

AMENDED ENDOWMENT MANAGEMENT AND INVESTMENT POLICY

A Recommendation

1. **Division and Department:** Advancement and Finance and Administration, Advancement Services and Treasury Management Departments
2. **Introduction:** With diminishing state support over the last few decades, Oakland University (University), like other public institutions, is in need of additional sources of revenue. One common “best practice” source of revenue used by other institutions is an administrative allocation on the University’s endowment earnings to enable greater investment in fundraising activities that ultimately support students and the mission of the University.

Based on a recent survey of Michigan public universities, eight of the fifteen public four-year institutions allocate a portion of endowment earnings back to the University to invest in the mission of the institution and the Advancement enterprise. Over half of Oakland’s Horizon League peers have an endowment allocation as well. Nationally, according to a Council for Advancement and Support of Education (CASE) FY14 data survey, the most common funding source for advancement related activities is an annual endowment allocation that serves as a funding source for 91% of all survey respondents.

Michigan university rates range from 0.5% to 3.5% for this type of allocation, Horizon League universities allocation rates range from 1%-2%, and a national average of 1.25% exists according to the referenced CASE study. It is recommended that an administrative allocation of up to one percent (1%) of the University’s endowment earnings be approved by the Board of Trustees. The allocation will support the University’s mission, budget stability, and enhance Advancement efforts.

The recommended allocation would be applied to the market value of the endowment. Donors would continue to see their gifts be directed to the designated purpose as defined by the donor, and there is no recommended change to the current 4.5% distribution of the endowment spending funds.

A communication plan to donors will include an enhanced and updated endowment report with a letter informing them of this change. The Vice President for Advancement and the Advancement leadership staff will lead training sessions for gift officers and other external facing positions in order to answer questions and explain the allocation process to University constituents.

Amended Endowment Management and Investment Policy
Oakland University
Board of Trustees Formal Session
June 4, 2018
Page 2

With this proposal, the Endowment Management and Investment Policy (Attachment A) has been amended to include an annual administrative allocation of up to one percent (1%) to provide funding to support University Advancement operations. In addition, other policy updates have been made, based on discussions with the University's advisor, UBS. Policy updates also incorporate feedback from other Michigan university's endowment policies and practices as well as general updates to the policy since the last update in 2012.

3. **Previous Board Action:** The Board of Trustees approved the current Endowment Management and Investment Policy on March 28, 2012.
4. **Budget Implications:** Based on the June 30, 2017 endowment value, the proposed one percent administrative allocation for the FY2019 budget equates to \$918,282. This action would positively impact the University's General Fund due to this allocation being budget replacement for Advancement activities, not budget augmentation. In future years, as the amount of the one percent administrative allocation increases, the increase will augment funding available for Advancement activities.
5. **Educational Implications:** The administrative allocation proceeds will be used to fund University Advancement operations which may have either direct or indirect educational implications.
6. **Personnel Implications:** The administrative allocation proceeds will be used to fund University Advancement operations which may include personnel.
7. **University Reviews/Approvals:** This agenda has been prepared by the Advancement Services and Treasury Management departments, and reviewed by the Vice President for Advancement, Vice President for Finance and Administration, and President.
8. **Recommendation:**
RESOLVED, that the Board of Trustees approves the amended Endowment Management and Investment Policy as presented in Attachment A.
9. **Attachments:**
 - A. Amended Endowment Management and Investment Policy – Redlined
 - B. Amended Endowment Management and Investment Policy – Clean

Amended Endowment Management and Investment Policy
Oakland University
Board of Trustees Formal Session
June 4, 2018
Page 3

Submitted to the President
on 5/25, 2018 by

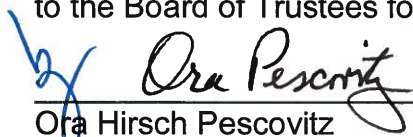


Michael Westfall
Vice President for Advancement



John W. Beaghan
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on 5/29, 2018
to the Board of Trustees for Approval by



Ora Hirsch Pescovitz
President

OAKLAND UNIVERSITY

ENDOWMENT MANAGEMENT AND INVESTMENT POLICY

GENERAL PHILOSOPHY

In recognition of its fiduciary responsibility, the Oakland University Board of Trustees (Board) has adopted the following investment and management policy for Oakland University (University) and the University's Endowment (~~Endowment Management and Investment Policy~~), which includes two principal categories: Permanently Restricted Endowment Funds (sometimes referred to as "true endowments" or "restricted endowments") and Institutional Endowment Funds (sometimes referred to as "term endowment funds", "funds functioning as endowment" or "quasi-endowment funds"). The University protects the intent of each donor with regard to the use of the endowment gift and to protect the perpetual nature of each individual Endowment Fund so that the benefits provided by the Endowment may be enjoyed by future generations.

The purpose of this Policy is to set forth a clear and consistent guide for management of the investable assets of the Endowment. This Policy will be used as the basis for investment decisions, delegations and evaluation and will further define the duties and responsibilities of those overseeing the Endowment.

