BGSU

INVESTMENT POLICY

INTRODUCTION:

A. SCOPE AND PURPOSE

This statement of investment policy (the “Policy”) is intended to specify the guidelines and objectives for Bowling Green State University (“BGSU” or the “University”) investment and operating funds (the "Portfolio"). The purpose of this Policy is to establish direction for the management of the Portfolio, to outline internal staff's responsibilities and to establish the basis for communication between the University and the external investment manager(s) and advisors. This Policy is adopted by the Board of Trustees of the University to govern the investable assets of the University. This Policy also identifies the broad investment strategy to be followed in the investment of the University's investable assets and the limitations on the discretionary authority to be given to internal and external investment manager(s).

POLICY:

B. ROLES AND RESPONSIBILITIES

The Policy intends to distinctively define the roles and responsibilities of University management, the Investment Committee, and external advisors and investment managers.

BGSU Administration: The Vice President for Finance and Administration is responsible for implementation and review of current investment strategies and reporting as required to the Joint Investment Committee and the Board of Trustees. External investment advisors may be retained to assist the University staff with the management of these investments. It is the responsibility of the staff to implement daily operational and tactical activities of the Portfolio, execute the strategic directions of the Portfolio, and rebalance the Portfolio in consultation with investment advisor as market returns and conditions, liquidity needs, etc., warrant to ensure Portfolio remains within approved asset allocation ranges.

Joint Investment Committee: The Joint Investment Committee is responsible for broad, strategic oversight of the Portfolio, including, but not limited to: developing sound and consistent investment policy guidelines; communicating clearly the major duties and responsibilities of those accountable for achieving investment results; monitoring and evaluating results to assure that the guidelines are being adhered to and the objectives are being met; approving actions to be sent forward to the full Board of Trustees for approval and action by the Vice President for Finance and Administration, and undertaking such work and studies as may be necessary to keep the Board of Trustees of the University adequately informed as to the status of the investment of the assets.

On a day-to-day basis, the Committee will be represented by BGSU's Vice President for Finance and Administration, who is to act as liaison for communications between the Committee, the Board of Trustees, and Investment Consultant.

Board of Trustees: The Board of Trustees is responsible to ensure that annual appointments of Trustees have been made to serve on the Joint Investment Committee and duly consider all actions forwarded by the Joint Investment Committee. The Board may also choose to delegate investment decision making authority to the Joint Investment Committee to act on its behalf as may be desirable to ensure the timeliness of any actions the Vice President has been directed to take.

Investment Consultant: The investment consultant/advisor is responsible for: assisting in the development and implementation of investment policies, objectives and guidelines; reviewing asset allocation and investment strategy and recommending changes; reviewing all managers including search, selection and recommendations; providing a quarterly performance evaluation report and assessment of the Portfolio assets; reviewing asset allocation to determine if the current levels are consistent with the asset allocation ranges stated in this document; assisting the Administration in special tasks; monitoring the performance of each investment manager to determine if performance is outperforming the appropriate benchmark; communicating with all investment management organizations to determine Portfolio composition and ascertain information concerning organizational change; and monitoring the performance of the Portfolio to determine if the collective investment strategy is outperforming the appropriate benchmarks.

C. INVESTMENT OBJECTIVE

The University has multiple investment objectives for its Portfolio. The principal objective is to achieve a risk adjusted return with investments which are oriented to safety of principle, liquidity, and a stable level of current income. The secondary objective is Portfolio growth by investing in vehicles which provide such opportunities. These objectives are to be accomplished within state and other regulatory requirements and prudence.

The Policy is intended to provide flexibility to staff to adjust the investment allocation (within a predetermined range), and limit the types of securities depending on the financial needs of the University.

D. RISK TOLERANCE

Risk tolerance must be considered in conjunction with the expectations from the operation of the University. Thus, investment risk is part of the University's total operational risk. Acceptable levels of risk are largely a function of the financial soundness of the University. Various factors which influence the organization's risk tolerance, such as funds provided by the state of Ohio, enrollment, etc., are significant determinants when evaluating the risk tolerance. The factors are quantitative and qualitative in nature and should address operational and investment issues.

E. INVESTMENT CONSTRAINTS

There exist certain boundaries on investment decision-making that must be stated and respected. The boundaries are formally called investment constraints and include liquidity, time horizon, regulation/legal restrictions, taxes, and unique needs of the organization.

