Cleveland State University

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Investment Fund
Investment Policy Statement

PROPOSED
March 2015

Investment Policy

STATEMENT OF INVESTMENT POLICY

The Board of Trustees of Cleveland State University (the University) is vested by state statute with responsibility for the oversight of the University. The responsibility of the University's Board of Trustees, through its Committee on Financial Affairs (the Committee), is to establish broad guidelines for the University's Liquidity and Investment Funds, recommend investment managers, determine or approve asset allocation, and to monitor performance of investment managers on a regular basis. The investment managers are responsible for optimizing the return on the assets within the guidelines that have been established.

LIQUIDITY FUND

INVESTMENT OBJECTIVES

The primary objectives for the University's Liquidity Fund activities shall be:

1. Safety: Investments of the University shall be undertaken in a manner that ensures, over time, the preservation of capital in the overall portfolio. The prospect of credit risk or risk of permanent loss shall be minimized.

2. Liquidity: The University's Liquidity Fund portfolio will remain sufficiently liquid to enable the University to meet all operating requirements. Portfolio liquidity is defined as the maturity or ability to sell an investment on short notice near the purchase price of the investment. To help retain the desired liquidity, no investment shall be purchased that is likely to have few market makers or poor market bids. Additionally, liquidity shall be assured by keeping an adequate amount of short-term investments to accommodate the cash needs of the University.

3. Return on Investments: The University's Liquidity Fund portfolio shall be structured with the objective of attaining the highest possible total return for the portfolio while avoiding risk.

4. Compliance with State of Ohio Guidelines: Investments shall be made only in publicly traded securities or bank certificates of deposit. In addition, an amount equal to 25% of the average of the University's total investment portfolio, which includes the University's Liquidity Fund and the University's Investment Fund over the course of the previous fiscal year, shall be invested in short term, liquid securities.

ASSET ALLOCATION

1. The Liquidity Fund may be managed internally or by one or more fixed income investment managers provided that sufficient liquidity is maintained to meet the objectives of the pool.

2. Assets in the Liquidity Fund may be invested in securities of the United States government or of its agencies or instrumentalities, the Treasurer of the State of Ohio's pooled investment program, obligation of the State of Ohio or any political subdivision of the State of Ohio, certificates of deposit of any national bank located in the State of Ohio, 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, bankers acceptances maturing in 270 days or less which are eligible for purchase

by the Federal Reserve system, commercial paper issued by a for-profit corporation rated in the highest classification established by at least two rating services, and mutual funds that invest exclusively in obligations described in this paragraph.

3. The Liquidity Fund is expected to normally represent approximately 30% of the non-endowment funds, which would include both the Liquidity Fund and the Investment Fund of the University. The University's Chief Investment Officer will monitor the Liquidity Fund and will attempt to stay at or near the 30% of the total combined assets of the Liquidity Fund and the Investment Fund. If the portfolio exceeds the maximum or goes below the minimum guidelines set forth in this policy below, the Chief Investment Officer will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over a reasonable time period.

	Minimum	Preferred	Maximum
Fixed Income & Cash	25%	30%	35%

MONITORING OF OBJECTIVES AND RESULTS

The University's Manager, Cash Management and Banking will monitor the total return of the Liquidity Fund, which will be measured against six month U.S. Treasury Bills.

EQUITY INVESTMENT MANAGERS REVIEW PROCESS

1. Failure to follow the Cleveland State University's Investment Policy Statement may be grounds for removal. Written notification from the Finance Affairs Committee may be sent to the investment manager establishing the violation with a specific time frame to comply with the policy; non-conformance may result in termination.

2. Failure to consistently meet investment benchmarks, as established within a reconciled performance monitor, over an extended period of time may result in a manager being placed on "watch" and may eventually lead to termination. Specifically, if a manager trails their respective index or bogey by 200 basis points over 3 years and the manager is in the 50% percentile ranking or below of a comparable manager universe then the manager is immediately placed on "watch".

