

3344-64-03 Investment fund.

- (A) The university's investment fund will have disciplined investment objectives and consistent management strategies that can accommodate relevant, reasonable, or probable events.
- (B) The purpose of this investment policy statement is to establish a clear understanding of the investment objectives of the university's investment fund and will be utilized by the university in monitoring the investment on a continuing basis.
- (C) Objectives. The primary objective for the investments of the university's investment fund pool is the preservation of capital while providing for the long-term growth of principal with limited exposure to risk. The objectives shall be accomplished by utilizing a strategy of equities, fixed income, and cash equivalents; in a mix which is conducive to participation in a rising market while allowing for adequate protection in a falling market. The investment manager(s) greatest concern should be total return with consistency of investment performance. Due to the inevitability of short-term market fluctuations, which may cause variations in the investment performance, it is intended that the following objectives will be achieved by the investment manager(s) over three and five year moving periods.
 - (1) The investment objectives of the plan shall be as follows:
 - (a) The total return on the assets, net of investment manager fees, shall strive to exceed the consumer price index plus four per cent over a three and five year moving period. In addition, the total return on the assets, net of fees, shall strive to achieve a seven per cent nominal rate of return annually.
 - (b) The total fund shall be diversified both by asset class (e.g., equities, bonds, multi class investment and cash equivalents) and within equities by economic sector, industry, quality, size, investment style, etc. However, this should not imply that assets must be diversified to the extent required to become an index of either the economy or any

stock/bond exchange. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total fund.

- (c) The purpose of the fixed income fund (bonds and cash equivalents) is to provide a deflation hedge, to reduce the overall volatility of the fund, and to produce current income in support of the needs of the university.
- (d) The fixed income fund should normally represent approximately twenty-five per cent to thirty-five per cent of total fund assets at market value, although the actual percentage of fixed income and fixed reserves will fluctuate with market conditions. The committee may change any of the ratios at their discretion, but it is anticipated that such changes will be infrequent.
- (e) The purpose of the equity portion is to provide a total return that will simultaneously provide for growth in principal and current income sufficient to support university payment requirements, while at the same time preserve the purchasing power of the fund's assets. It is recognized that the equity fund entails the assumption of greater market variability and risk.
- (f) The equity fund should normally represent approximately fifty per cent to sixty per cent of total fund assets at market value, although the actual percentage of equities and equity reserves will vary with market conditions. The committee may change any of the ratios at their discretion, but it is anticipated that such changes will be infrequent.
- (g) Multi class investments should normally represent ten per cent of the total fund assets at market value. The actual percentage of multi class investments will vary with market conditions. Multi class

investments may include; real estate investments, hedge funds, private equity, managed futures, commodities and other multi class strategies that the finance committee approves. The investments in multi class strategies must be made in a fund of funds investment vehicle registered under the forty's act that is transparent and liquid. A fund of funds approach multi class investing provides broader exposure to the multi class strategy being used allowing for diversification of risk associated with a single investment fund.

- (h) Additions to principal shall be allocated by the committee. As a general rule, unless funds are allocated to a balanced manager, new cash will be used to rebalance the total fund in the direction of the fifty-five-thirty-fifteen equity/fixed/ multi class investment policy ratio.
- (i) Each manager will also be evaluated versus a universe of managers with similar asset mixes and will be expected to consistently rank favorably over three and five year moving periods.
- (j) The risk adjusted performance (alpha) for each manager will be expected to be greater than zero over each three and five year moving period.

(D) Asset allocation.

- (1) The committee will review the asset allocation quarterly and will consider reallocation based on the guidelines below when significant differences occur:
 - (a) Equities
 - (b) Minimum; fifty per cent
 - (c) Preferred; fifty-five per cent
 - (d) Maximum; sixty per cent
- (2) Fixed income and cash
 - (a) Minimum; twenty-five per cent

