



# **Fund Management Policies and Guidelines**

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**Adopted/Revised**



## FUND MANAGEMENT POLICY

### I. Purpose

The Fund Management Policy and Guidelines govern the administration of fund management services offered by the Southern Baptists of Texas Foundation (“Foundation”).

Investment management decisions shall be made in accordance with the Investment Policy Statement and Guidelines of the Foundation (“Policy”).

### II. Scope

The Foundation is organized and operated as a tax-exempt, charitable and religious organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). The Foundation offers fund management services only to Southern Baptist churches and associations in Texas and to other charitable organizations with like beliefs and commitments, all of whom must be organized and operate as tax-exempt organizations pursuant to Section 501(c)(3) of the Code (collectively, “Clients”).

### III. Responsibility

The Foundation Investment Committee shall have the responsibility to oversee the Policy, recommending revisions to the Board of Directors as needed.

The Executive Director of the Foundation shall have administrative responsibility for the Policy.

### IV. Guiding Principles

1. **Registration Exemption.** The Foundation is a charitable, religious organization that provides certain fund management financial services to Clients. Under applicable federal and state securities law neither the Foundation’s fund management program nor the Foundation is required to register with the Securities and Exchange Commission or the Texas State Securities Board. Investment portfolios have not been registered with, approved or disapproved by the Securities and Exchange Commission or any state regulatory authority.
2. **Funds Not Insured.** Investments and funds placed by Clients with the Foundation are not insured against loss or guaranteed by the Foundation, the FDIC or otherwise.

3. **DISCLAIMER.** THIS POLICY REFLECTS THE COMMITMENT OF THE FOUNDATION TO ACT PRUDENTLY IN THE INVESTMENT OF FUNDS ENTRUSTED TO IT. HOWEVER, NO PART OF THIS POLICY IS TO BE CONSTRUED AS A PROMISE, GUARANTEE, COVENANT OR COMMITMENT BY THE FOUNDATION TO ATTAIN A PARTICULAR RATE OF RETURN OR TO AVERT A DIMINUTION IN VALUE OF THE ASSETS ENTRUSTED TO THE FOUNDATION. ALL INVESTMENTS ARE SUBJECT TO RISK, AND PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

## V. Policy Statement

1. **Agreement.** A Fund Management Agreement, setting forth the terms of agreement between the Client and the Foundation for fund management services, shall be signed by authorized representatives of both entities. The agreement shall apply to all of the Client's fund management accounts administered by the Foundation, unless otherwise agreed in writing executed in similar fashion by Client and the Foundation. The Client shall be required to give evidence of Client's governing body's action approving the agreement.
2. **Investment Allocation Form.** A Fund Management Investment Allocation Form, setting forth the Client's desired asset allocation and authorized representatives, shall be submitted by the Client for each fund management account.
3. **GuideStone Investment Funds.** The Foundation offers certain GuideStone Investment Funds as potential investments for Clients. GuideStone Investment Funds are not insured against loss or guaranteed by the Foundation, the FDIC or other entity, and are independently governed by GuideStone Financial Services and not by the Foundation or its investment policies or guidelines. Clients who choose to invest in GuideStone Investment Funds must review GuideStone Financial Services' fund information, policies and guidelines located at [www.guidestone.org](http://www.guidestone.org).
4. **Contributions.**
  - a. Church Expansion Term (CET) Investments may be established on any business day. Subsequent contributions designated for CET Investments will be used to establish additional or new CET Investments.
  - b. SBTF Investment Funds may receive contributions on any business day. Contributions designated for SBTF Investment Funds will be invested in the designated SBTF Investment Fund within 10 business days of receipt.
  - c. The Client shall transfer funds to an account via personal delivery, mail, special delivery service, wire, or ACH transfer.
5. **Renewal.** Automatic renewal of CET Investments, including interest earned, is assumed unless prior written notice is received by the Foundation from the Client. SBTF Investment Funds will remain invested until prior written notice of withdrawal or reallocation is received by the Foundation.

