

THE UNIVERSITY OF AKRON



**INVESTMENT POLICY  
STATEMENT**

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OPERATING FUNDS

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## STATEMENT OF PURPOSE

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The University of Akron (the “University”) shall establish broad guidelines to provide a clear understanding of the investment objectives of its operating funds. The Investment Policy Statement (the “Policy”) shall be used as a guideline for the Finance, Fiscal Policy, and Investment Committee (the “Committee”) and the University’s administrative officers as well as for the investment advisor, the investment managers, and the custodial agents hired by the University.

### DEFINITION OF THE UNIVERSITY OF AKRON OPERATING FUNDS (“THE FUND”)

For purposes of the Policy, the Fund shall be defined and invested consistent with the requirements of Ohio Revised Code (ORC) §3345.05 (see “Current Law” section). In interpreting ORC §3345.05, the University assumes the following exception:

Borrowed Funds – The University may, from time to time, need to secure borrowed funds on a temporary basis for specific capital needs. Such borrowings, however, are deemed to be outside the scope of the Policy. Therefore, the investment of such funds during the capital construction period shall require the review and approval of the Committee by separate action.

The Policy shall be effective until modified as conditions warrant by The University of Akron Board of Trustees (the “Board”).

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## STATEMENT OF RESPONSIBILITIES

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### BOARD RESPONSIBILITIES

The Board is responsible for establishing the Policy that shall guide the Committee, the University’s administrative officers, the investment advisor, the investment managers and the custodial agents in the investment of the Fund.

The Policy is subject to annual review by the Committee. The Committee shall recommend modifications to the Board in response to changes in applicable laws, changing economic and market conditions, and current income needs of the University. The Committee shall be structured to conform to the requirements of ORC §3345.05.

### ADMINISTRATIVE OFFICERS RESPONSIBILITIES

The Vice President for Finance and Administration/CFO (the “Vice President”) and the Associate Vice President for Treasury and Financial Planning (the “Treasurer”) are authorized to invest the Fund’s assets at their discretion in investments consistent with the Policy.

The Vice President or assignees shall have full power to administer the Fund. This shall include the selection of investment managers, custodial agents, and an investment advisor. The investment advisor shall meet the qualification requirements of ORC §3345.05 and shall be responsible for reviewing and auditing the performance and strategies of investment managers and reporting annually its findings and recommendations to the Board.

The Vice President is also authorized to contract for enhanced banking services, such as controlled disbursement accounts and lock box processing, in order to improve the management of the Fund.

The Treasurer shall be responsible for all investment transactions and shall establish a system of controls to regulate the activities of subordinate officials.

#### **INVESTMENT ADVISOR RESPONSIBILITIES & DISCLOSURES**

The University may retain an independent and objective investment advisor to assist in selecting professional investment managers and evaluating their performance. To promote that goal, in connection with the retention of the services of any investment advisor, the Vice President or Treasurer shall obtain from all investment advisor candidates under consideration written disclosure of all affiliations, cross-ownership arrangements, referral arrangements, discounts, compensation arrangements, and any other business relationships then existing or then being negotiated between the investment advisor candidate and any investment manager within the universe of managers monitored by such investment advisor.

Furthermore, if an investment advisor has been retained by the University, prior to any vote by the Committee and the Board relating to the retention or termination of the services of a particular investment manager, the Vice President or Treasurer shall obtain from the investment advisor written disclosure of all affiliations, cross-ownership arrangements, referral arrangements, discounts, compensation arrangements, and any other business relationships that may then exist or that are then being negotiated between the investment advisor and the investment manager whose termination or retention is being considered. The term “business relationships” as used in the preceding provisions of this paragraph refers to those relationships considered conflicts of interest under the Ohio ethics law as applicable to the University.

