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ENDOWMENT POLICY

Date of Recommendation by Management:	Aug. 2019
Date of Approval by the University Council:	December 2019
Commencement Date:	January 2020
Review Date:	Institutional Review every after five years
Signature by Chairman Council	

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1.0 Interpretation of Operational Terms of the Policy

i) Endowment

Is a donation, a gift, etc., which money can be invested and allowed to grow more funds for assisiting in the running of MRU. It could have an outside board running and investing the funds to grow and sustain MRU.

ii) Endowment funds

An investment fund set up by an institution in which regular withdrawals from the invested capital are used for ongoing operations or other specified purposes. As used in these guidelines, "endowment funds" include true endowment funds, term endowment funds, and quasi-endowment funds.

iii) Endowment Stabilization Reserve

A reserve to hold limited surplus investment earnings to assist in maintaining stability of the annual Spending Income Allocations for Endowment Principal Account

iv) True Endowment Funds

As used in these guidelines, "true endowment funds" (also known as "permanent endowment funds") are institutional funds with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. True endowment funds are to be invested for the purpose of producing present and future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal or corpus of the true endowment must be maintained intact. Income that may be expended according to the donor's stipulation may be unrestricted or restricted as to the purpose for which it is expended, the time it may be expended, or both. Income that may not be expended but rather added to the principal or corpus in accordance with the donor's stipulation assumes, or takes on, the same restrictions as the original gift.

v) Term Endowment Funds

Term endowment funds are similar to true endowments, except that, upon the passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are collectively referred to as "donor-restricted" transactions.

vi) Quasi-endowment Funds

Quasi-endowment funds are institutional funds that the Council, rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board. Funds that the governing board set aside to function as an endowment may be unrestricted or restricted as to the purpose or time of expenditure by any agent outside the institution

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vii) Spending Income Allocation

The Spending Income allocation is an amount calculated annually by applying the Spending Income Allocation Rate to the average monthly Endowment Principal Account balance during the fiscal year.

viii) Spending Income Allocation Rate

This is the percentage rate set by the Endowment Fund Board which is used to determine the annual amount to be made available for expenditure in the Endowment Income Account.

1.1 Background of MRU

Muteesa I Royal University (MRU) was offered an operational license by the National Council for Higher Education (NCHE) in 2005 and started its operations in 2007. The founding Chancellor of the University, who is also its Visitor, is His Majesty the Kabaka, Ronald Muwenda Mutebi II. The genesis of modern education in Uganda is historically associated with the Kingdom of Buganda owing to the role that Sekabaka Muteesa I played in inviting the missionaries who introduced education in Uganda. Owing to this history, it is only befitting that the University was named after this visionary leader. Hence, the University was named after the 31st King of Buganda who was a monarch of great vision, Kabaka Muteesa I (1856-1884). MRU is a skills training, academic and research-oriented institution of higher learning that was established as a private institution. The initiative was promoted by the Executive Committee (EC) of the Buganda Kingdom, headed by the *Katikkiro* (i.e., Prime Minister).

1.2 Strategic Goals of MRU

The Strategic Goals of MRU are as follows:

i) To produce graduates with all-round competencies and skills to be able to initiate self-employment activities or compete for jobs in the global market;
ii) To promote research and encourage students and staff to publish;
iii) To build and expand collaboration and engagement with the community, the alumni, and industry and business, and to equip students with practical skills while empowering the community, industry & business to develop local solutions;
iv) To strengthen MRU's human resource capacity;
v) To achieve a sustainable financial resource base;
vi) To improve the administrative and organizational arrangements of MRU with a view to achieving efficiency and effectiveness in all sections of MRU; and
vii) To construct or acquire, rehabilitate and maintain buildings, equipment, implements, ICT facilities and land particularly for the growth and development of its niche.

1.3 Vision of MRU

The Vision of MRU is to be "a leading university responding to contemporary challenges through teaching and learning, research and technical guidance".

1.4 Mission of MRU

The Mission of MRU is "to provide training, research and technical guidance responsive to national socio–economic needs".

