

**USDF National Endowment
Investment Guidelines
6-28-2012**

The Investment Working Group (“IWG”) will administer the portfolio of the USDF National Endowment (“the Endowment”) in accordance with these guidelines, as adopted and amended from time to time. These guidelines shall be reviewed at least annually by the IWG and will bring its recommendation to the Executive Board to determine whether they shall be amended or remain unchanged. The Executive Board may choose to employ one or more qualified outside investment advisors to advise the IWG or to manage the Endowment portfolio under regular supervision of the IWG.

Objectives

The assets of the Endowment are to be invested with the same care, skill and diligence that a prudent investor would exercise in investing institutional endowment funds. The primary objective will be to achieve a reasonable total return on the portfolio as a whole (without requiring each asset to be income-producing), while limiting the risk exposure to ensure the preservation of capital.

Policies

The IWG and its investment manager(s) will make investment decisions in accordance with the Objectives stated above. The “prudent investor rule” shall be the governing policy in making investments. These guidelines are not intended to restrict or impede efforts to attain the Endowment’s objectives nor is it intended to exclude the IWG from taking advantage of appropriate opportunities as they arise. The following guidelines represent contemporary best practices among nonprofit organizations, but the IWG has the discretion and flexibility, and will be expected to adjust them as needed to reflect economic conditions.

Prohibited Investments

The IWG shall not invest in private placement, letter stock, futures transactions, arbitrage and other uncovered options, and shall not engage in short sales, margin transactions or other similar specialized investment activities.

Asset Allocation

Because the securities markets may vary greatly throughout a market cycle, the IWG may change the asset mix of investable assets of the Endowment as long as that mix meets the overall objectives and is consistent with these policy guidelines. The Endowment’s investable assets shall be allocated between equity investments and bonds and/or other fixed income securities. The strategic target allocation for the portfolio shall be no more than 60% equities and no less than 40% fixed income, with allowable ranges as follows:

	Allocation Target (%)	Acceptable Range (%)
Equities:	60	0-60
Fixed Income:	40	40-100

At all times, the Endowment should contain a minimum of 5% cash/money market.

All fixed income securities should carry at least an Investment Grade rating at purchase as granted by at least two nationally recognized rating agencies. Should a security fall below Investment Grade after purchase, the manager shall be charged with notifying the Investment Committee within ten business days, detailing a course of action to be taken as to the disposition of that security.

The target allocation among equity classes (e.g., Large Cap, Small Cap, International, REITS, Emerging Markets, etc.) shall be determined periodically (but at least annually) by the Investment Committee, in consultation with the investment manager(s), to reflect a prudent response to current market conditions. In any market, the following minimum allocations should apply:

- 40% minimum large-cap equities in equity portion of portfolio (defined as companies with over \$10 billion market capitalization)
- 60% minimum investments in domestic (US) companies and government securities in equity and fixed-income portions of portfolio.

The use of mutual funds and/or other pooled investments is permissible assuming all investment quality parameters are met.

Diversification

The IWG, in coordination with its investment manager(s), shall maintain adequate diversification in its investing instruments so that no more than 5% of the overall portfolio will be placed in the stock and/or bonds of one company. Assets should also be spread between growth-oriented and value-oriented investments, although the emphasis between the two may vary from time to time.

Investment Goals

While maintaining the asset mix within the above guidelines, the IWG may accept a risk level for the Endowment's overall investment program that is intended to produce a total annual return adequate to cover these components: (1) appropriations for expenditure from the Endowment, (2) inflation and growth of the Endowment.

Currently, the IWG will seek to achieve the following specific goals:

- Allocating up to 4% of the three-year trailing average value of the Endowment portfolio as "Available for Expenditure," as delineated in the Spending Policy.
- Retaining a portion of the Fund for reinvestment to provide for additional growth of the Fund, currently at least 3%.

Combining these elements, the Executive Board has established a target for total return on the Fund's assets of 7% annually, net of fees.

Generally, the investment performance shall be measured over a period of at least three years. Further, it is recognized that the rates assigned to the three components outlined above are subject to modification from time to time. The IWG shall review the assigned rates annually, but with due regard to the three (or more) year measurement period.

When measuring the performance of individual investments or investment managers, the IWG shall use indices appropriate to the investments managed. In the absence of benchmarks more specific to individual asset classes, the investment results shall be measured against an appropriate mix of indices, such as: 60% S&P 500 Index; 40% Barclays Bond Index. The Investment Committee shall also make every effort to keep expenses (including investment management fees) as low as possible. After making sure these fees and expenses are reasonable, investment management shall be measured against the appropriate indices when compared to performance gross of fees.

The IWG shall meet with investment managers and/or account representatives no less than once annually to review performance and compliance with the objectives and guidelines stated herein.

The IWG may also find it useful to benchmark the performance of the Endowment against the results achieved by other organizations that share important characteristics with the USDF, especially with regard to the size of the endowment.

Reporting

The IWG will provide a semiannual report at the end of each fiscal year to the Executive Board and the Management Committee. That report will include the portfolios' beginning and ending values, any change in the asset allocation strategy, and the investment performance (both as % yield, and compared to benchmarks). The report shall reflect compliance with the objectives, policies and guidelines set forth herein. It shall be offered at the annual spring and fall meetings of the Executive Board, or on any other schedule as may be requested by the Board from time to time.

The Executive Director or legal counsel of USDF shall consult applicable Nebraska and Kentucky statutes on the prudent investor rule and continued viability of total return portfolio investment management to assure compliance with all governing laws.

Adopted by action of the USDF Executive Board this 28th day of June, 2012.



George W. Williams
USDF President

July 17, 2012
Date