#### **INVESTMENT MANAGER RESPONSIBILITIES**

- Manage the Fund’s assets in accordance with the guidelines and objectives expressed in the Policy, or in a separate written agreement that has received approval from the Committee, when deviation is deemed prudent and desirable.
- Submit a written request to the Committee whenever the investment manager feels that the guidelines and objectives should be changed or an exception to the Policy should be made.
- Provide monthly reports describing its managed account’s holdings, transactions, and performance, net of fees.
- Promptly inform the Committee regarding all significant matters pertaining to the investment management of the Fund’s assets. For example, significant changes in the firm’s ownership, affiliation, organizational structure, financial condition, professional personnel or fundamental investment philosophy.
- Meet with the Committee or the University’s administrative officers as deemed appropriate.

#### **STATEMENT OF SOCIAL RESPONSIBILITY**

The Board recognizes the interest in the moral and social implications of the Fund’s management and reserves the right to review all investment decisions of investment managers.

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## INVESTMENT OBJECTIVES

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### GENERAL INVESTMENT PRINCIPLES

- The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
- Investment of the Fund shall be diversified so as to minimize the risk of large losses.
- The Vice President may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
- Cash is to be employed productively at all times in investments providing safety, liquidity, and return.
- Investments of the Fund must conform to the requirements of ORC §3345.05.

### INVESTMENT MANAGER PRINCIPLES

- **Preservation of Capital** – Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
- **Risk Aversion** – Understanding that risk is present in all types of securities and investment styles, the Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk and shall be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
- **Adherence to Investment Discipline** – Investment managers are expected to adhere to the investment management styles for which they were hired. Managers shall be evaluated regularly for adherence to investment discipline.

### FUND OBJECTIVES

The investment objective is to maximize the return on the Fund consistent with assuring the safety of its principal value while maintaining liquidity sufficient to meet reasonable anticipated expenses.

The Fund's investments represent an opportunity to:

- provide necessary liquidity so that operations are not adversely affected by a reasonable level of unanticipated cash requirements;
- provide enhancement of the Fund's returns;
- insulate the Fund's assets against the deterioration of purchasing power caused by inflation; and
- generate a total investment return of at least .25% over inflation as measured by the Consumer Price Index (CPI) over rolling three-year periods.

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## INVESTMENT GUIDELINES

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### **MAXIMUM MATURITY**

Maintenance of adequate liquidity to meet the cash flow needs of the University is essential. Accordingly, to the extent possible, the Fund's investments shall be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities shall be consistent with the known cash requirements of the University in order to minimize the forced sale of securities prior to maturity.

For purposes of the Policy, the Fund's assets shall be segregated into three categories based on expected liquidity needs and purposes: the cash portfolio; the short-term fixed-income portfolio; and the intermediate-term fixed income portfolio.

#### **Cash Portfolio**

Assets categorized as the cash portfolio shall be invested in permitted investments maturing in twelve (12) months or less. Because of the difficulties inherent in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as money market mutual funds, bank deposits, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

#### **Short-Term Fixed Income Portfolio**

The short-term fixed income portfolio shall be invested in permitted investments with a stated maturity or weighted average life of not more than five (5) years from the date of purchase. To manage the volatility of the portfolio, the University shall determine an appropriate duration target.

#### **Intermediate-Term Fixed Income Portfolio**

The intermediate-term fixed income portfolio shall be invested in permitted investments with a stated maturity or weighted average life of not more than ten (10) years from the date of purchase. To manage the volatility of the portfolio, the University shall determine an appropriate duration target.

### **ASSET ALLOCATION**

The asset allocation guidelines listed below have been established by the Committee to achieve the Fund's objectives.

	<b><u>Minimum</u></b>	<b><u>Preferred</u></b>	<b><u>Maximum</u></b>
Cash Portfolio	10%	30%	80%
Short-Term Fixed Income Portfolio	20%	35%	65%
Intermediate-Term Fixed Income Portfolio	0%	35%	45%

The asset allocation ranges have been defined to reflect the cyclical nature of the Fund's cash flow.