- 6. Reallocation.** The Client may reallocate its investments between CET Investments and SBTF Investment Funds, as follows:
- a. CET Investments may be reallocated at maturity to new CET Investments and/or to SBTF Investment Funds. If reallocated to SBTF Investment Funds, funds will be invested in the designated SBTF Investment Fund within 10 business days of receipt of request.
  - b. SBTF Investment Funds may be reallocated to new CET Investments and/or other SBTF Investment Funds no more frequently than monthly.
- 7. Distributions.** The Client shall direct the Foundation as to the distribution of Client's funds:
- a. CET Investments:
    - i. The Client may withdraw its CET Investments at maturity without penalty.
    - ii. A partial withdrawal before maturity shall be considered an early redemption of the CET Investment, with penalty. The remainder of the funds not withdrawn may be reinvested into a new term investment.
  - b. SBTF Investment Funds: Distributions of net income and principal shall be made upon written request with no penalty.
- 8. Termination.** The Client may terminate, in whole or in part, its fund management account(s) upon written notification and instruction from the Client to the Foundation, as follows:
- a. CET Investments:
    - i. Termination of a CET Investment at maturity incurs no penalty.
    - ii. A partial withdrawal before maturity shall be considered an early redemption of the CET Investment, with penalty.
  - b. SBTF Investment Funds will be distributed with no penalty.
- 9. Penalty for Early Withdrawal of CET Investments**
- a. For a term investment that is 12 months or less, the penalty is three (3) months of accrued interest. The penalty shall be limited to accrued interest and shall not invade principal.
  - b. For a term investment that is longer than 12 months, the penalty is six (6) months of accrued interest. The penalty shall be limited to accrued interest and shall not invade principal.

**10. Statements.** The Foundation shall mail to the Client quarterly statements, unless the Client requests, in writing, that quarterly statements be submitted by electronic mail or other means. The quarterly statements shall include portfolio holdings, activity at the end of each quarter. Electronic monthly statements may be sent to the Client at the Client's request.

**11. Cost Recovery Fee Schedule.** The Foundation Board of Directors establishes recovery rates based on the service and support required by each class of accounts. Reference is made to the Fund Management Cost Recovery Schedule adopted by the Foundation Board of Directors, which is attached as an addendum to this Policy.

## **VI. Minimum Fund Establishment and Distribution Guidelines**

The following minimum fund amount and distribution guidelines apply to Clients participating in the fund management services administered by the Foundation:

1. The minimum amount to establish and maintain a SBTF Investment Fund account is \$2,500.
2. The minimum amount to establish and maintain a CET Investment is \$2,500.
3. Transactions received after 3:00 p.m. (CST) will be processed the next business day.
4. Distributions shall occur as follows:
  - a. CET Investments: CET Investment Funds shall be withdrawn and distributed within ten (10) business days upon receipt of written request and notification from the Client.
  - b. SBTF Investment Funds: SBTF Investment Funds shall be withdrawn and distributed from the SBTF Investment Funds within ten (10) business days upon receipt of written request and notification from the Client.

## **VII. Addendum**

1. Fund Management Cost Recovery Schedule
2. Investment Policy Statement
3. Guidelines for Pool Risk and Return Objectives, Asset Allocation Strategy and Investment Manager Selection

### **Adopted/Revised**

Date of Adoption: September 12, 2013 (tentative)

By: Southern Baptists of Texas Foundation Board of Directors

## Fund Management Cost Recovery Schedule

The Southern Baptists of Texas Foundation is committed to providing quality professional services at a low cost. These professional services are funded in part by a Cost Recovery Fee program. The Board of Directors establishes recovery rates based on the service and support required by each class of accounts.

### Administration of Fees:

- Management fees will be assessed on a quarterly basis, at the end of each quarter. The fee assessed for each quarter will be based upon the market value of assets on the last day of the quarter, and will be prorated for the number of days in that quarter. No fee will be assessed for any quarter if the account has no assets as of the last day of the quarter. Accounts opened during any quarter will not receive any adjustments of a management fee for the portion of the quarter prior to the opening date.
- Account fees will generally be charged 50% to income and 50% to principal on a quarterly basis as directed by the Uniform Principal and Income Act under the Texas Property Code. Exceptions to this will be as directed by the trust instrument or when, as allowed by the Uniform Principal and Income Act “the trustee determines that another allocation is reasonable and equitable in view of the interests of those entitled to income as well as those entitled to principal and in view of the manner in which a person of ordinary prudence, discretion, and judgment would act in the management of their own affairs.”
- Outright Distribution Fees will be applied at the time of distribution.
- The Executive Director and/or the Director of Planned Giving has the discretion to adjust the fees as needed.
- Real Estate Management Fees will be collected on the sale price of the property and collected at closing.
- The fee schedule may be modified at the Board of Directors’ discretion.