~~Endowment Fund investment and distribution shall be managed under this Endowment Management and Investment Policy according to the standards of prudence prescribed by the Michigan Uniform Prudent Management of Institutional Funds Act of 2009 as may be amended from time to time (UPMIFA), unless a higher standard of prudence is set forth by this Endowment Management and Investment Policy, in which case this Endowment Management and Investment Policy shall control.~~

DEFINITIONS

- **Accumulate** is the act of adding amounts to the Endowment Fund rather than Appropriating them. (Typically, investment earnings less Appropriations are **Accumulations**.)
- **Appropriate** is the act of making a portion of the Endowment Fund available for spending for the Endowment Fund's stated purpose.
- **Donor Restrictions** for an endowment gift are specified in the Endowment Agreement and, if and when accepted by the Board, are then binding upon the University both legally and ethically. Release or modification of donor restrictions is only possible as prescribed by the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA).
- **Endowment** is the aggregate of all of the Endowment Funds of the University.
- **Endowment Agreement** is the formal written agreement executed by the University and a donor that specifies the donor's restrictions on the management, ~~investment~~, or purpose of the endowment gift, if any. It may also be an instrument signed by the President or the President's designee that establishes the conditions for an Institutional Endowment Fund, if any.
- **Endowment Fund** refers to an individual endowment account within the Endowment Fund group in the University accounting system and may be either a Permanently Restricted Endowment Fund or an Institutional Endowment Fund.

- **Historical Gifts** are amounts given to the University by the donor and do not include investment earnings, Accumulations or Appropriations.
 - ~~**Inflation Protection** is the amount in an Endowment Fund that exceeds the Historical Gifts amount.~~
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- **Institutional Endowment Fund** is an Endowment Fund that was established by the University of which none of the additions to the Institutional Endowment Fund are from donor restricted gifts or donor gifts accepted with an implied donor restriction.
 - **Investment Advisor** is a firm or individual retained by the University to advise on investment strategy and investment management.
 - **Investment Custodian** is typically a bank but may be another financial-type institution which has fiduciary custody of the Endowment ~~and Endowment investments which are being managed by the Investment Manager or Investment Advisor.~~
 - **Investment Fees** are fees associated with an Investment Advisor, Investment Manager, or Investment Custodian.
 - **Investment Manager** is a firm or individual that is retained by the University or Investment Advisor to direct investment in specific investment vehicles for the Endowment.
 - **Market Value** is the Historical Gift amount plus investment earnings and appreciation less Spending.
 - **Permanently Restricted Endowment Fund** is an Endowment Fund which is based on a use restriction given by the donor or group of donors which restricts the management, ~~investment,~~ or purpose of the endowment gift, such as the purpose of the endowment gift being to Appropriate Endowment Funds only for scholarships or Endowed chairs.
 - **Perpetual** or **Perpetuity** implies that the Endowment Fund is to be held indefinitely, usually forever, with the expectation that only its earnings may be spent in the future.
 - **Spending** is the act of appropriating a portion of an Endowment Fund to be expended for the specific purpose stated in the each Endowment Agreement.
 - **Underwater Endowment Fund** is an Endowment Fund whose Mmarket Vvalue at the end of any calendar quarter is less than the sum of the Historical Gifts to that Endowment Fund ~~plus Inflation Protection.~~

GOALS AND OBJECTIVES OF THE ENDOWMENT

The Endowment pool of assets has a long-term investment horizon. The primary investment objectives of the pool are to:

1. Maintain the real purchasing power of the assets after inflation, costs and Spending.
2. Maximize the asset's risk-adjusted returns: and
3. Provide a stable source of liquidity and financial support for the mission of the University.

ESTABLISHING AN ENDOWMENT FUND

1. All Permanently Restricted n-Endowment Funds may be established in the University's Endowment only upon a fully executed acceptance and approval by the Board of an Endowment Agreement.
2. Any Endowment Fund containing gifts by donors subject to Donor Restrictions shall be a Permanently Restricted Endowment Fund whether or not other monies in the Permanently Restricted Endowment Fund were placed there by the University.
3. Unless otherwise stated in the Endowment Agreement, nNo Permanently Restricted Endowment Fund will be established unless the Endowment Fund and its use are to be invested and remain in Perpetuity.
4. Any Endowment Fund established with unrestricted moneys set aside by the University will be an Institutional Endowment Fund, and may not include any donor gifts subject to Donor Restrictions. Donors may, however, contribute unrestricted gifts to an Institutional Endowment Fund.
5. No Endowment Fund shall be established unless it complies with the Board's gift acceptance policies or is an Institutional Endowment Fund.