**PERMITTED INVESTMENTS**

Authorized investments include the following:

1. **U.S. Treasury Obligations.** United States Treasury bills, notes, or any other obligation or security issued by or backed by the full faith and credit of the United States Treasury.
2. **Federal Agency or Instrumentality Obligations.** Bonds, notes, debentures, or other obligations or securities issued by any ‘AAA’ rated federal government agency or instrumentality, except Collateralized Mortgage Obligations.
3. **Repurchase Agreements.** Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the University. Such contracts shall be invested in only if the following conditions are met:
  - a) the Repurchase Agreement has a term to maturity of no greater than ninety (90) days;
  - b) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in paragraphs 1. and 2. above (without limit as to maturity), having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
  - c) a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
  - d) the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement;
  - e) a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the University;
  - f) for repurchase agreements with terms to maturity of greater than one (1) day, the University shall value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities shall be liquidated);
  - g) the counterparty is a:
    - i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
    - ii. a bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
  - h) the counterparty meets the following criteria:
    - i. a long-term credit rating of at least ‘AA’ or the equivalent from a Nationally Recognized Statistical Rating Organization (“NRSRO”),
    - ii. has been in operation for at least 5 years, and
    - iii. is reputable among market participants.
4. **Commercial Paper.** Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:
  - a) the maturity is no greater than two-hundred-seventy days (270) days;
  - b) the issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the NRSROs; and

- c) the total holdings of an issuer’s paper do not represent more than ten percent (10%) of the issuing corporation’s total outstanding commercial paper.
5. **Bankers’ Acceptances** issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased if the following conditions are met:
  - a) the maturity is no greater than two hundred-seventy days (270) days;
  - b) the short-term paper of the issuer is rated not lower than ‘A-1’ or the equivalent by a NRSRO.
6. **Corporate Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States that has a minimum “A” long term debt rating by Moody’s Investors Service and a minimum “A” long term debt rating by Standard & Poor’s. The maximum position in a single corporation should not exceed 10% of the aggregate market value of the outstanding notes or debentures of the issuing corporation.
7. **Municipal Obligations.** Bonds, notes and other evidences of indebtedness of the State of Ohio or any political subdivision of the State of Ohio, including the University.
8. **Negotiable Certificates of Deposit and Bank Deposit Notes** of domestic banks and domestic offices of foreign banks with:
  - a) ratings of at least ‘A-1’ or the equivalent by two NRSROs for maturities of one year or less;
  - b) ratings of at least ‘A’ or the equivalent by two NRSROs, without regard to gradation, for maturities over one year and not exceeding five years.
9. **Collateralized Certificates of Deposit** in state chartered banks or federally chartered banks. Collateralized certificates of deposit shall be collateralized at a minimum of 102%.
10. **Money Market Mutual Funds.** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940 and the fund is rated “AAAm” or “AAAm-G” or the equivalent by a NRSRO. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission.

Before investing in any mutual fund, the University shall obtain a copy of the fund’s prospectus and review permitted investments, fees, and management.

11. **State Pool.** State of Ohio Local Agency Investment Pool (STAR Ohio), if the highest letter or numerical rating provided by at least one nationally recognized rating service is maintained.

### **PROHIBITED TRANSACTIONS**

- Purchasing of securities on margin or short sales.
- Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices.
- Purchase of the securities of the investment manager(s), its parent, or its affiliates.
- Purchase or sale of futures or options for speculation or leverage.
- Purchase or sale of commodities, commodity contracts, or illiquid interest in real estate or mortgages.
- Purchase of illiquid securities such as private placements.

**LIQUIDITY**

When purchasing an investment security on behalf of the University, it is expected that each investment manager shall consider its aggregate holdings to ensure that its total position in the security shall not be so large as to inhibit rapid liquidation of the security.

**COLLATERALIZATION OF BANK DEPOSITS**

The University requires that all cash and other bank deposits maintained in any financial institution be either insured or collateralized, including bank deposits and non-negotiable certificates of deposit. All bank deposits of University monies in excess of the amount protected by federal deposit insurance shall be collateralized with any combination of U.S. Treasury and Federal Agency obligations, as defined herein.

In order to accommodate market changes and provide a level of security for all monies, the collateralization level shall be at least 102% of the market value of principal, plus accrued interest, or as required by the terms of bond issues, municipal bond insurance policies, and/or other financing agreements which may pertain to the University's monies.

The University shall have either legal title to, or a prior perfected security interest in, the investments constituting the collateral. Collateral shall always be held by an independent third-party custodial agent. A clearly marked safekeeping receipt must be supplied to the University as evidence of ownership. The right of collateral substitution is allowed with the permission of the University.