### Fee Schedule for Managed Funds:

<b>Investment Fund</b>	<b>Cost Recovery Fee</b>
Enhanced Cash Fund	.15%
Income Fund	.35%
Endowment Fund and Other Pooled Funds	.55%
GuideStone Funds	
Sub- fund accounting	.55%
w/o Sub-fund accounting	.25%
Fixed Income only	.15%
Individual Non-SBTF Funds	.15%

### Other Fees:

Real Estate Management	1.00%
Outright Distribution Fee	.10%



## **Investment Policy Statement**

The Southern Baptists of Texas Foundation (“Foundation”) was incorporated in 2005 to support the Southern Baptists of Texas Convention and the Southern Baptist Convention with the objective of the proclamation of the gospel of Jesus Christ by serving as the trust agency for the Southern Baptists of Texas Convention. The Foundation manages endowments, reserves, trusts, bequests, and gift annuities through prudent, dependable, and competitive fiduciary services consistent with the highest ideals of Christian stewardship.

### **Scope of this Investment Policy**

This document establishes the Investment Policy Statement (“Policy”) for the Foundation and is designed to assist in effectively supervising, monitoring, and evaluating the investment of those funds.

### **Purpose of Investment Policy Statement**

This statement of investment policy is set forth by the Board of Directors (“Board”) to:

1. Define and assign the responsibilities of all parties.
2. Establish a clear understanding of the Foundation’s general investment principles.
3. Establish guidelines for investment managers.

The purpose of this statement is to outline the Foundation’s philosophy and worldview that will guide the investment management of these assets. The fund assets will be managed according to prudent standards as established in Uniform Prudent Management of Institutional Funds Act (UPMIFA).

### **Delegation of Authority**

The Investment Committee (“Committee”) is a fiduciary and is responsible for directing and monitoring the management of the Endowment. The specific responsibilities of the Investment Committee relating to the investment management of Funds assets include:

1. Establishing and maintaining a family of Pooled Investment Funds, which shall include, without limitation, Balanced Fund, Defensive Strategies, Endowment Fund, Enhanced Cash Fund, Group Equity Fund, Group Income Fund, Growth Fund, Income Fund and Short Term Fund.
2. Reviewing a Disclosure Statement for each of the Common Investment Funds that contains the investment objectives, permitted investments, asset allocations, and risk/reward profile for each such fund.



### **Delegation of Authority cont.**

3. Prudently and diligently selecting and terminating the relationship with qualified investment professionals, including Investment Manager(s), Investment Management Consultant(s), and Custodian(s), to manage the Common Investment Funds.
4. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental change in investment management process, or failure to comply with established guidelines.
5. Reporting, at least annually, to the Board on the investment performance and financial condition of the Common Investment Funds.

As such, the committee is authorized to delegate certain responsibilities. These include:

#### **Investment Management Consultant**

The consultant should provide the Committee assistance in establishing investment policies, selecting investment managers, reviewing managers over time, measuring and evaluating investment performance, accounting of all investment expenses, continuing education for members regarding investment changes and any other tasks deemed appropriate by the committee.

#### **Investment Manager**

The manager has discretion to buy, sell, or hold specific securities used to meet the Fund's objectives. The manager should report any major changes to outlook, strategy, or any qualitative change to the organization (personnel, ownership, philosophy, etc.). The manager should vote proxies on behalf of the Foundation.

#### **Custodian**

The custodian is responsible for the safekeeping of the pool's assets, and the duties include maintaining separate accounts, providing daily values (whenever possible), collecting dividends and interest, settling all transactions, and providing at least monthly statements.