MAINTAINING THE ENDOWMENT

1. Amounts within each individual Endowment Fund will be segregated into 1) Historical Gifts, and 2) Accumulations~~Inflation Protection~~.
- ~~2. The purchasing power of an individual Endowment Fund is the sum of its Historical Gifts plus its Inflation Protection and Accumulations.~~
23. Gross Endowment~~All~~ investment earnings will be reduced by~~after~~ Investment Fees and up to a one percent (1%) administrative allocation, unless otherwise restricted by existing gift agreements which are in place as of the date of this policy approval, and ~~T~~the net Endowment investment earnings in the Endowment are to ~~shall~~ be reinvested and allocated, whether positive or negative, to the individual Endowment Funds each calendar quarter in accordance with this Endowment Management and Investment Policy's ~~Spending section. The administrative allocation shall be calculated on the most recently approved audited fiscal year-ended Mmarket Vvalue balance of the Endowment and used to fund University Advancement operations. Upon approval of the President, the administrative allocation may be suspended if Endowment investment earnings for any quarter are below benchmark, or negative.~~
34. All Endowment Funds shall be managed under this ~~Endowment Management and Investment~~ Policy according to the standards of prudence prescribed by UPMIFA, unless a higher standard of prudence is set forth by this Endowment Management and Investment Policy, in which case this Endowment Management and Investment Policy shall control.

INVESTING THE ENDOWMENT

Investments will be made only in those organizations and instruments which are consistent with policies of the University and that meet the prudence standards prescribed by UPMIFA.

I. INVESTMENT OBJECTIVE

The investment objectives for the management of the Endowment are to preserve the Endowment assets, to manage contributions in a manner that will maximize the benefit intended by the donor, to produce current income based on total rate of return, to support the objectives of the University and the donor, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets, thus protecting the assets against inflation. The long-term investment objective is to maximize earnings after fees and expenses on the Endowment portfolio accepting only a prudent amount of risk for ~~thean~~ ~~E~~ndowment ~~investment~~ portfolio.

II. ASSET ALLOCATION

The ~~P~~policy shall generally be to diversify investments among asset classes to provide a strategic asset allocation that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

The ~~long-term policy for~~ asset allocation ranges of the University Endowment ~~are~~is:

	<u>Long-Term Objective</u>	<u>Range</u>
Equity Investments	50%	25 30% - 7 50%
Structured Products 5% (of Equity Investments)		
Real Assets	10%	0 5% - 30 25%
Fixed-income Investments	20%	5 10% - 40 30%
Structured Products 10% (of Fixed-income Investments)		
Alternative Investments	20%	0 10% - 4 30%

At the end of each calendar quarter the University's Treasury Management Department (TMD) along with the Investment Advisor and Investment Managers shall review the allocation of the assets representing the University's Endowment to measure the strategic asset allocation and tactical asset allocations on that date. If the strategic asset allocation is not within +(-) 3% of the target range asset allocation, the TMD and the Investment Advisor and Investment Managers shall take appropriate steps to bring the strategic asset allocation to within +(-) 1% of the targeted allocation ranges.

III. EQUITY INVESTMENTS

The principal category of equity investments will be common stocks in all market capitalization segments. Primary emphasis will be on high quality stocks in companies that are financially sound and that have favorable prospects for earnings growth and capital appreciation. Diversification will be sought by investing in domestic and, international, including emerging markets and developing markets, ~~and structured product securities.~~

~~IV. STRUCTURED PRODUCTS~~

- ~~1. Principal Protection Structured Products offer principal protection investments if held until maturity with returns commonly based on equities, commodities, interest rates, or currencies. These products are often considered a fixed income alternative but may offer greater potential than traditional bond investments.~~

~~Investments in Principal Protection Structured Products are considered part of the fixed income portfolio. The underlying issuer must have a credit rating of A or better and no more than 1% of the fixed income portfolio can be invested with any one issuer. Investments in Principal Protection Structured Products may not exceed more than 10% of the fixed income portion of the Endowment portfolio.~~

- ~~2. Structured Products that are not principal protected are considered part of the equity portfolio. The underlying issuer must have a credit rating of A or better and no more than 1% of the equity portfolio can be invested with any one issuer. Investments in Structured Products that are not principal protected may not exceed more than 5% of the equity portion of the Endowment portfolio.~~

V. REAL ASSETS

The purpose of real assets is to achieve capital appreciation, current income, and to invest in an asset-class that has low correlation to fixed income and equities.

1. Real Estate Investment Trusts - The Endowment portfolio may include equity real estate investments made through publicly traded real estate investment trusts (REITs) and real estate operating companies. Such investments may not exceed 10% of the total Endowment portfolio assets.
2. Commodities - The objective of investing in this asset class is to gain additional portfolio diversification, inflation protection and positive real returns.

The Endowment may be invested in Commodities and related derivatives through the use of Investment Managers, mutual funds, or Commodities based indices. Investments in commodities may not exceed 10% of the Endowment portfolio.