**DIVERSIFICATION**

Each investment manager is responsible for achieving a level of diversification in its managed account that is prudent and consistently applied. Concentrations in individual securities, industries and economic sectors should not be so high as to subject the Fund to undue risk.

The Fund's investments shall be diversified by security type and institution. The maximum percentage of the assets (book value at the date of acquisition) permitted in each eligible security shall be as follows:

U.S. Treasury Obligations	100% maximum
Federal Agency or Instrumentality Obligations	100% maximum
Repurchase Agreements	100% maximum
Commercial Paper	40% maximum
Bankers' Acceptances	40% maximum
Corporate Notes	40% maximum
Municipal Obligations	5% maximum
Negotiable Certificates of Deposit	30% maximum
Collateralized Certificates of Deposit	30% maximum
Money Market Mutual Funds	100% maximum
Bank Deposits	100% maximum
State Pool	25% maximum

The Fund's investments shall be further diversified to limit the exposure to any one issuer. No more than five percent (5%) of the assets shall be invested in the securities of any single issuer with following exceptions:

U.S. Treasury	100% maximum
Each Federal Agency or Instrumentality	40% maximum
Each Repurchase Agreement Counterparty	25% maximum
Each Money Market Mutual Fund	50% maximum

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## STANDARDS OF PERFORMANCE

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### INVESTMENT PERFORMANCE OBJECTIVES

Investment managers shall be reviewed on a quantitative basis in the form of quarterly reports. Qualitative factors shall also be considered, such as adherence to each investment manager's stated investment process and to the guidelines stated in the Policy. Investment managers shall be reviewed on a net of fees basis.

#### **Cash Portfolio**

The performance of this portfolio should be equal to or greater than the 90-day Treasury Bill Index and at least equal to inflation as measured by the CPI.

#### **Short-Term Fixed Income Portfolio**

Over a three-year period, the annualized total return of the investment manager should exceed the annualized total return of the Merrill Lynch 1-3 year Treasuries/Agencies Index, net of fees.

#### **Intermediate Term Fixed Income Portfolio**

Over a three-year period, the annualized total return of the investment manager should exceed the annualized total return of the Merrill Lynch 1-10 year Treasuries/Agencies Index, net of fees.

### PERFORMANCE REVIEW PROCESS

The Committee shall monitor the overall performance of the Fund to ensure its meeting of its objectives. Individual investment manager monitoring shall include the following.

Maintaining both a short-term and long-term perspective, the Committee shall evaluate whether each investment manager has:

- performed satisfactorily when compared with the specific objectives for its managed account;
- produced results that compare favorably to other investment managers with similar managed accounts; and
- adhered to the relevant policies and objectives.

Among the events that the Committee shall examine closely in its review of the investment managers are:

- Poor performance relative to objectives – an investment manager who posts two consecutive years in which relative performance is below the 60<sup>th</sup> percentile of other similar investment managers and whose performance is below the relevant benchmark shall be evaluated for replacement.
- A change in the investment manager assigned to the University relationship.
- The departure of one or more key investment professionals.
- Violation of an investment guideline.

- A change in the ownership or control of the investment management organization.

### **REPORTING REQUIREMENTS**

The University shall be required to report to the Committee, on a quarterly and annual basis, its conformance to the requirements of ORC §3345.05.

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### **CURRENT LAW (ORC §3345.05) – Effective: June 28, 2002; Revised: June 1, 2009**

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Sec. 3345.05. (A) All registration fees, nonresident tuition fees, academic fees for the support of off-campus instruction, laboratory and course fees when so assessed and collected, student health fees for the support of a student health service, all other fees, deposits, charges, receipts, and income from all or part of the students, all subsidy or other payments from state appropriations, and all other fees, deposits, charges, receipts, and income received by each state-supported university and college, the Ohio state university hospitals and their ancillary facilities, the Ohio agricultural research and development center, and the Ohio state university cooperative extension service shall be held and administered by the respective boards of trustees of the state-supported universities and colleges; provided, that such fees, deposits, charges, receipts, and income, to the extent required by resolutions, trust agreements, indentures, leases, and agreements adopted, made, or entered into under Chapter 154, or section 3345.07, 3345.11, or 3345.12 of the Revised Code, shall be held, administered, transferred, and applied in accordance therewith.