### **General Investment Principles**

1. Investments shall be made solely in the interests of the Foundation.
2. Investments shall be managed with the care, prudence, and diligence that a prudent person acting in like capacity would use in the investment of such a Foundation.
3. The investments of the Foundation shall be diversified to minimize risk.
4. The Board may employ one or more investment managers of varying styles and philosophies to attain the investment objectives of the Foundation.

## **General Investment Principles cont.**

5. Investments shall not be made on the equity or debt securities of any corporation that derives revenue from any of the following:

- The production and sale of alcoholic beverages
- The production and sale of tobacco products
- Gambling or gaming activities
- Production or sale of sexually explicit materials
- Promotion of abortion
- Production or sale of abortifacients
- Promotion of homosexual lifestyles
- Any other companies who are recognized as being incompatible with the moral and ethical posture of the Foundation

Managers will be monitored and undergo screening to insure that the above are avoided to the Committee's satisfaction.

6. All assets contributed to the Foundation shall be disposed of as soon as practical should they not conform to the established guidelines. In extraordinary circumstances, per the client's request, the need will be dealt with on an individual basis.

## **Investment Guidelines**

### **Allowable Assets:**

- Cash Equivalents
  - Treasury Bills
  - SBTF Church Expansion Term Investments (Term of 30 days or less) – *Maximum 10.5% for SBTF Endowment Fund and maximum 15% for other SBTF pooled funds\*\**
  - Money Market Funds
  - Certificates of Deposit
  - Commercial Paper (A-1/P-1 Rating and higher only)

## **Investment Guidelines cont.**

### **Allowable Assets:**

- Fixed Income Securities
  - U.S. Government and Agency Securities
  - U.S. Agency-Backed MBS and CMO
  - Corporate Notes and Bonds
  - Fixed Income Securities of Foreign Governments and Corporations (investment grade only)
  - Mutual Funds (Investment Policy Statement still applies)
  - U.S. Municipalities
  
- Equity Securities
  - Common Stocks
  - American Depository Receipts (ADRs) of non-US Companies
  - Stocks of non-US Companies (ordinaries)
  - Mutual Funds (Investment Policy Statement still applies)
  
- Other Assets
  - Preferred Stock
  - Convertible Notes, Bonds, Stocks
  - Managed Futures\*

**\*Managed Futures** are typically private investments, generally structured as limited partnerships. Investments in managed futures provide access to global futures and commodity markets by employing professional money managers called Commodity Trading Advisors (CTA's). CTA's use proprietary trading methods and techniques to establish positions in commodity, financial futures, and foreign currency markets worldwide. The Committee understands that investing in managed futures is speculative, can be volatile, and that the ability to redeem is typically limited to a monthly redemption basis.

### **Prohibited Assets/Transactions:**

- Private Placements
- Letter Stock
- Venture Capital
- Options (unless specifically approved by the committee)
- Short Sales
- Margin Transactions
- Non-Agency Mortgage Backed Securities
- Non-Agency Collateralized Mortgage or Debt Obligations (CMO & CDO)
- Commodities and futures contracts

(The above do not apply to managed futures)

## **Guidelines for Equity Manager Portfolios**

1. **Diversification** – in order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 5% of the total equity pool, or 15% in any one industry group, or 25% in any sector. This applies to the entire pool, not each individual manager. The investment officer and consultant will be responsible to monitor the levels.
2. **Conflicts of Interest** – no purchase is to be made of equity securities of the portfolio manager's organization or of any firm with controlling interest of the manager's organization.
3. **Performance** – over the full market cycle (generally three to five years), each active manager is expected to equal or exceed its assigned benchmark for return and risk.

## **Guidelines for Fixed Income and Cash Equivalent Portfolios**

1. **Safety** – Fund assets in fixed income and cash objectives may be invested only in publicly traded investment grade bonds rated BBB or better by S&P or Moody's. Unrated securities will be, in the judgment of the portfolio manager, of credit quality equal or superior to BBB. Only A-1/P-1 and higher commercial paper is allowed.

Should an *existing* holding fall below investment grade by a major rating service, then the manager must provide the consultant and Committee with analysis and rationale for a recommended course of action.