~~Investments in Real Assets may not exceed 25% of the Endowment Portfolio.~~

VI. FIXED-INCOME INVESTMENTS

Fixed income investments shall be invested in portfolios of high quality (primarily A to AAA rated) corporate bonds, U.S. Treasury and agency securities, issues of supranational organizations and foreign sovereigns. No more than 20% of the Endowment fixed income portfolio may be invested in securities rated less than BBB or in illiquid investments.

VII. ALTERNATIVE INVESTMENTS

1. Private Capital Investments

The purpose of Private Capital Investments, which includes Venture Capital and Private Equity, is to provide long-term appreciation and diversification. Private Capital Investments are often illiquid in nature, are more susceptible than bonds and stock investments to extended periods of overvaluation and undervaluation, and returns are much more manager dependent than other forms of marketable securities. The main investment objective is to achieve long-term capital appreciation returns greater than those generally available in the public securities market.

Venture Capital - is generally considered to be start-up and early stage high growth companies. Venture Capitalists usually own a minority stake in such companies and are actively involved with the founders to develop strategy, secure financing and recruit management.

Private Equity - is investments in private companies for acquisition, leveraged buyouts, management buyouts, reorganizations, restructuring and spin-offs. Leverage is frequently used.

~~Investments in Private Capital may not comprise more than 30% of the Endowment portfolio. Private Capital Investments may not exceed more than 10% of the Endowment portfolio and any single investment may not exceed 25% of the total Private Capital Investments, unless the investment is in a Private Capital fund of funds.~~

2. Hedge Funds

The purpose of Hedge Funds and Hedge Fund of Funds is to provide equity-like returns with less volatility over time. Additionally, Hedge Funds provide an additional benefit of portfolio diversification thereby lowering the probability for the Endowment to have large Market Value variations over short-term time horizons. Hedge Funds have limited liquidity and may invest in derivative instruments, employ leverage, and sell securities short.

Certain criteria must be considered including, but not necessarily limited to, the following in evaluation of a Hedge Fund:

- Tenure and track record of management;
- Expertise in investment area; and
- Diversification relative to other hedge fund investments.

Single strategy, multi-strategy, and fund-of-funds investments are permitted.

~~Investments in Hedge Funds strategies may not comprise more than 30% of the Endowment portfolio. No investment with any single Hedge Fund manager may exceed 10% of the Hedge Fund portfolio unless it is a hedge fund of funds.~~

When possible, Hedge Fund investments will be made in offshore limited partnerships in order to avoid unrelated business taxable income (UBTI).

The Board's Investment Advisor shall report at least annually to the Board or the Board's designated committee (Board Committee) on the role of derivative investments and describe the risks and rewards associated with such investments.

INVESTMENT ADVISOR, INVESTMENT MANAGER AND INVESTMENT CUSTODIAN SELECTION

1. Generally, the University shall utilize professional management services for the investment of the Endowment portfolio. This does not preclude direct investment and ownership of securities by the University.
2. The Investment Advisor shall be appointed by the Board upon recommendation by the Treasurer and the appropriate Board Committee.
3. The Investment Managers may be appointed by the Treasurer upon advice of the Investment Advisor.
4. The Investment Custodian shall be appointed by the Treasurer.
5. No more than 50% of University equity and bond investments respectively shall be assigned to a single Investment Manager.

INVESTMENT MANAGER PERFORMANCE EVALUATION

Investment Managers and their performance will be measured over periods of the most recent quarter ending; one-year, three-year and five-year periods; and will be compared to appropriate market indices (benchmarks), peers and the performance of other endowments as published annually by the National Association of College and University Business Officers or other national reporting agencies. Market indices shall include indices that are appropriate for their specific portfolios. Risk-adjusted benchmarks shall be used when and where appropriate to measure performance. An Investment Manager whose performance falls below the first quartile over a five-year period, or below the median over the period of one year, shall be a candidate for replacement, absent a satisfactory explanation for the level of performance.

All Investment Managers must report their performance in writing each calendar quarter, and their portfolio holdings at least annually.

The University may utilize an independent performance evaluation service to ensure that all Investment Managers are competitive in the market and that their performance meets the needs and expectations of the University.

ROLE OF BOARD OF TRUSTEES

The Board:

1. Shall exercise its Endowment investment responsibilities with the assistance of its Board Committee(s).

2. Shall, upon the recommendation of its Board Committee(s), establish investment policies relating to the administration of the University's Endowment investment portfolio.
3. Shall, upon the recommendation of its Board Committee(s), establish investment objectives. (See I. Investment Objective)
4. Shall, upon the recommendation of its Board Committee(s), appoint an Investment Advisor or an Investment Manager(s) for the Endowment, and specify any investment restrictions deemed appropriate.
5. Shall, upon the recommendation of its Board Committee(s), establish the conditions and parameters under which the University may directly invest in and own securities independent of Investment Managers and may authorize such investment.
6. Shall receive periodic reports on investment results through its Board Committee(s).