Liquidity: The level of liquidity, in part, determines the organization's capability to fund its operating requirements. To ensure that these cash flow needs are met, the availability of cash must be addressed prior to allocating funds to longer-term assets. From time to time the liquidity pool levels may increase to accommodate anticipated expenditures such as expenditures associated with payroll (recurring) and capital expenditures (non-recurring), etc.

Time horizon: While the University is a going concern and invests in a fashion consistent with a long-term horizon, the investment Portfolio must also accommodate the requirements of the immediate need of cash for administrative requirements. Accordingly, the investable assets of the University can be categorized as immediate needs (liquidity pool) and those investable assets available for Portfolio growth (investment pool). Both pools fulfill a unique role with each pool having distinguishing characteristics.

Regulatory/legal restrictions: The state of Ohio may, from time to time, provide legislation regarding levels of prudence, etc. In all instances, the University will be in compliance with these regulations.

Taxes: The University does not pay state or federal income taxes.

Unique needs: As with any institution, the University has its own character that makes it different from other institutions. Therefore, the University must consider its uniqueness when making investment decisions. Some of the needs that must be addressed include maintaining/improving financial strength and working smoothly and efficiently with the needs of the University.

F. ASSET ALLOCATION

More than any other factor, the asset allocation decision determines the risk and return of a Portfolio. Since the investing function is closely integrated with the business function, asset allocation decisions cannot be made without first considering the expectations for the fiscal year. Once those characteristics are identified and analyzed, investment decisions can then be made.

Consistent with the primary objective of this Policy, diversification is the primary focus of asset allocation. Each Portfolio will have an allocated range and a target level. From time to time, the Administration may transition the Portfolio to a more/less conservative position, depending on the items addressed under Investment Constraints.

Investable funds are to be allocated to the investment pool after the requisite funds are estimated in the liquidity pool. The purpose and determination of size for each pool is summarized below.

(1) Liquidity Pool

Purpose: Serves as a source of liquidity to meet normal operating requirements and provide funds for anticipated near-term capital expenditures. The size of this pool will be determined based on cash flow needs as projected by a 12 month cash flow projection.

(2) Investment Pool

Purpose: The investment pool is comprised of assets in excess of the liquidity pool that the University can invest in a fashion to meet its income and growth goals. Under normal circumstances, the investment pool shall have fixed income, equity securities, and alternative investments. This pool shall serve as the primary source of Portfolio growth through the use of Portfolio enhancing opportunities.

The asset allocation shall be a function of the results of a determination of the University's financial strength and the opportunities in the capital markets. The broad ranges for the asset allocation are established in the table below and shall be approved by the Board of Trustees. The specific allocation within each asset class is to be determined by the Joint Investment Committee in cooperation with the Administration and the Investment Consultant. This allocation will largely be determined by its relative size and management's objectives. Therefore, the allocation may change from time to time and does not require the approval of the Board provided it is within the Board's approved ranges. The asset classes along with representative benchmarks, is presented in **Appendix A**.

Growth Assets: It is expected that the portfolio will have a modest allocation to growth assets. These investments are expected to help grow the portfolio over time. Growth investments include, but are not limited to: equity, equity-oriented marketable alternatives, and non-marketable equity strategies.

Risk Reduction Assets: It is expected that the portfolio will need protective assets to help mitigate portfolio risk. These assets should have long term returns comparable and/or complementary to equity with significantly less volatility. Included within the risk reduction assets will be fixed income securities, cash, and low volatility marketable alternatives.

Inflation Protection Assets: Inflationary pressures could damage the purchasing power of the Portfolio. Given this, a small portion of the portfolio will be dedicated to protecting against inflation. Investments in this category have historically performed well during times of high unexpected inflation. The investments could include non-marketable or marketable real estate and oil and gas, inflation-linked bonds, and commodities investments.

Investment Portfolio	Portfolio Range
Growth Assets	30-40
Risk Reduction Assets	45-55
Inflation Protection	10-20

G. POLICIES FOR TRADTIONAL AND ALTERNATIVE MANAGERS

The following are performance goals and constraint guidelines placed on individual managers within specific asset classes:

All Traditional Managers: Index managers can be terminated if performance or volatility significantly differs from that of the benchmark. Active managers may be terminated due to philosophical changes, management turnover, poor long-term investment performance, or other material changes. The Investment Consultant will also monitor investment managers' risk on an ongoing basis. It is expected that the Investment Consultant will use multiple risk metrics in their evaluation of the managers.