2. **Diversification** – No single industry group shall constitute more than 25% of the fund and no single company more than 5% of the fund – with the exception of U.S. Government obligations, which are unrestricted. The investment officer and consultant will be responsible to monitor the levels.
3. **Maturity** – Managers should not take excessive duration or diversification risk. The duration of the portfolio should not exceed the benchmark duration by more than 20% (duration is how interest rate risk is measured). However, cash equivalent managers will be allowed to exceed the 20% duration restriction from time to time, for a period no longer than 10 consecutive business days. Also, managers should be diversified enough to never purchase a single company's debt that exceeds 5% of the portfolio.
4. **TIPs** – Treasury Inflation Protected Securities (TIPs) may be utilized on a discretionary basis by the manager, and no minimum level is expected.
5. **Performance** – Over the full market cycle, each individual manager is expected to compare favorably with its assigned benchmark for return and risk.

## **Asset Allocation**

As stated in UPMIFA: “Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund’s portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.”

Pool Return and risk objectives, tactical and strategic asset allocation, investment manager measurement parameters, and other process decisions for each of the Common Investment Funds will be detailed in the “Guidelines for Pool risk and return objectives, Asset Allocation Strategy, and Investment Manager Selection”.

**This Statement of Investment Policy was adopted by the Board of Directors of the Southern Baptists of Texas Convention Foundation at its regularly scheduled meeting held on September 29, 2011.**

**\*\*The inclusion of SBTF Church Expansion Term Investments in pooled fund allowable assets was approved by the SBTF Investment Subcommittee on June 30, 2016**



## **Guidelines for Pool Risk and Return Objectives, Asset Allocation Strategy, and Investment Manager Selection**

### **SBTF Investment Philosophy**

- *Provide optimal performance through professional institutional fund management*
- *Protect stewardship responsibility by limiting fees and downside exposure*
- *Promote Biblical convictions with actively screened investment choices*

This document intends to describe the Foundation's investment purposes and objectives regarding pool risk and return, asset allocation strategy, and investment manager selection and retention.

### **SBTF Balanced Fund**

The SBTF Balanced Fund provides diversification for accounts with long term objectives with a balanced approach related to growth and income. Assets of this fund may include high quality fixed income instruments, common stocks, preferred stocks, managed futures, cash equivalents and other assets. The fund provides income in the form of periodic dividends. This fund is recommended for accounts with at least a 5 year investment horizon.

### **SBTF Defensive Strategies Fund**

The SBTF Defensive Strategies Fund provides active management with investments in defensive-type equities and convertible bonds with a growth objective sought with less volatility. This fund can be utilized as a component of a diversified long-term portfolio which includes various asset classes.

### **SBTF Endowment Fund**

The SBTF Endowment Fund provides diversification for accounts with long term objectives. Assets of this fund may include high quality fixed income instruments, common stocks, preferred stocks, managed futures, cash equivalents and other assets. This fund provides income in the form of a quarterly dividend. This fund is recommended for accounts with at least a 5 year investment horizon.

### **SBTF Enhanced Cash Fund**

The SBTF Enhanced Cash Fund is maintained to facilitate the management of funds for various accounts and provide preservation of capital, liquidity of investments, and withdrawal requests. This fund is recommended for accounts with a 3 year or less investment horizon.

### **SBTF Group Equity Fund**

The SBTF Group Equity Fund provides active management with investments in a diversified portfolio of domestic and international stocks with a growth objective instead of income. This fund can be utilized as a component of a diversified long-term portfolio which includes various asset classes.

### **SBTF Group Income Fund**

The SBTF Group Income Fund provides active management with investments in a diversified portfolio of domestic and international fixed income instruments with an income objective instead of growth. This fund can be utilized as a component of a diversified long-term portfolio which includes various asset classes.

### **SBTF Growth Fund**

The SBTF Growth Fund provides diversification for accounts with long term objectives with a growth approach and secondary priority on income. Assets of this fund may include high quality fixed income instruments, common stocks, preferred stocks, managed futures, cash equivalents and other assets. It provides income in the form of periodic dividends. This fund is recommended for accounts with at least a 5 year investment horizon.

### **SBTF Income Fund**

The SBTF Income Fund provides a positive income flow from interest on high quality corporate and government bonds. The fund minimizes volatility by not being exposed to the equities while striving to gain greater return than a cash or cash equivalent investment. This fund is recommended for accounts with at least a 3 year investment horizon.