ROLE OF BOARD COMMITTEES

The appropriate Board Committee(s):

1. Shall be responsible for the review of policies relating to the administration of the University's Endowment portfolio and, when appropriate, shall make recommendations to the Board.
2. Shall, in consultation with the Treasurer, recommend to the Board an Investment Advisor to advise and assist the appropriate Board Committee.
3. Shall, in consultation with the Treasurer, recommend to the Board an Investment Manager(s) when no Investment Advisor is used.
4. Shall, in consultation with the Investment Advisor and the Treasurer, annually review the investment objectives of the Endowment portfolio.
5. Shall receive periodic reports on the investment status of the portfolio(s) and shall transmit relevant information to the Board.
6. Shall meet with the Investment Advisor at least annually and shall evaluate the performance of the Endowment portfolio.

ROLE OF INVESTMENT ADVISOR

The Investment Advisor:

1. Shall annually develop and communicate to the Treasurer and the appropriate Board Committee(s) an appropriate strategy to meet the long-term Endowment management objectives.
2. Shall advise the Treasurer regarding searches for an Investment Manager(s) and an Investment Custodian(s).
3. Shall provide a monitoring and measurement program which will permit evaluation of the performance of the Investment Manager(s) in comparison with the investment markets and with other managers.
4. Shall provide such other information pertaining to the investment program as may reasonably be required.

ROLE OF THE INVESTMENT MANAGER(S)

The Investment Manager(s):

1. Shall report their performance in writing each calendar quarter and their portfolio holdings at least annually to the Investment Advisor and the Treasurer.
2. Is authorized to execute investment transactions in conformity with this ~~Endowment Management and Investment~~ Policy, subject to any restrictions established by the Board or appropriate Board Committee(s).
3. Shall report immediately to the Treasurer and the Investment Advisor any major change in the manager's confidence regarding the securities markets or any decline in portfolio value in excess of 10% since the last reporting date.
4. Shall be reasonably expected to provide other necessary information for the development of interim reports and shall meet, as necessary, with the Investment Advisor and the Treasurer.

ROLE OF THE INVESTMENT CUSTODIAN(S)

Ordinarily, the Investment Manager(s) will utilize the services of an Investment Custodian and the University may not have a direct contractual relationship with such Investment Custodian(s). In the event the University requires the services of an Investment Custodian, (e.g., direct investment and ownership of securities by the University) the following procedures shall apply:

The Investment Custodian(s):

1. Shall hold all securities under management by the Investment Manager(s) in an agreed-upon nominee name and form.
2. Shall execute all transactions as directed by the Investment Manager(s).
3. Shall collect all income pertaining to the securities held, and shall temporarily invest such income in cash equivalents until reinvested or remitted to the University.
4. Shall periodically remit accumulated income to the University pursuant to instructions received from the University.
5. Shall provide a full monthly accounting of all transactions, together with a listing of all holdings at cost and market.
6. Shall vote all proxies in accordance with instructions received from the University.
7. Shall provide such other information pertaining to the portfolio as may reasonably be required.

ROLE OF THE UNIVERSITY ADMINISTRATION, THROUGH THE TREASURER

The University, through the Treasurer:

1. Is responsible for the continuous monitoring and review of: the Investment Advisors', Investment Managers' and Investment Custodians' reports, the actions of the Investment Manager(s), and the status of the University's Endowment portfolio.

2. Shall maintain communications, as appropriate, between the Board, the Board Committee(s), the Investment Advisor, the Investment Custodian and the Investment Manager(s).
3. Shall make recommendations to the appropriate Board Committee(s) concerning investment policies, structure, objectives and selection of Investment Advisor(s).
4. Shall periodically invest available additional funds with the Investment Managers in consultation with the Investment Advisor, if any, and within the allocation parameters established by this ~~Endowment Management and Investment~~ Policy.
5. Shall direct changes in existing allocations in consultation with the Investment Manager(s) as necessary to remain in the asset allocation parameters.
6. May, in consultation with the Investment Manager(s) and the Investment Advisor, and within the allocation parameters established by this ~~Endowment Management and Investment~~ Policy, direct the reallocation of endowment assets between the investment options and funds managed by the Investment Manager(s).
7. Shall appoint Investment Custodians, monitor their activity and receive, reconcile and account for remitted accumulated income.

GIFTS OF INVESTMENTS

Certain funds are obtained by the University through donor gifts subject to Donor Restrictions that restrict the form of investment, either directly by specifying qualifying investment vehicles or indirectly by stipulating a higher-than-normal spending rate (Gifts of Investments). Such Gifts of Investments will be accepted only with contractual provisions contained in the Endowment Agreement specifying that the Gift of Investment will be sold by the University at the first available opportunity and the proceeds of the sale be invested in the Endowment portfolio in accordance with the provisions of this ~~Endowment Management and Investment~~ Policy and spending will conform to the Spending section of this ~~Endowment Management and Investment~~ Policy.