(B) The Ohio board of regents shall require annual reporting by the Ohio agricultural and development center and by each university and college receiving state aid in such form and detail as determined by the board in consultation with such center, universities and colleges, and the director of budget and management.

(C) Notwithstanding any provision of the Revised Code to the contrary, the title to investments made by the board of trustees of a state-supported university or college with funds derived from revenues described in division (A) of this section, shall not be vested in the state but shall be held in trust by the board. Such investments shall be made pursuant to an investment policy adopted by the board in public session that requires all fiduciaries to discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The policy also shall require at least the following:

- (1) A stipulation that investment of at least twenty-five percent of the average amount of the investment portfolio over the course of the previous fiscal year invested be invested in securities of the United States Government or of its agencies or instrumentalities, the treasurer of state's pooled investment program, obligations of this state or any political subdivision of this state, certificates of deposit of any national bank located in this state, written repurchase agreements with any eligible Ohio financial institution that is a member of the federal reserve system or federal home loan bank, money market funds, or bankers acceptances maturing in two hundred seventy days or less which are eligible for purchase by the federal reserve system, as a reserve;
- (2) Eligible funds above those that meet the conditions of division (C)(1) of this section may be pooled with other institutional funds and invested in accordance with the section 1715.54 of the Revised Code.
- (3) The establishment of an investment committee.

(D) The investment committee established under division (C)(3) of this section shall meet at least quarterly. The committee shall review and recommend revisions to the board's investment policy and shall advise the board on its investments made under division (C) of this section in an effort to assist it in meeting its obligations as a fiduciary as described in division (C) of this section. The committee shall be authorized to retain the services of an investment advisor who meets both of the following qualifications.

(1) The advisor is either:

- (a) Licensed by the division of securities under section 1707.141 of the Revised Code; or
- (b) registered with the securities and exchange commission.

(2) The advisor either:

- (a) Has experience in the management of investments of public funds, especially in the investment of state-government investment portfolios; or
- (b) is an eligible institution referenced in section 135.03 of the Revised Code.

(E) As used in this section, "state institution of higher education" means a state institution of higher education as defined in section 3345.011 of the Revised Code.

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## **OPERATIONS AND PROCEDURES**

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### **OPERATING PROCEDURES**

In order to enhance the Fund's yield, the simultaneous selling of one security and buying of another, or "swapping of securities," shall be permitted.

Gains on securities may be taken consistent with the current market outlook. Sales of securities at less than book value may also be made for purposes of enhancing the Fund. Net income is to be distributed on an accrual basis.

All transactions for a managed account shall be performed on a competitive basis. Simultaneous offers shall be solicited from at least three providers, with the best price selected for execution.

### **SAFEKEEPING AND CUSTODY**

All investment securities purchased on behalf of the University or held as collateral on deposits shall be held by the University or by a third-party custodial agent that may not otherwise be a counterparty to the investment transaction.

All investment securities purchased on behalf of the University shall be held in the name of the University and shall be free and clear of any lien. Further, all investment transactions shall be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the University listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the custodial agent shall provide reports that list all securities held for the University, the book value of holdings, and the market value as of month-end.

University administrative officers and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the University shall be bonded in such a manner as to protect the University from losses from malfeasance and misfeasance.

**ETHICS**

The Board and administrative officers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the Fund’s investments or that could impair the ability to make impartial investment decisions.

The Board and administrative officers must disclose personal investments that could be affected by investment decisions made for the University.

The President, the Board, and administrative officers involved in the investment of the Fund must comply with any appropriate provision of the Ohio Ethics Law.

**ANNUAL AUDIT**

The Fund shall be subject to audit by the independent accountant engaged by the University to conduct the annual audit, who shall report audit findings to the Board through the Audit Committee.

Adopted: June 1994

Revised: June 2002  
December 2003  
January 2010