1.5 Core Values of MRU

The core values of MRU are as follows:

i) Professionalism; Professionalism is a trait that's highly valued in the human resource of any organization. It has many attributes, including: (a) Specialized knowledge, (b) Competency, (c) Honesty and integrity, (d) Respect, (e) Accountability, (f) Self-regulation, and (g) Image.
ii) Respect for Diversity;
iii) Cultural Sensitivity;
iv) Tenacity; and
v) Team Spirit.

2.0 Introduction of the Policy

This Policy establishe MRU's guidelines and procedures related to the investment of the Endowment Pool (the "Pool") and reporting of such investments. The goal for the management of endowment funds at MRU is to ensure that the endowment provides future students and staff with the same level of spending resources, adjusted for inflation as current students and staff, while also providing a stable and increasing cash flow to fund current budgets. In order to accomplish this, endowment funds of MRU are invested under the total return concept whereby "net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund" may be appropriated for expenditure. In addition, endowment funds provide financial flexibility to MRU by allowing the different MRU campuses, Administrators, Directors and the Deans to strategically manage their domains and centres to ensure that MRU continues to achieve its mission of creation, preservation, dissemination and utilization of knowledge. The Pool has been established by MRU as a pooled fund for long-term Investment of endowment funds. As determined by MRU's Financial, Accounting and Procurement policy, a percentage of the market value of the endowment funds is distributed annually to provide funding for current operations. The purpose of this policy is to provide specific guidance to fund fiduciaries and investment managers for the segregation of funds held as trusts and endowments, and for the investment, monitoring and reporting on the management of these funds. This policy specifies MRU's position regarding the asset mix of the trust and endowment funds, identifies appropriate goals for the fund assets and provides guidelines within which the investment manager or managers may formulate and execute investment decisions. Its also a requirement by NCHE that 45% of MRU's income is got from other sources, other than tution fees.

3.0 Objectives of the Policy

a. The Endowment Fund is designed for the collection of assets held in perpetuity to support the activities of MRU. It is made up of individual Endowment Principal Accounts representing the original value of the donation and additions made for inflation and other capitalized amounts;
b. Donations made to the Endowment Fund are normally pooled together and invested in accordance with the MRU's Financial,, Accounting and Procurement Policy;
c. Where practicable, non-cash donations such as securities and real property are normally converted to cash for investment purposes;
d. The Spending Income Allocation Rate is set by the Endowment Fund Board on the recommendation of the Vice Chancellor and is reviewed every third year on the basis of the investment earnings experience of the Endowment Fund. If a decrease in this rate is anticipated, it will be communicated to the Fund Administrators as early as possible;
e. The Spending Income Allocation for an Endowment Principal Account should be predictable and stable, even if financial markets perform below the minimum investment objective of this policy;
f. Fund Administrators are responsible for requesting the capitalization of any portion of unused Spending Income Alloeations remaining in an Endowment Income Account at the fiscal year end. Once capitalized, these amounts become locked-in and are not reversible;
g. The primary investment return objective of the Endowment Fund is to earn, over the mid- and long-term an absolute annual rate of return that exceeds the annual rate of increase in the Consumer Price Index and the Spending Income Allocation Rate net of investment expenses; and
h. MRU maintains an Endowment Stabilization Reserve. When there are insufficient investment earnings to support the annual Spending Income Allocation, transfers are made from this account. The Endowment Stabilization Reserve will not exceed 15% (which percentage will be reviewed from time to time) of the aggregate market value of the Endowment Principal Accounts.

4.0 Application of the Policy

This policy shall be applicable to all persons charged with endowment matters at MRU.

5.0 Investment Guidelines

The following standard of care shall apply to the investment of the Pool of MRU:

i. Standard of Care

(a) MRU shall invest and manage the Pool as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowment funds. In satisfying this standard, MRU shall exercise reasonable care, skill, and caution;
(b) MRU's investment and management decisions respecting individual assets must be evaluated, not in isolation, but in the context of the

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endowment portfolio as a whole, and as a part of an overall investment strategy having risk and return objectives reasonably suited to endowment funds

(c) MRU shall conduct appropriate due diligence and make a reasonable effort to verify facts relevant to the investment and management of endowed assets; and