SPENDING

In order to provide for stability in income growth together with preservation of purchasing power, Endowment Funds shall have Appropriations made available for Spending according to the following, except as the terms of a specific Board action shall otherwise require. A modified Spending plan for specific Institutional Endowment Funds may be ordered by the President.

Endowment Fund Appropriations shall be at an annual rate of four and one-half percent (4.5%) based upon the twelve quarter moving average ~~M~~market ~~V~~value of the Endowment Fund's value at the beginning of each quarter, with a one-quarter lag.

Should an Endowment Fund become an Underwater Endowment Fund, the President may declare a Spending from that Underwater Endowment Fund using a different calculation basis for the period of time to be specified by the President. Should the President take such action, the Treasurer will notify the Board of the rationale for the action.~~President must notify the Chair of the Board of the action taken and the rationale for the action.~~ Appropriations from Underwater Endowment Funds may be made based on the prudence standards

| prescribed by UPMIFA, this ~~Endowment Management and Investment~~ Policy, and conditions contained within the Endowment Agreement that established the Endowment Fund that is underwater.

OAKLAND UNIVERSITY

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5. No Endowment Fund shall be established unless it complies with the Board's gift acceptance policies or is an Institutional Endowment Fund.

MAINTAINING THE ENDOWMENT

1. Amounts within each individual Endowment Fund will be segregated into 1) Historical Gifts, and 2) Accumulations.
2. Gross Endowment investment earnings will be reduced by Investment Fees and up to a one percent (1%) administrative allocation, unless otherwise restricted by existing gift agreements which are in place as of the date of this policy approval. The net Endowment investment earnings shall be reinvested and allocated, whether positive or negative, to the individual Endowment Funds each calendar quarter in accordance with this Policy. The administrative allocation shall be calculated on the most recently approved audited fiscal year-ended Market Value balance of the Endowment and used to fund University Advancement operations. Upon approval of the President, the administrative allocation may be suspended if Endowment investment earnings for any quarter are below benchmark, or negative.
3. All Endowment Funds shall be managed under this Policy according to the standards of prudence prescribed by UPMIFA, unless a higher standard of prudence is set forth by this Policy, in which case this Policy shall control.

INVESTING THE ENDOWMENT

Investments will be made only in those organizations and instruments which are consistent with policies of the University and that meet the prudence standards prescribed by UPMIFA.

I. INVESTMENT OBJECTIVE

The investment objectives for the management of the Endowment are to preserve the Endowment assets, to manage contributions in a manner that will maximize the benefit intended by the donor, to produce current income based on total rate of return, to support the objectives of the University and the donor, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets, thus protecting the assets against inflation. The long-term investment objective is to maximize earnings after fees and expenses on the Endowment portfolio accepting only a prudent amount of risk for the Endowment portfolio.

II. ASSET ALLOCATION

The Policy shall generally be to diversify investments among asset classes to provide a strategic asset allocation that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

The asset allocation ranges of the University Endowment are:

	<u>Range</u>
Equity Investments	25% - 75%
Real Assets	0%-30%
Fixed-income Investments	5% - 40%
Alternative Investments	0% - 40%

At the end of each calendar quarter the University's Treasury Management Department (TMD) along with the Investment Advisor and Investment Managers shall review the allocation of the assets representing the University's Endowment to measure the strategic asset allocation and tactical asset allocations on that date. If the strategic asset allocation is not within $\pm 3\%$ of the target range asset allocation, the TMD and the Investment Advisor and Investment Managers shall take appropriate steps to bring the strategic asset allocation to within $\pm 1\%$ of the targeted allocation ranges.

III. EQUITY INVESTMENTS

The principal category of equity investments will be common stocks in all market capitalization segments. Primary emphasis will be on high quality stocks in companies that are financially sound and that have favorable prospects for earnings growth and capital appreciation. Diversification will be sought by investing in domestic and international, including emerging markets and developing markets.

V. REAL ASSETS

The purpose of real assets is to achieve capital appreciation, current income, and to invest in an asset-class that has low correlation to fixed income and equities.

1. Real Estate Investment Trusts - The Endowment portfolio may include equity real estate investments made through publicly traded real estate investment trusts (REITs) and real estate operating companies. Such investments may not exceed 10% of the Endowment portfolio.
2. Commodities - The objective of investing in this asset class is to gain additional portfolio diversification, inflation protection and positive real returns.

The Endowment may be invested in Commodities and related derivatives through the use of Investment Managers, mutual funds, or Commodities based indices. Investments in commodities may not exceed 10% of the Endowment portfolio.

VI. FIXED-INCOME INVESTMENTS

Fixed income investments shall be invested in portfolios of high quality (primarily A to AAA rated) corporate bonds, U.S. Treasury and agency securities, issues of supranational organizations and foreign sovereigns. No more than 20% of the Endowment portfolio may be invested in securities rated less than BBB or in illiquid investments.