### **Church Expansion Term Investments (CET)**

Church Expansion Term Investments (CET) provide a higher yielding alternative to secular time deposit products. Money deposited into the CET accounts is invested in a loan pool consisting of the debt of Southern Baptist churches, SBTC affiliated ministries and other like-minded ministries. The CET Investment objective is to provide a current stream for a specified period of time while investing in local church expansion in Texas. Specifically, the Daily Savings Account provides daily liquidity.

### **GuideStone Funds**

The Foundation makes GuideStone Funds available to your ministry. GuideStone Funds is a family of Christian-based, socially screened mutual funds for individual and institutional investors. With GuideStone Funds, ministries can make their own asset allocation and withdrawal decisions according to their individual fund management needs.

## **Investment Manager Selection and Retention**

The Foundation recognizes that the successful selection of active investment managers is part art and part science. We know and expect that managers will underperform their respective benchmarks at various times, so the following will outline the process for hiring, retaining, and removing investment managers.

### **What are the qualities we are looking for in hiring an active manager?**

- We prefer an organization that is 100% employee-owned, mainly or solely focused on a single strategy, and client-focused with accessible portfolio managers (not just marketing staff), and a stable and transparent (AIMR compliant) track record. Assets managed by the firm and the portfolio manager structure should be stable.
- Manager fees should be a major factor, and we expect fees to be competitive. Currently, active equity manager fees are approximately 0.50% annually, and active fixed manager fees are approximately 0.25% annually.
- Any manager should be willing to comply with the Foundation's Investment Policy.

### **What are the minimum statistical (quantitative) measures for hiring and retaining an active manager?**

- Equity Manager
  - The most recent three-year track record should be favorable to the respective benchmark for return, information ratio, and universe rank. The Foundation will also investigate five and ten year records to know how the manager has performed in various market conditions.
  - The manager must show the ability to protect the portfolio in the down markets as well, so downside ratios for three, five, and ten-year periods should be favorable (less than 100%)
- Fixed Income Manager
  - The most recent three-year track record will be examined for risk. The manager should be able to demonstrate a consistent ability to achieve return near the benchmark, with less risk (standard deviation).

### **What is the process for terminating an active manager?**

- Equity Manager
  - **Qualitative change** – whenever there is a significant event (firm ownership, portfolio manager, staff directions, change in strategy, negative news), the consultant will report the board immediately.
  - **Quantitative underperformance** – when a manager underperforms for *two consecutive years*, they will be required to report to the Board to explain. The manager will then be placed on “watch”, and a formal search will begin to find a replacement. The manager on “watch” will be allocated special attention by the consultant and Investment Committee. Three-year track records favorable to the benchmarks are required, so the Investment Committee should be prepared to terminate as soon as a manager fails to comply.



## What is the process for terminating an active manager? Cont.

- Fixed Income Manager
  - **Qualitative change** – same as those for an Equity Manager
  - **Quantitative underperformance** – the same rules as those for an Equity Manager apply, except the emphasis is placed on risk measurements like standard deviation and beta. The active fixed income manager must be able to control risk, so a “watch” will be placed on a manager if they fail to comply in any two-year consecutive period.

### Glossary

- **Standard deviation** - Standard deviation of return measures the average deviations of a return series from its mean, and is often used as a measure of risk. A large standard deviation implies that there have been large swings in the return series of the manager.
- **Information ratio** - The Information Ratio measures the consistency with which a manager beats a benchmark. “*Manager Return minus benchmark return (excess return) divided by standard deviation*”
- **Beta** - Beta is a measure of systematic risk, or the sensitivity of a manager to movements in the benchmark. A beta of 1 implies that you can expect the movement of a manager's return series to match that of the benchmark used to measure beta.
- **Alpha** -Alpha is the mean of the excess return of the manager over beta times benchmark: Alpha is a measure of risk (beta) adjusted return.
- **Universe rank** – Universe rank attempts to measure the % rank of the manager in their respective peer group.
- **Up and Down Capture** - The up and down capture is a measure of how well a manager was able to replicate or improve on phases of positive benchmark returns, and how badly the manager was affected by phases of negative benchmark returns.

-Approved by SBTF Board on September 13, 2012