(d) MRU shall consider the following, which may be relevant to the endowment(s) and/or its beneficiaries, in investing and managing endowment assets: General economic conditions, the possible effects of inflation or deflation, the role that each investment or course of action plays within the Pool and if it is consistent with the Pool's investment strategy, the expected total return from income and the appreciation of capital, and needs for liquidity, regularity of income, and preservation and/or appreciation of capital. MRU shall not consider previous or potential gifts from donors and/or political interests relating to MRU when conducting due-diligence and considering investment opportunities.

ii. Delegation of Investment and Management Functions

MRU may delegate investment and management functions that a prudent investor could properly delegate under the circumstances. MRU shall exercise reasonable care, skill, and caution in:

(a) Selecting outside investment advisor(s), and/or consultant(s), and/or investment manager(s); and

(b) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the endowment. Periodically review the investment advisor(s), and/or consultant(s), and/or investment manager(s) actions in order to monitor their fiduciary duty, compliance with the terms of the delegation, and investment performance.

iii. Costs

In investing and managing the Pool, MRU may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of designated MRU administration and/or investment advisor(s), and/or consultant(s), and/or investment manager(s) to whom investment management functions were delegated.

6.0 Responsibility and Description of Roles

This section of the policy defines the overall structure of the Endowment management program.

(a) Advisory Board

The Board has the ultimate fiduciary responsibility for the Endowment.

The Board must ensure that appropriate policies governing the management of the portfolios are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves this Investment Policy and charges the Council or its Committees with its implementation and subsequent ongoing monitoring.

b) The University Council

The Council is responsible for implementing the Investment Policy. This responsibility includes approving and implementing the investment strategy; selection of custodians, investment managers and investment consultants; monitoring performance of the investment portfolio and its managers on a regular basis (at least quarterly); and maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy.

c) For the Endowment, the Council shall determine appropriate major asset classes, appropriate target percentages, and acceptable ranges for each major asset class. Within these major asset classes, the Committee shall further establish appropriate minor asset classes, their targets and ranges:

i. Within these established asset classes and ranges, the Committee or its designee shall allocate funds to investment managers and/or established investment funds with demonstrated superior performance in a specific investment area. The Council or its designee may withdraw funds or reallocate funds between funds or managers as deemed necessary;
ii. The Council will monitor portfolio performance and investment manager performance by comparison to appropriate established market indices, mutual funds/investment managers having similar objectives, and endowment funds of peer institutions;
iii. The Council shall select and appoint a qualified, independent investment consultant, subject to approval by the Board;
iv. The Council shall monitor and review the overall investment performance and portfolio compliance with established asset class ranges on a quarterly basis;
v. The Council or Investment Consultant will meet regularly with the investment managers. Substantive meetings with each non-passive investment manager will be conducted at least annually, in person or by phone;
vi. The Council will provide quarterly investment reports to the full Board. These reports should depict the absolute and relative performance of the Endowment;
vii. The Council shall review and approve the monthly investment report and quarterly performance report on the Pool;
viii. Subscribe for an interest as a limited partner or shareholder of a domestic or offshore partnership or corporation;
ix. Make payments of compensation for investment advisory and/or management services for the Pool; and
x. In carrying out these responsibilities, the Council shall meet at least three times a year. These meetings shall include, at least, the following

agendas:

a. The agenda for one meeting is to be devoted to a review of the quarterly and/or annual performance of the Pool's investment portfolio and each asset class;
b. The agenda for one meeting is to be devoted to a review of the Pool's investment strategy and asset allocation;
c. The agenda for one meeting is to be topically based on current issues; and
d. External investment advisor(s), investment consultant(s), and/or investment manager(s) may engage the Council to present investment strategies at any of the meetings as warranted. However, the Council is not expected to meet with all investment advisor(s) or manager(s) prior to engagement. Additional meetings may be scheduled as needed.

d) The Vice Chancellor

i. The Vice Chancellor has daily responsibility for administration of the Endowment and will inform the Council and Board, when appropriate, on all material matters relating to the investment portfolios;
ii. The Vice Chancellor is the primary liaison among the Council, the consultant, and the various money managers. Furthermore, the Vice Chancellor is generally charged with acting as the Council's designee, within the confines of this investment policy;
iii. The Vice Chancellor shall monitor compliance with the asset targets / ranges and, in conjunction with the investment consultant, recommend adjustments as necessary; and
iv. Communicate promptly with the Council regarding all significant matters such as but not limited to:

(a) Changes in the organizational structure, or professional staffing (additions and departures);
(b) Changes to MRU's financial stability, solvency, legislative or regulatory oversight, and/or pending litigation proceedings;
(c) Changes to fee schedules; and
(d) Any other changes of a substantive nature that may effect MRU's operations.

e) Investment Consultant

The Investment Consultant is responsible for assisting the Council and Vice Chancellor in all aspects of managing and overseeing the investment portfolios. The Consultant is a primary source of investment education and investment manager information. On an ongoing basis, the Consultant will:

a. Assist the Council in monitoring compliance with the investment policy and guidelines contained in this Investment Policy Statement;
b. Recommend an investment strategy and coordinate the asset allocation

process through the investment managers;

c. Provide proactive recommendations;
d. Assist the Council as directed with the review and selection (or termination) of Investment Managers;
e. Supply the Council with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested;
f. Monitor the activities of each Investment Manager or investment fund and provide quarterly performance reports to the Council; and
g. Report substantive developments that may affect the management of Endowment assets in a timely manner.

f) Investment Managers

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

a. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement;
b. Reporting, on a timely basis, quarterly investment performance results;
c. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Endowment's investment management; and
d. Informing the Investment Consultant regarding any qualitative change to investment management organization: examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

7.0 Conflicts of Interest

MRU's officers, directors, employees, or members of the Committee that are involved with the investment of the Pool ("Access Persons") have a duty to be free of conflicting interests that might influence their decisions when representing MRU. Consequently, as a general matter, MRU's Access Persons are not permitted to maintain any conflict of interest with it, and should make every effort to avoid even the appearance of any such conflict. A conflict of interest occurs when an individual's private interests interfere in any way – or even appear to interfere – with MRU's interests as a whole. A conflict of interest can arise when an Access Person takes actions or has interests that may make it difficult to perform his or her assigned duties objectively and effectively, or when an Access Person or a member of his or her family receives any improper personal benefits as a result of his or her position with MRU. Any Access Person who believes that he/she may have a potential conflict of interest must immediately report concerns to the appropriate M R U representative, mechanism, or process. This general prohibition on conflicts of interest includes (but is not limited to) the following:

a) MRU's dealings with consultant(s), investment adviser(s), investment firm(s), investment

fund(s), and others shall be based solely on what is in MRU's best interest, without favor or preference to any third party, including close relatives; and

b) Access Persons who deal with or influence decisions of individuals or organizations seeking to do business with MRU shall not own interests in or have other personal stakes in such organizations that might affect the decision-making process and/or the objectivity of such employee, unless expressly authorized in writing by the Board, and only after the interest or personal stake has been disclosed.

8.0 Investment Objectives of the Pool

The Council shall invest the Pool in accordance with the following investment objectives, stated in terms of return and risk. These objectives shall be subject to review on an annual basis:

Return Objective:

Achieve a total rate of return over a rolling ten-year period, which exceeds the rate of inflation by 5.5% (can be reviewed from time to time) per year on average as determined by Council.

Risk Objective:

Over a time frame of 10-20 years, construct an investment program that offers a high probability of achieving the stated investment return objective while keeping the frequency and magnitude of temporary declines at acceptable levels. This can be deemed to be a strategic asset allocation program that historically has downside volatility within acceptable ranges over 1, 3 and 5 year rolling periods.

9.0 Pool Asset Allocation Guidelines

The Investment Consultant, with the advice of the Vice Chancellor, will manage the asset allocation mix within the target allocations and allocation ranges. It is expected that the asset allocation mix will be diversified among asset classes and be designed to meet the rate of return and risk objectives of the Pool:

a. MRU shall diversify assets among multiple Investment Managers of varying investment styles to the extent that such diversification can be expected to reduce risk without sacrificing expected investment return, or that such diversification may produce a greater investment return without incurring any greater risk;
b. Cash inflows and outflows will be allocated in accordance with the Asset Allocation Guidelines;
c. The Investment Consultant and the Vice Chancellor will review the Pool's asset allocations on a regular basis; and
d. Special investment opportunities may necessitate an amendment to the Endowment Investment Guidelines as deemed appropriate.

