCE MODE

During winter and summer breaks, and during any period in which FIN 439 is not in session, the Fund operates in Maintenance Mode:

- No new positions may be initiated;
- The Faculty Advisor may transact only to remedy an IPS breach under Section 11.4, or to respond to a corporate action that requires a decision before the next semester, such as a tender offer, merger election or delisting. Each such transaction is reported to the Oversight Board;
- Monitoring continues as set out in Section 11.3;
- Dividends and other cash receipts accumulate in cash, within the limit in Section 9, and are reinvested at the next rebalancing.

13 CONFLICTS OF INTEREST AND CODE OF ETHICS

Each student, the Faculty Advisor, and each Oversight Board member shall disclose in writing any material personal or family interest in a security under consideration. A student with a disclosed conflict shall not take part in preparing, presenting or voting on the related proposal, and the recusal shall be recorded. If the Faculty Advisor has a disclosed conflict, any decision the Advisor would make on that proposal shall be referred to the other finance faculty member of the Oversight Board. Material nonpublic information shall not be used or sought under any circumstances.

14 AMENDMENTS

This IPS may be amended only by majority vote of the Oversight Board. The Student Investment Committee or the Faculty Advisor may propose amendments in writing, accompanied by a rationale. No amendment shall take effect retroactively, and no amendment may be adopted by the Student Investment Committee acting alone.

15 REPORTING

Each month, the two sector teams designated by the Faculty Advisor shall prepare independent compliance reports, which the Faculty Advisor shall reconcile. Each year, the Fund shall submit a formal written report to the Oversight Board that includes performance versus the benchmark, separated into selection and structure (Section 3), attribution by sector team, the annual withdrawal and how it was funded, the complete trade log, all breach reports and remediation actions, and a compliance attestation signed by the Faculty Advisor. Each year, the Fund's results shall be presented publicly.

16 ADOPTION

This Investment Policy Statement was adopted by the SMIF Oversight Board and approved by the Dean of the Gordon Ford College of Business on the following date: _____

_____	_____
Department Chair	Faculty Advisor
_____	_____
Donald Smith	Dean, Gordon Ford College of Business