**THE UNIVERSITY OF AKRON ENDOWMENT FUNDS**
**STATEMENT OF INVESTMENT POLICIES, OBJECTIVES, AND GUIDELINES**

This statement provides guidance for the investment objectives, policy, strategy, and management of the pooled endowment funds (the "Portfolio") of The University of Akron (the "University"). It will be effective until modified by The University of Akron Board of Trustees (the "Board").

## I. Objectives

The overall financial objectives of the Portfolio are (1) to support the current and future operations of the University and (2) to maintain the real (inflation-adjusted) purchasing power of the Portfolio over time.

The primary investment objective of the Portfolio is to achieve an average annual real total return[1] of 6.5%, net of investment fees, over the long term. It is recognized that this return will likely not be attained in every 10-year period, but the Portfolio will seek to achieve the objective over a series of 10-year periods.

The Portfolio will be invested in a manner that is expected to maximize long-term total return within reasonable and acceptable levels of investment risk. In the long term, the Portfolio should achieve the stated return objective with a level of volatility (annualized standard deviation) similar to that of a blend of 65% global stocks and 35% bonds.

## II. Portfolio Composition and Asset Allocation

The Portfolio is expected to be diversified by manager, asset class, and investment strategy. The purpose of diversification is to provide reasonable assurance that no single security, class of securities, or manager will have a disproportionate impact on the Portfolio. The Portfolio will be managed according to the long-term asset allocation targets and allowable ranges presented below.

| Asset Class | Target | Allowable Range |
|---|---|---|
| **Global Equity** | **60.0%** | 40 – 80% |
| ▪ U.S. Public Equity | --- | 15 - 50% |
| ▪ Non-U.S. Public Equity | --- | 15 - 50% |
| ▪ Emerging Markets Public Equity | --- | 0 - 20% |
| ▪ Private Equity | --- | 0 - 15% |
| **Absolute Return** | **15.0%** | 0 – 25% |
| **Real Assets** | **12.0%** | 10 – 25% |
| ▪ Commodities | --- | 0 - 15% |
| ▪ Public Real Estate | --- | 0 - 15% |
| ▪ Public Natural Resources | --- | 0 - 15% |
| ▪ Private Real Estate | --- | 0 - 10% |
| ▪ Private Natural Resources | --- | 0 - 10% |
| **Bonds & Cash** | **13.0%** | 10 – 25% |
| ▪ Bonds | --- | 0 - 25% |
| ▪ Cash | --- | 0 - 15% |
| Total Private Investments | --- | 0 – 20% |

1 Real total return is the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest adjusted for inflation as measured by the CPI(U) index.

**Asset Class Definitions and Roles**

Asset classes generally have the definitions and roles presented below.

**Global Equity** includes investments in stocks listed on public exchanges (in both developed and emerging markets) and private equity partnerships. Public equity managers may hold stocks long and sell them short. The role of the global equity portfolio is to generate long-term growth.

**Absolute Return** includes a diverse group of managers and strategies with a goal of earning positive, equity-like returns over time, but with less volatility and smaller interim declines than that of the public equity markets. Included in this category are strategies often pursued by hedge funds, including event-driven and special situations investing, merger and capital structure arbitrage, and distressed securities. This category also encompasses strategies focused on corporate and structured bonds, including those rated below investment grade. The roles of the absolute return portfolio are to provide long-term growth and diversification. The absolute return portfolio should generate a return commensurate with equities, but with a different pattern of returns over the short term.

**Real Assets** include commodities and commodity futures, public and private real estate, natural resource stocks, oil and gas, timber, inflation-linked bonds, and other inflation-sensitive investments. The primary role of the real asset portfolio is to provide a partial hedge in the event of significant and unanticipated inflation. It is expected that this portion of the portfolio would serve as one of the primary sources of spending during such periods, when the prices of other assets in the Portfolio may decline. The real assets portfolio should also provide diversification. It is expected to generate a return between equities and bonds over the long term, but with a different pattern of returns over the short term.

**High-Quality Bonds & Cash** includes obligations of sovereign nations and corporations, mortgage- and asset-backed securities, money market instruments, and bank deposits, which, on average, are expected to have a high quality rating (typically "A" or better by a recognized bond rating agency). The primary role of the high-quality bonds and cash portfolio is to provide a partial hedge in the event of economic contraction, deflation, and/or severe flight to quality. It is expected that this portion of the portfolio would serve as one of the primary sources of spending during such periods, when the prices of other assets in the Portfolio may decline.