10. Pool Risk Tolerance

Based on MRU's understanding of capital market risk, the following guiding

principles and measures shall be followed to control undue portfolio volatility in the Pool:

a. MRU recognizes that the primary fiduciary obligation regarding the Pool is to prudently invest the portfolio to meet investment objectives that will fulfill the purpose of the Pool;
b. MRU fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns;
c. The assets of the Pool are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility; and
d. Diversification of assets is to be achieved by:

   i. Allocating monies to various asset classes and investment styles within asset classes, and
   ii. Retaining investment management firm(s) with complementary investment philosophies, styles, and approaches.

11.0 Performance Evaluation and Review Process for the Pool

The Council and the Vice Chancellor will evaluate the Pool's investment performance on a periodic basis, which shall include, but not be limited to, the following:

a. The overall Pool's performance and each investment manager's performance to determine whether the Pools' objectives are being met;
b. The Pool's asset allocation mix relative to its Investment Guidelines and capital markets outlook;
c. The risk and return profile(s) of the Pool and each Investment Manager to determine whether the Pool's goals and objectives are being met;
d. The extent to how each Investment managers have managed their portfolio consistent within their stated investment philosophy and style;
e. Each investment manager's adherence to these guidelines; and
f. A reasonable time horizon for evaluating the Pool's investment performance shall be on a regular basis (two to ten years).

12 Review of Endowment Pool Investment Guidelines

The Board and the Council will review the Statement of Endowment Pool Investment Guidelines periodically to determine that it continues to be appropriate in view of changes within the State, MRU, the Pool, and the capital markets.

13 Internal Controls and Audits

a) MRU shall establish a system of internal controls, which shall be evaluated annually by its Internal Auditors and/or by independent Auditors. The controls shall be designed to prevent losses of funds from fraud, employee error, or misrepresentation by third parties or by MRU employees and officers; and
b) The Vice Chancellor shall arrange for an audit of MRU's annual report, conducted

by either the resident Auditors or the independent audit staff. The audits shall be conducted in accordance with applicable generally accepted auditing standards for regulatory or prescribed format reports. Reports shall include the Auditors' comments based on their examination of investment policy and procedures, the process, the accounting records, and the safekeeping methods.

14 Managing Institutional Funds of Other Institutions

Nothing in these guidelines shall restrict the ability of MRU to manage endowed funds for other institutions. In delegating all investment management functions to MRU, the other institution's Board shall maintain their fiduciary responsibility for the funds. The terms of any such agreement between MRU and other institutions shall govern and should clearly lay out the expectations of each party, especially with regard to fees and reporting. The funds shall be managed in accordance with these guidelines and all other governing laws and regulations of MRU.

15. Measurement of Investment Returns

Investment returns shall be measured quarterly and assessed in relation to the following criteria:

(a) The overall objective is to achieve the required rate of return over the long-term on the Fund, with an acceptable level of risk. The real rate of return is monitored on a four year annualized basis; and
(b) The Managers shall be expected to achieve the performance objectives included in their mandates over 4-year periods.

16.0 Securities Lending

The Fund may engage in securities lending activities to generate incremental income, subject to compliance with appropriate laws and regulations. The amount of collateral taken for securities lending should reflect best practices in local markets and marked to market on a daily basis. The terms and conditions of any securities lending program, including the maximum exposure in aggregate and by counterparty, will be set out in a contract. The Custodian shall, at all times, ensure that the administration has a current list of those institutions that are approved to borrow the Fund's investments. If the Fund assets are invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

17.0 Liquidity

The Council of MRU will ensure that the Operating & Endowment Fund has sufficient liquidity to meet its future obligations. To properly assess the liquidity needs of the portfolio, management will provide the Council with regular updates on risk controls regarding liquidity, such as:

i) the availability of short-term assets;

ii) the ratio of assets to obligations for the Operating Portfolio;
iii) any upcoming contributions to the operating and capital budgets; and
iv) internal loans.

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