- (b) Preferred; thirty per cent
 - (c) Maximum; thirty-five per cent
 - (3) Large cap growth
 - (a) Minimum; nine per cent
 - (b) Preferred; eleven per cent
 - (c) Maximum; thirteen per cent
 - (4) Large cap value
 - (a) Minimum; nine per cent
 - (b) Preferred; eleven per cent
 - (c) Maximum; thirteen per cent
 - (5) Small/midcap growth
 - (a) Minimum; five per cent
 - (b) Preferred; seven per cent
 - (c) Maximum; nine per cent
 - (6) Small/midcap value
 - (a) Minimum; five per cent
 - (b) Preferred; seven per cent
 - (c) Maximum; nine per cent
 - (7) International growth
 - (a) Minimum; seven per cent
 - (b) Preferred; nine and a half per cent
 - (c) Maximum; twelve per cent
 - (8) International value
 - (a) Minimum; seven per cent
 - (b) Preferred; nine and a half per cent
 - (c) Maximum; twelve per cent
 - (9) Changes in the asset allocation parameters are to be approved by the committee.
 - (10) The committee is given full discretion relating to asset allocation within the above specifications.
- (E) Guidelines for the equity fund

- (1) The objective for the equity fund is to outperform the s & p five hundred stock index over a full market cycle. The fund will be compared to equity manager means. Performance will be monitored on a quarterly basis and evaluated over rolling three and five year periods. In addition, the equity portion of the fund shall strive to exceed the consumer price index plus five per cent over three and five year moving periods.
 - (2) The equity fund will be broadly diversified according to economic sector, industry, number of holdings, and other investment characteristics. However, it is recognized that in order to achieve its investment objective, the equity fund must be actively managed and therefore cannot be fully diversified. Several complementary investment styles will be used to reduce portfolio risk.
 - (3) Equity investment style is expected to be a criterion of manager selection, within the context of a diversified manager structure. Decisions as to individual security selection, security size and quality, number of industries and holdings, turnover and other tools employed by active managers are to be defined as individual manager standards and applied subject to the usual standards of fiduciary prudence. However, managers are expected to invest consistently in the style for which they were hired.
 - (4) Unless otherwise instructed, an equity manager may at their discretion hold investment reserves of either cash equivalents or bonds, but with the understanding that performance will be measured against stock indexes described in their investment guidelines.
 - (5) Each equity investment manager shall vote proxies for those securities under management absent any specific directive to the contrary by the investment committee.
- (F) Guidelines for the fixed income
- (1) The objective of the core fixed income fund is to perform at or near the Barclays intermediate government/credit bond

index (net of fees). Performance will be monitored on a quarterly basis and evaluated over rolling three and five year periods.

- (2) The core fixed income manager is expected to employ active management techniques, but changes in average maturity should be moderate and incremental. Planned changes in overall average maturity should be communicated to the investment committee.
- (3) For the core fixed income segment of the university's investment fund, the bonds purchased must be rated a or better by Moody's or "Standard & Poor's" rating services. If the rating of any bond is lowered below a, the investment manager shall notify the investment committee with an explanation of the credit downgrade and any recommended action. The prospect of credit risk or risk of permanent loss shall be avoided.
- (4) In general, the portfolio shall be well diversified with respect to type, industry, and issuer in order to minimize risk exposure. However, obligations carrying the full faith and credit of the U.S. government or government agency may be held without limitation. Generally, other than investments in the U.S. government or government agency, no single debt issue will be allowed to exceed five per cent market value of the debt portfolio.
- (5) Approximately twenty per cent of the fixed income portfolio may be allocated to non-core or opportunistic fixed income strategies with the prior consent of the investment committee. These strategies may include, but are not limited to international fixed income, emerging market-fixed income, high yield fixed income and preferred securities. The purpose of including opportunistic fixed income in the portfolio is to enhance the overall risk return characteristics of the fund while allowing for flexibility during turbulent fixed income or interest rate cycles.

(G) Risk guidelines

- (1) It is recognized by the committee that a certain amount of volatility will be incurred in order to meet the secondary objective of long-term growth of capital. However, the annualized standard deviation of the total portfolio shall not exceed the comparable balanced index by more than six per cent.
- (2) Because the growth of the portfolio is largely dependent of the equity portion, a level of volatility (beta) for the equity portion of 1.15 to that of the “Standard & Poor’s” five hundred index of 1.00 is tolerable if necessary. However, the goal of the level of volatility (beta) of the total portfolio is to not exceed .65 to that of the “Standard & Poor’s” five hundred index of 1.00.
- (3) The intent of the fixed income and cash portions is to reduce the overall volatility of the portfolio. Therefore, the goal of the standard deviation of the fixed income portion is to not be significantly higher than that of the Barclays intermediate government/credit bond index.