VII. ALTERNATIVE INVESTMENTS

1. Private Capital Investments

The purpose of Private Capital Investments, which includes Venture Capital and Private Equity, is to provide long-term appreciation and diversification. Private Capital Investments are often illiquid in nature, are more susceptible than bonds and stock investments to extended periods of overvaluation and undervaluation, and returns are much more manager dependent than other forms of marketable securities. The main investment objective is to achieve long-term capital appreciation returns greater than those generally available in the public securities market.

Venture Capital - is generally considered to be start-up and early stage high growth companies. Venture Capitalists usually own a minority stake in such companies and are actively involved with the founders to develop strategy, secure financing and recruit management.

Private Equity - is investments in private companies for acquisition, leveraged buyouts, management buyouts, reorganizations, restructuring and spin-offs. Leverage is frequently used.

Investments in Private Capital may not comprise more than 30% of the Endowment portfolio.

2. Hedge Funds

The purpose of Hedge Funds and Hedge Fund of Funds is to provide equity-like returns with less volatility over time. Additionally, Hedge Funds provide an additional benefit of portfolio diversification thereby lowering the probability for the Endowment to have large Market Value variations over short-term time horizons. Hedge Funds have limited liquidity and may invest in derivative instruments, employ leverage, and sell securities short.

Certain criteria must be considered including, but not necessarily limited to, the following in evaluation of a Hedge Fund:

- Tenure and track record of management;
- Expertise in investment area; and
- Diversification relative to other hedge fund investments.

Single strategy, multi-strategy, and fund-of-funds investments are permitted.

Investments in Hedge Funds may not comprise more than 30% of the Endowment portfolio.

When possible, Hedge Fund investments will be made in offshore limited partnerships in order to avoid unrelated business taxable income (UBTI).

The Board's Investment Advisor shall report at least annually to the Board or the Board's designated committee (Board Committee) on the role of derivative investments and describe the risks and rewards associated with such investments.

INVESTMENT ADVISOR, INVESTMENT MANAGER AND INVESTMENT CUSTODIAN SELECTION

1. Generally, the University shall utilize professional management services for the investment of the Endowment portfolio. This does not preclude direct investment and ownership of securities by the University.
2. The Investment Advisor shall be appointed by the Board upon recommendation by the Treasurer and the appropriate Board Committee.
3. The Investment Managers may be appointed by the Treasurer upon advice of the Investment Advisor.
4. The Investment Custodian shall be appointed by the Treasurer.
5. No more than 50% of University equity and bond investments respectively shall be assigned to a single Investment Manager.

INVESTMENT MANAGER PERFORMANCE EVALUATION

Investment Managers and their performance will be measured over periods of the most recent quarter ending; one-year, three-year and five-year periods; and will be compared to appropriate market indices (benchmarks), peers and the performance of other endowments as published annually by the National Association of College and University Business Officers or other national reporting agencies. Market indices shall include indices that are appropriate for their specific portfolios. Risk-adjusted benchmarks shall be used when and where appropriate to measure performance. An Investment Manager whose performance falls below the first quartile over a five-year period, or below the median over the period of one year, shall be a candidate for replacement, absent a satisfactory explanation for the level of performance.

All Investment Managers must report their performance in writing each calendar quarter, and their portfolio holdings at least annually.

The University may utilize an independent performance evaluation service to ensure that all Investment Managers are competitive in the market and that their performance meets the needs and expectations of the University.

ROLE OF BOARD OF TRUSTEES

The Board:

1. Shall exercise its Endowment investment responsibilities with the assistance of its Board Committee(s).
2. Shall, upon the recommendation of its Board Committee(s), establish investment policies relating to the administration of the University's Endowment investment portfolio.

3. Shall, upon the recommendation of its Board Committee(s), establish investment objectives. (See I. Investment Objective)
4. Shall, upon the recommendation of its Board Committee(s), appoint an Investment Advisor or an Investment Manager(s) for the Endowment, and specify any investment restrictions deemed appropriate.
5. Shall, upon the recommendation of its Board Committee(s), establish the conditions and parameters under which the University may directly invest in and own securities independent of Investment Managers and may authorize such investment.
6. Shall receive periodic reports on investment results through its Board Committee(s).

ROLE OF BOARD COMMITTEES

The appropriate Board Committee(s):

1. Shall be responsible for the review of policies relating to the administration of the University's Endowment portfolio and, when appropriate, shall make recommendations to the Board.
2. Shall, in consultation with the Treasurer, recommend to the Board an Investment Advisor to advise and assist the appropriate Board Committee.
3. Shall, in consultation with the Treasurer, recommend to the Board an Investment Manager(s) when no Investment Advisor is used.
4. Shall, in consultation with the Investment Advisor and the Treasurer, annually review the investment objectives of the Endowment portfolio.
5. Shall receive periodic reports on the investment status of the portfolio(s) and shall transmit relevant information to the Board.
6. Shall meet with the Investment Advisor at least annually and shall evaluate the performance of the Endowment portfolio.