3. Failure to comply with investment restrictions as provided by the Finance Affairs Committee may be grounds for removal.

4. Substantive changes in an investment manager's philosophy, process, people or fees may result in that manager being placed on "watch" and may result in termination.

INVESTMENT FUND

The University's Investment Fund will have disciplined investment objectives and consistent management strategies that can accommodate relevant, reasonable, or probable events.

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 performance on a continuing basis.

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.

The investment objectives of the plan shall be as follows:

1. The total return on the assets, net of investment manager fees, shall strive to exceed the Consumer Price Index plus ~~3%~~ **4%** over a three and five year moving period. In addition, the total return on the assets, net of fees, shall strive to achieve a ~~6%~~ **7%** nominal rate of return annually.

2. 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.

3. 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.

4. The Fixed Income Fund should normally represent approximately ~~30% to 40%~~ **25% to 35%** 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.

5. 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.

6. The Equity Fund should normally represent approximately ~~45% to 55%~~ **50% to 60%** 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.

7. Multi Class investments should normally represent 15% 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 an investment vehicle registered under the 40's act that is transparent and liquid. A mutual fund approach to Multi Class investing provides broader exposure to the Multi Class strategy being used allowing for diversification of risk associated with a single investment fund.

8. 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 ~~50/35/15~~ **55/30/15** equity/fixed/multi class investment policy ratio.

9. 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.

10. The risk adjusted performance (alpha) for each manager will be expected to be greater that zero over each three and five year moving period.

ASSET ALLOCATION

1. The Committee will review the asset allocation quarterly and will consider reallocation based on the guidelines below when significant differences occur:

	Minimum	**Preferred**	**Maximum**
Equities	~~45%~~ 50%	~~50%~~ 55%	~~55%~~ 60%
Fixed Income & Cash	~~30%~~ 25%	~~35%~~ 30%	~~40%~~ 35%
Multi Class	10%	15%	20%
Large Cap Growth	~~8%~~ 9%	~~10%~~ 11%	~~12%~~ 13%
Large Cap Value	~~8%~~ 9%	~~10%~~ 11%	~~12%~~ 13%
Small/Midcap Growth	~~4%~~ 5%	~~6%~~ 7%	~~8%~~ 9%
Small/Midcap Value	~~4%~~ 5%	~~6%~~ 7%	~~8%~~ 9%
International Growth	7%	~~9%~~ 9.5%	~~11%~~ 12%
International Value	7%	~~9%~~ 9.5%	~~11%~~ 12%

2. Changes in the asset allocation parameters are to be approved by the Committee.

3. The Committee is given full discretion relating to asset allocation within the above specifications.

GUIDELINES FOR THE EQUITY FUND

1. The objective for the Equity Fund is to outperform the MSCI World 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 5% 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.

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 5% market value of the debt portfolio.

5. Approximately 30% 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.

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 6.0%.

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 500 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'' 500 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.

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 5% 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 10% 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 5% 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.

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.

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.

MANAGEMENT OF INVESTMENTS

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.

The Board of Trustees may authorize the University to retain the services of an investment advisor. The investment advisor must meet the following qualification:

1. The advisor is either:

   a. Licensed by the division of securities under section 1707.141 of the Ohio 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 Ohio Revised Code.

ADMINISTRATIVE NOTES

It is the intent of the University to have the flexibility to loan University funds on a temporary basis to one or more of its 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 1%] calculated at the date of the loan and recalculated on March 31 of each year.

Changed Trustees to Investment Committee in Investment Policy February 2011, added #5 paragraph under Guidelines for the Fixed Income and added Core to fixed income.

Changed the asset allocation September 2012 to reduce Large Cap from 22% to 20% and increased Multi-Class from 10% to 12%.

Changed the asset allocation March 2013 to increase equities and multi-class and reduce exposure to fixed income.