(H) Investment manager restrictions

- (1) There shall be no short selling, securities lending, financial futures, margins, options without the approval of the committee.
- (2) Each investment manager will be instructed that at cost, an individual common stock will not represent more than five per cent of that manager’s portfolio, with the exceptions of those securities issued by the U.S. government and its agencies. Furthermore, no position of any one issue should exceed ten per cent of a manager’s portfolio, with the exception of those securities issued by the U.S. government and its agencies.
- (3) No equity manager shall purchase any security when that manager’s current position exceeds five per cent of the total

shares outstanding without prior permission of the investment committee.

- (4) If any major management or personnel changes occur within the investment manager's firm, the committee is to be immediately notified. Furthermore, it is expected that all managers send their ADV to the university on an annual basis.

(I) Guidelines for transactions

- (1) The chief financial officer of the university will bring to the committee for their review, all objectives and policies, at least annually, for their continued pertinence. They shall remain in effect until modified.
- (2) If a manager believes that a policy guideline inhibits their investment performance, it is their responsibility to communicate their views to the committee.
- (3) The fund portfolios will be monitored on a continual basis for consistency in investment philosophy, return relative to objectives, and investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed by the committee on a quarterly basis, but results will be evaluated over rolling three-to-five year periods. The committee will regularly review each manager to confirm that factors underlying performance expectations remain in place.
- (4) The custodian will provide a monthly transaction journal and investment position for each investment manager.
- (5) Each investment manager will report total return net of all commissions and fees on a quarterly basis. Regular communication concerning specific investments, investment strategy and outlook is expected. Investment managers are required to inform the investment committee of any change in firm ownership, organization structure, professional personnel, account structure (e.g., number,

asset size, and account minimum), or fundamental investment philosophy.

- (6) All investment management fees will be paid directly by the custodian. Transaction costs will be invoiced as part of the purchase/confirmation advice to the custodian who will handle all payments/receipts of investment funds. It is expected that all managers for the university will make every effort to obtain the best transaction cost and execution price possible and will avoid all conflicts of interest.

- (J) Investment manager review. This statement of investment policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis, and the report will be provided by an independent third party. Each investment manager will be initially expected to meet with the investment committee on an annual basis or as deemed necessary by the committee. However, quarterly communication in the form of telephone calls or correspondence is encouraged.

- (K) Management of investments.
 - (1) The committee is appointed the authority to act as and perform the functions of the investment committee. That function involves oversight and review of management's implementation of this investment policy. Management will be responsible for implementing investment strategy, hiring and firing of investment managers as approved by the committee, monitoring performance of the investment portfolio, and bringing those results to the committee on a quarterly basis.

 - (2) The board of trustees may authorize the university to retain the services of an investment advisor. The investment advisor must meet the following qualification:
 - (a) The advisor is either:
 - (i) Licensed by the division of securities under section 1707.141 of the Revised Code; or

- (ii) Registered with the securities and exchange commission.
- (b) The advisor either:
 - (i) Has experience in the management of investments of public funds, especially in the investment of state government investment portfolios; or
 - (ii) Is an eligible institution referenced in section 135.03 of the Revised Code.
- (L) Administrative notes.
 - (1) It is the intent of the university to have the flexibility to loan university funds on a temporary basis to one or more of it's colleges or constituent units. These loans shall be considered, for asset allocation purposes, as a portion of fixed income & cash section of the investment fund. The college or constituent unit shall pay interest, at a rate equal to the (federal funds rate plus one per cent) calculated at the date of the loan and recalculated on March thirty-first of each year.
 - (2) Changed trustees to investment committee in investment policy February 2011, added number five paragraph under guidelines for the fixed income and added core to fixed income.

Policy Name:	Investment Fund
Policy Number:	3344-64-03
Board Approved:	7/10/2015
Effective:	7/20/2015
Prior effective dates:	3/30/2006, 9/03/2012