## III. Performance Expectations and Benchmarks

Portfolio performance is expected to:

1. Exceed the rate of inflation plus 6.5% over the very long term. This objective should be measured over rolling ten-year periods.

2. Exceed the return of a simple blend of 65% global stocks (MSCI All Country World Index) and 35% U.S. bonds (Barclays Aggregate Bond Index) over time. This objective should be measured over rolling five-year periods.

3. Exceed the return of a "policy benchmark" composed of appropriate asset class benchmarks weighted according to the asset class targets shown in Section II. This objective should be measured over rolling three-year periods.

| Allocation | Benchmark |
|---|---|
| Global Equity | MSCI All Country World Index |
| Absolute Return | HFRI Fund of Funds Conservative Index |
| Real Assets | 50% Barclays US TIPS Index/50% DJ-UBS Commodity Index |
| High Quality Fixed Income & Cash | Barclays Aggregate Bond Index |

It is expected that short-term performance will often vary significantly from these objectives. Additional benchmarks may be used to evaluate performance from time to time.

## IV. Investment Restrictions

**A. Liquidity**

Illiquid investments, defined as investments from which funds are not expected to be redeemable for a period of two or more years, should not exceed 20% of the Portfolio (based on current net asset value). It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of this liquidity guideline. If this occurs, no new commitments to illiquid investments will be made until illiquid investments represent less than 20% of the Portfolio.

At a minimum, liquidity available from the Portfolio within a three-month period in a stress case market scenario should be sufficient to cover expected spending needs and outstanding capital commitments for two years.

**B. Fund Concentration**

With the exception of diversified index funds, no single manager or fund should represent more than 10% of the Portfolio (based on current net asset value).

**C. Derivatives and Leverage**

It is understood that certain investment managers in the Portfolio, chiefly those generally categorized as "hedge funds," may use derivatives and leverage as part of their investment strategies. Managers using derivatives and/or leverage should have in place systems to analyze and monitor liquidity and counterparty credit risk in order to minimize the risks associated with the use of derivatives.

No outright borrowing of money (e.g., margin leverage) will be used at the total Portfolio level.

Derivatives may be used at the Portfolio level to hedge investment risks or to replicate investment positions in a more efficient manner or at a lower cost than would otherwise be possible in the cash markets. Selling of uncovered options is prohibited. In any given calendar-year period, the net cost of options premia should not exceed 0.5% of the Fund at the beginning of that period.

## V. Roles and Responsibilities

Major duties and responsibilities are as follows:

**Board of Directors**

The Board is responsible for approving this statement.

**Finance and Administration Committee**
The major responsibilities of the Finance and Administration Committee of the University (the "Committee") are as follows:

- Establish investment objectives.
- Develop policy guidelines.
- Establish the long-term asset allocation policy, which is comprised of the long-term target asset allocation and allowable ranges.
- Establish suitable benchmarks for Portfolio performance.
- Ensure that the Portfolio is managed according to this statement.
- Review this statement at least annually.
- Recommend modifications to this statement to the Board in response to changes in applicable laws, changing economic and market conditions, and current income needs of the University.
- Evaluate the performance of investment managers and advisors.
- Monitor, engage and terminate investment managers, investment advisors, and other service providers.
- Review at least annually all investment-related costs affecting the Portfolio.
- Every five years, circulate requests for proposals (RFPs) to firms who may be interested in serving as the University's investment advisor. Deviations from this five-year time frame must be approved by the Board.

**Administrative Officers**
The major responsibilities of the Vice President for Finance and Administration /CFO (the "Vice President") and assignees are as follows:

- Invest the Portfolio's assets through investment managers as approved by the Committee.
- Contract with appropriate investment advisors to independently monitor and audit the performance and strategies of investment managers.
- Oversee the administration of the Portfolio.
- Maintain the records of investment of the Portfolio.
- Monitor compliance with this statement.
- Obtain from its investment advisor written disclosure of all affiliations, cross-ownership arrangements, referral arrangements, discounts, compensation arrangements, and any other business relationships existing or being negotiated between the investment advisor and any investment manager whose termination or retention is being considered. The term "business relationships" refers to those relationships considered conflicts of interest under the Ohio ethics law as applicable to the University.