Alternative Investments: Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers. Instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

H. CONSOLIDATED PORTFOLIO ADMINISTRATION

Management of the individual portfolios:

Generally, the University's staff shall manage the liquidity pool internally, while external investment managers shall manage the investment pool assets under the direction of the University and the investment advisor. Other arrangements are possible if approved by the Board.

This statement of investment policy shall be provided to each manager retained to manage the assets. While individual portfolios may not conform to each characteristic, the asset classes (equities, core bonds, etc.) shall fully conform to policy.

I. PERFORMANCE EVALUATIONS STANDARDS

The University intends to maintain open communication with the investment manager(s). The focus of these exchanges shall be on understanding the manager's expectations for the economy and capital markets and how these are reflected in the Portfolio. A necessary part of the communication process is the evaluation of the progress of the Portfolio and to this end, investment results shall be reviewed quarterly.

The performance of the investment Portfolio, net of management fees and transaction costs, shall be evaluated relative to and is expected to be at least equal to the appropriate benchmark indices noted for each asset class or, if applicable, as set forth in the specific supplemental investment restrictions for each investment manager. However, it is not anticipated that comparisons with market indices and peer groups shall be favorable in every single quarter or year. It is expected that they will be favorable over any rolling three-year cycle. Analysis of performance shall always be within the context of the prevailing investment environment and the investment manager's particular investment style.

External investment managers or advisors shall be expected to meet with the University's management periodically to review the investment outlook, structure of their portfolios, and past results.

J. APPROVAL

This Policy as approved by the Board of Trustees of the University shall be provided to each internal and external investment manager.

<u>Monitoring of objectives and results</u>

The dynamics of the University's operations and the capital markets require flexibility and adaptability in investment decision-making and practices. To promote flexibility and adaptability, the Policy shall be reviewed regularly for appropriateness by the Vice President for Finance & Administration. Modifications to the investment policy may be proposed from time to time. However, to enforce the principles of flexibility and adaptability, the Vice President for Finance & Administration in consultation with the Investment Consultant shall review the need for any changes at least annually and make a recommendation to the Board.

K. CONFLICT OF INTEREST

All persons responsible for investment decisions or who are involved in the management of the Portfolio or who are consulting to, or providing any advice whatsoever, to the Joint Investment Committee shall disclose in writing at the beginning of any discussion or consideration by the Joint Investment Committee, any relationships providing material benefit, which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Board may require such persons to remove themselves from the decision-making process.

Any members of the Joint Investment Committee responsible for investment decisions or who are involved in the management of the Portfolio shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing. Failure to disclose any material benefit shall be grounds for immediate removal from the Joint Investment Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Portfolio's custodian(s), investment managers and consultant in the course of their services on behalf of the University.

Appendix A

ASSET CLASSES & COMPARATIVE INDICES FOR INVESTMENT MANAGERS

ASSET CLASS	COMPARATIVE INDEX
Growth Assets	
Equity	
Domestic Equity	Wilshire 5000
U.S. Large Stocks	S&P 500
U.S. Large Growth Stocks	Russell 1000 Growth
U.S. Mid Stocks	S&P MidCap 400
U.S. Small Stocks	Russell 2000
U.S. Small Value Stocks	Russell 2000 Value
International Equity	MSCI AC World Ex US
Int'l Large Stocks	MSCI EAFE
Int'l Small Stocks	EMI-EPAC X-EAFE
Emerging Mkt Stocks	MSCI EMF
Private Equity	Wilshire 5000 + 500 basis points
Risk Reduction Assets	
Fixed Income	Barclays Capital Aggregate Bond
Domestic Fixed Income	Barclays Capital Aggregate Bond
Global Fixed Income	Citigroup World Gov't Bond Index
Cash Equivalents	U.S. Treasury Bills
Hedge Funds	HFR Fund of Funds
Inflation Protection Assets	CPI +500 basis points
Inflation Protected Bonds	Barclays US TIPS Index
Real Estate	MSCI US REIT Index
Natural Resources	S&P NA Natural Resources Index