

THE UNIVERSITY OF AKRON FOUNDATION 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 Foundation (the “Foundation”).

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.

Achieving the financial objectives requires that the portfolio generate a long-term, after-inflation average return at least equal to the average annual rate of withdrawal from the portfolio (spending plus administrative fee). Therefore, the primary investment objective of the Portfolio is to achieve an average annual real total return¹ of at least 5.25%, 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 Public Equity	42.0%	30 – 60%
Hedged Equity	10.0%	0 – 15%
Absolute Return	15.0%	0 – 20%
Public Real Assets	13.0%	8 – 18%
High-Quality Bonds & Cash	13.0%	10 – 35%
Total Marketable Portfolio	93.0%	90 – 100%
Private Equity	5.0%	0 – 10%
Private Real Assets	2.0%	0 – 5%
Total Private Investments	7.0%	0 – 10%

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 Expectations

Asset classes generally have the definitions and expectations presented below.

Global Public Equity includes investments in stocks listed on public exchanges (in both developed and emerging markets). The global public equity portfolio is expected to match or exceed the returns of the public markets over time with a similar level of volatility.

Hedged Equity includes investments with managers who can hold both long and short positions in securities, and whose returns are expected to match or exceed those of public stocks over the long term, with a less volatile pattern of short-term returns. Returns for hedged equity strategies are expected to exhibit significant sensitivity to the overall equity markets, but returns should generally be better than equities when markets fall significantly, and behind equities when markets rise significantly.

Absolute Return includes a diverse group of managers and strategies with a goal of earning positive returns over time, but with low sensitivity to the public equity markets. Included in this category are strategies such as 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 absolute return portfolio should generate a long-term return commensurate with equities, but with a different pattern of returns over the short term.

Public Real Assets include commodities and commodity futures, public real estate, natural resource stocks, 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 public 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.

Private Investments include equity and debt securities not traded on a public exchange. Private investment strategies include private equity, venture capital, distressed investing, private real estate, and private natural resources. Long-term returns for private investments are expected to generate a return materially higher than public market equivalents.

III. Performance Expectations and Benchmarks

Portfolio performance is expected to:

1. Exceed the rate of inflation plus 5.25% 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 (Bloomberg Barclays Aggregate Bond Index) over time with equivalent volatility as measured by annualized standard deviation. 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.

Asset Class	Weight	Index
Global Public Equity	42.0%	MSCI All Country World Index (Net)
Hedged Equity	10.0%	HFRI Equity Hedge Index (Total)
Absolute Return	15.0%	HFRI FoF Conservative Index
Public Real Assets	13.0%	60% S&P Global Natural Resources Index / 40% FTSE EPRA/NAREIT Global Real Estate Index
Bonds & Cash	13.0%	Bloomberg Barclays Aggregate Bond Index
Private Equity	5.0%	MSCI All Country World Index (Net) (Public Proxy)
Private Real Assets	2.0%	60% S&P Global Natural Resources Index / 40% FTSE EPRA/NAREIT Global Real Estate 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 three or more years, should not exceed 10% 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 10% 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. Portfolio Management

The Board of Directors of the Foundation shall outsource the investment management of the Foundation’s Endowment to a discretionary investment advisor (the “Portfolio Manager”), to assist in the management and oversight of the Portfolio in accordance with the guidelines of this document.

VI. Roles and Responsibilities

Major duties and responsibilities are as follows:

Board of Directors

The Board of Directors of the Foundation will elect and oversee the Executive Committee.

Executive Committee

The Executive Committee of the Foundation (the “Executive Committee”) is responsible for:

- ◆ Reviewing the capital and operating budget needs of the Foundation.
- ◆ Establishing an appropriate spending policy.
- ◆ Approving the investment policies developed by the Foundation’s Investment Committee.
- ◆ Approving recommendations of the Foundation’s Investment Committee for the selection of outside advisors and service providers.

Foundation Investment Committee:

The Investment Committee of the Foundation (the “Investment Committee”) is responsible for developing appropriate investment policies and ensuring compliance with those policies. Specific responsibilities include:

- ◆ Adopt and review at least annually this statement.
- ◆ Ensure that the Portfolio is managed according to this statement.
- ◆ 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.
- ◆ Evaluate the performance of the Portfolio Manager.
- ◆ Evaluate, monitor, engage and terminate outside advisors and service providers.

- ◆ Report regularly to the Executive Committee regarding the status of the Portfolio and investment performance.
- ◆ Review at least annually all investment-related costs affecting the Portfolio.
- ◆ Circulate requests for proposals (RFPs) to firms who may be interested in serving as the Foundation's investment advisor every five years. Deviations from this five-year time period must be approved by the Executive Committee.

The Investment Committee may delegate one or more of its responsibilities under this statement to a duly-constituted subcommittee of the Investment Committee provided that the findings and conclusions of the subcommittee are reviewed and adopted by action of the full Investment Committee.

Portfolio Manager

The Portfolio Manager is responsible for implementing the policy and assisting the Investment Committee in its oversight responsibilities. Specific responsibilities include:

- ◆ Manage the Portfolio in accordance with this statement.
- ◆ Position the Portfolio's asset allocation within the allowable ranges as appropriate.
- ◆ Evaluate, monitor, engage and terminate investment managers in the Portfolio.
- ◆ Regularly provide to the Committee 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.
- ◆ Assist and advise the Investment Committee in fulfilling its responsibilities, including developing, reviewing, and revising this statement.
- ◆ Proactively recommend changes to this statement if appropriate.
- ◆ Meet redemption requests from Foundation staff.
- ◆ Oversee all major administrative functions of Portfolio management, including audit and tax reporting.
- ◆ Communicate any noncompliance with this statement to the Committee as soon as practicable after becoming aware of such, along with a description of the intended remedy.
- ◆ Provide full disclosure of the expenses and other costs associated with its management of the Portfolio.
- ◆ Notify the Foundation of any material personnel changes in the team responsible for the management of the Portfolio.
- ◆ Attend meetings as deemed necessary by the Investment Committee.

VII. Additional Administrative Items

Spending Policy

The Executive Committee sets the spending policy for the Foundation. The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the Portfolio with the goal of providing a predictable, stable and sustainable level of income to support current needs.

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

Exceptions to the spending policy will be made for restricted gifts calling for annual payments which differ from the payout percentage of the spending policy.

The spending policy payout percentage as of the date of this investment policy is 4.25%.

Administrative Fee Policy

The Treasurer of the Foundation may levy an annual administrative fee, where feasible, not to exceed one percent (1.0%) of the market value of that portion of the Portfolio not representing life income assets.

Operating Procedures

All endowment funds of the Foundation 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 make them unacceptable to hold in the pooled endowment fund.

Each quarter, the Foundation's Treasurer and Assistant Treasurers will determine the amount necessary to fund the distributions required by the Spending Policy and the Administrative Fee Policy. This amount shall be funded, where possible, in the last month of each quarter.