**Investment Advisor**
The University shall engage a non-discretionary investment advisor (the "Investment Advisor") to assist in the management and oversight of the Portfolio. The major responsibilities of the Investment Advisor are as follows:

- Assist and advise the Committee in fulfilling its responsibilities by providing overall strategic investment guidance..
- Proactively recommend changes to this statement if appropriate.
- Provide recommendations regarding how to position the Portfolio's asset allocation within the allowable ranges.
- Recommend specific investment managers.
- Monitor the investment managers in the Portfolio and recommend changes when appropriate.
- Regularly provide to the Committee and the Vice President all information required to understand the risk profile of the Portfolio and confirm that the Portfolio is compliance with this statement. This will include reports describing:

    - Portfolio asset allocation compared with the relevant targets and allowable ranges described in this statement.
    - Portfolio liquidity and manager concentration compared with the limits described in this statement.
    - Portfolio activity, including changes to asset allocation and investment managers, and the rationale for this activity.
    - The rationale for how the portfolio is positioned.
    - Portfolio performance compared to relevant benchmarks, along with commentary on the major contributors to and detractors from performance.
    - The capital market environment and its impact on the portfolio.
- Provide full disclosure of the expenses and other costs associated with its management of the Portfolio.
- Attend meetings as deemed necessary by the Committee.

**Investment Managers**
The Portfolio's assets shall be managed primarily by investment managers as approved by the Committee. The investment managers will generally have the full discretion to invest the assets to best achieve the stated objectives and performance standards. Investment decisions shall be subject to the usual standards of fiduciary prudence, commonly referred to as the "Prudent Investor Rule," and to the general guidelines of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Each investment manager shall be provided with a copy of this statement. Major responsibilities of investment managers are as follows:

- Manage the Portfolio's assets in accordance with the objectives and guidelines expressed in this statement or governing fund documents.
- Submit a written request to the Committee whenever the investment manager feels that the relevant guidelines in this statement should be changed
- Adhere to the investment management style or styles for which the manager was hired.
- Provide quarterly reports describing portfolio holdings, transactions, and performance net of fees.
- Promptly inform the Committee regarding all significant matters pertaining to the investment management of the assets of the Portfolio. For example, significant changes in the firm's ownership, affiliation, organizational structure, financial condition, professional personnel or fundamental investment philosophy.

**Custodian**
The major responsibilities of any custodian retained by the University are as follows:
- Set up accounts for individual investment managers.
- Hold all assets in safe keeping excluding commingled or mutual funds and passive index funds.
- Value assets at fair market value.
- Credit all dividends and interest to account on payable date and sweep cash to money market daily.
- Settle all trades made in the various accounts.
- Facilitate distributions from and additions to the accounts.
- Facilitate transfers between investment managers.
- Pay investment management fees from individual accounts after review by the Vice President or assignees.
- Provide monthly statements of all activity and account balances.
- Provide on-line access to view activity and account balances.

## VI. Statement of Social Responsibility

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

## VII. Additional Administrative Items

### Spending Policy

The goal of the University's endowment spending policy is to balance the long-term objective of maintaining the purchasing power of the Fund while providing a predictable, stable, and sustainable level of income to support current needs.

The annual payout under the endowment spending policy shall be calculated as a percentage of the moving average of the market value of the Portfolio, using the three preceding year-end market values. The endowment spending policy shall be 4.75%.

Exceptions to the endowment spending policy shall be made for restricted gifts calling for annual payments which differ from the standard.

### Administrative Fee Policy

The Vice President of the University may levy an administrative fee, where feasible, one-half percent (.5%) of the market value of the Portfolio.

### Operating Procedures

The Portfolio shall be commingled or pooled for investment purposes unless a donor specifically directs that the gift be separately invested, or unless the funds given are in securities that do not have a ready market or for other reasons are unacceptable to hold in an endowment pool.

### Additions and Withdrawals

The Committee will establish and regularly review a set of interim working targets for each asset class and investment manager. The working targets may differ from the policy targets in this statement, so long as they remain within the allowable ranges.

Additions to and withdrawals from the Portfolio will be done such that they have the effect of moving the Portfolio's allocation toward the interim targets. Additions should generally be added to asset classes and managers whose actual allocations are most below their interim targets. Withdrawals should generally be taken from asset classes and managers whose actual allocations are most above their interim targets. The Investment Advisor shall provide recommendations to assist with this process.

The University's Vice President or assignees shall determine the timing of the gift allocation process. The frequency shall be as deemed appropriate. New gifts may be used to rebalance the portfolio or to contribute toward the quarterly distribution requirements.

**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.

Approved: December 11, 2013
Updated: June 14, 2017