ROLE OF INVESTMENT ADVISOR

The Investment Advisor:

1. Shall annually develop and communicate to the Treasurer and the appropriate Board Committee(s) an appropriate strategy to meet the long-term Endowment management objectives.
2. Shall advise the Treasurer regarding searches for an Investment Manager(s) and an Investment Custodian(s).
3. Shall provide a monitoring and measurement program which will permit evaluation of the performance of the Investment Manager(s) in comparison with the investment markets and with other managers.
4. Shall provide such other information pertaining to the investment program as may reasonably be required.

ROLE OF THE INVESTMENT MANAGER(S)

The Investment Manager(s):

1. Shall report their performance in writing each calendar quarter and their portfolio holdings at least annually to the Investment Advisor and the Treasurer.
2. Is authorized to execute investment transactions in conformity with this Policy, subject to any restrictions established by the Board or appropriate Board Committee(s).
3. Shall report immediately to the Treasurer and the Investment Advisor any major change in the manager's confidence regarding the securities markets or any decline in portfolio value in excess of 10% since the last reporting date.
4. Shall be reasonably expected to provide other necessary information for the development of interim reports and shall meet, as necessary, with the Investment Advisor and the Treasurer.

ROLE OF THE INVESTMENT CUSTODIAN(S)

Ordinarily, the Investment Manager(s) will utilize the services of an Investment Custodian and the University may not have a direct contractual relationship with such Investment Custodian(s). In the event the University requires the services of an Investment Custodian, (e.g., direct investment and ownership of securities by the University) the following procedures shall apply:

The Investment Custodian(s):

1. Shall hold all securities under management by the Investment Manager(s) in an agreed-upon nominee name and form.
2. Shall execute all transactions as directed by the Investment Manager(s).
3. Shall collect all income pertaining to the securities held, and shall temporarily invest such income in cash equivalents until reinvested or remitted to the University.
4. Shall periodically remit accumulated income to the University pursuant to instructions received from the University.
5. Shall provide a full monthly accounting of all transactions, together with a listing of all holdings at cost and market.
6. Shall vote all proxies in accordance with instructions received from the University.
7. Shall provide such other information pertaining to the portfolio as may reasonably be required.

ROLE OF THE UNIVERSITY ADMINISTRATION, THROUGH THE TREASURER

The University, through the Treasurer:

1. Is responsible for the continuous monitoring and review of: the Investment Advisors', Investment Managers' and Investment Custodians' reports, the actions of the Investment Manager(s), and the status of the University's Endowment portfolio.

2. Shall maintain communications, as appropriate, between the Board, the Board Committee(s), the Investment Advisor, the Investment Custodian and the Investment Manager(s).
3. Shall make recommendations to the appropriate Board Committee(s) concerning investment policies, structure, objectives and selection of Investment Advisor(s).
4. Shall periodically invest available additional funds with the Investment Managers in consultation with the Investment Advisor, if any, and within the allocation parameters established by this Policy.
5. Shall direct changes in existing allocations in consultation with the Investment Manager(s) as necessary to remain within the asset allocation parameters.
6. May, in consultation with the Investment Manager(s) and the Investment Advisor, and within the allocation parameters established by this Policy, direct the reallocation of endowment assets between the investment options and funds managed by the Investment Manager(s).
7. Shall appoint Investment Custodians, monitor their activity and receive, reconcile and account for remitted accumulated income.

GIFTS OF INVESTMENTS

Certain funds are obtained by the University through donor gifts subject to Donor Restrictions that restrict the form of investment, either directly by specifying qualifying investment vehicles or indirectly by stipulating a higher-than-normal spending rate (Gifts of Investments). Such Gifts of Investments will be accepted only with contractual provisions contained in the Endowment Agreement specifying that the Gift of Investment will be sold by the University at the first available opportunity and the proceeds of the sale be invested in the Endowment portfolio in accordance with the provisions of this Policy and spending will conform to the Spending section of this Policy.

SPENDING

In order to provide for stability in income growth together with preservation of purchasing power, Endowment Funds shall have Appropriations made available for Spending according to the following, except as the terms of a specific Board action shall otherwise require. A modified Spending plan for specific Institutional Endowment Funds may be ordered by the President.

Endowment Fund Appropriations shall be at an annual rate of four and one-half percent (4.5%) based upon the twelve quarter moving average Market Value of the Endowment Fund's value at the beginning of each quarter, with a one-quarter lag.

Should an Endowment Fund become an Underwater Endowment Fund, the President may declare a Spending from that Underwater Endowment Fund using a different calculation basis for the period of time to be specified by the President. Should the President take such action, the Treasurer will notify the Board of the rationale for the action. Appropriations from Underwater Endowment Funds may be made based on the prudence standards prescribed by UPMIFA, this Policy, and conditions contained within the Endowment Agreement that established the Endowment Fund that is underwater.