

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

The Endowment Fund Investment Policy, as amended and dated July 14, 2011, is adopted as follows:

Investment Policy Statement

- I. DEFINITIONS**

- II. INVESTMENT PHILOSOPHY**

- III. EVALUATION & PERFORMANCE MEASUREMENT**

- IV. GUIDELINES & RESTRICTIONS**

- V. ACKNOWLEDGEMENT**

Authority: BTM 7-14-11 at 5619.

History: BTM 5-12-99 at 3930/3934; BTM 7-9-99 at 4001/4006; BTM 12-8-00 at 4263/4266; BTM 9-11-02 at 4538; BTM 12-5-02 at 4565/70; BTM 12-2-04 at 4872/76; BTM 12-1-05 at 5011; 12-7-06 at 5153; BTM 12-3-09 at 5543.

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

I. DEFINITIONS

A. Purpose

The purpose of this Investment Policy Statement is to establish a clear understanding of the investment objectives and philosophy for the Central Michigan University Endowment Fund (hereinafter, "Fund"). This document will describe the standards utilized by the Investment Committee (hereinafter, "Committee") in monitoring investment performance, as well as serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Fund.

B. Scope

This document applies to assets that are a part of the Fund and for which the Committee and investment manager have discretionary authority.

C. Investment Objective

The primary investment objective of the Fund is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum, maintaining the purchasing power of the Fund. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Investor Act (UPIA). UPIA requires fiduciaries to apply the standard of prudence "to any investment as part of the total portfolio, rather than to individual investments." All investment actions and decisions must be based solely on the interest of the Fund. Fiduciaries must provide full and fair disclosure to the Board/ Committee of all material facts regarding any potential conflicts of interests.

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

As summarized for the purposes of this Investment Policy Statement, the UPIA states that the Committee is under a duty to the Fund to manage the funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Fund. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Fund are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Description of Roles

1. Board of Trustees

The Board of Trustees is responsible for adopting the provisions of this Investment Policy.

2. Investment Committee

The Investment Committee is responsible for recommending to the Board of Trustees investment policies and strategies; the hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Fund on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Fund and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

3. Vice President for Finance and Administrative Services

The Vice President for Finance and Administrative Services (or designee) has daily responsibility for administration of the Fund and will consult with the Committee and the investment consultant on matters relating to the investment of the Fund. The Vice President for Finance and Administrative Services (or designee) will serve as primary contact for the Fund's investment managers, investment consultant, and custodian.

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

4. Investment Consultant

The investment consultant is responsible for assisting the Committee and Vice President for Finance and Administrative Services (or designee) in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- a. Provide proactive recommendations
- b. Supply the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
- c. Monitor the activities of each investment manager or investment fund
- d. Provide the Committee with quarterly performance reports
- e. Review this Investment Policy Statement with the Committee

F. Spending Policy

The Endowment income to be spent annually will be 4.5% of the 20-quarter rolling average of the market value of the Endowment pool. The annual spendable income allocation cannot reduce original gift principal. The spending policy will be reviewed periodically to assure that the overall investment objectives of maximizing the benefit intended by the donor are being met.

II. INVESTMENT PHILOSOPHY

A. Strategy

The Committee understands the long-term nature of the Fund and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and certain hedged strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Fund, but is a residual to the investment process and used to meet short-term liquidity needs.

B. Asset Allocation

Asset allocation will likely be the key determinant of the Fund's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Fund, rather than judging asset categories on a stand alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Fund, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>RANGE</u>
PUBLIC MARKETS	60%	40-95%
<i>Equity</i>	45	30-65
U.S. Equities	25	15-35
<i>Large Cap</i>	12	5-25
<i>Mid Cap</i>	8	5-15
<i>Small Cap</i>	5	0-10
International Equities	20	10-30
<i>Developed Large Cap</i>	10	5-20
<i>Developed Small Cap</i>	5	0-10
<i>Emerging Markets</i>	5	0-10
<i>Fixed Income</i>	15	10-30
Investment Grade	10	5-25
Non-investment Grade	5	0-10
DIVERSIFYING STRATEGIES	40	0-55
<i>Hedged Strategies</i>	20	0-25
<i>Private Equity</i>	5	0-10
<i>Real Assets</i>	15	0-20
Real Estate	5	0-10
Natural Resources	5	0-10
Commodities	5	0-10
CASH	0	0-10

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

C. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies, due to the low probability of traditional active management outperforming an appropriate benchmark.

D. Investment Styles

The Committee understands investment styles (growth and value) are cyclical, and therefore will target a neutral allocation among styles.

E. Rebalancing

The Vice President for Finance and Administrative Services (or designee) will monitor the asset allocation structure of the Fund and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the Vice President for Finance and Administrative Services (or designee), with advice from the investment consultant, will develop a plan of action to rebalance. In many cases, the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

Because of the illiquid nature of the private equity and real assets investments, the allocation could move out of range and rebalancing may not be possible. Thus, the target and range will be calculated based on initial investment. A private capital implementation plan (with target amounts and timing of capital commitments) will be used to manage the allocation prudently, strive to maintain the target allocation, and maintain vintage year diversification.

F. Liquidity

A goal of the Fund is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process, but with the following limits:

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

Classification of Asset

Liquid
Semi-liquid
Illiquid

Limits

At least 55% of the portfolio
No more than 25% of the portfolio
No more than 20% of the portfolio

G. Hedged Strategies

These strategies tend to opportunistically invest in a broadly defined market with few constraints and are not considered an asset class. Some strategies, such as hedged equity, will be directional strategies, and tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, use leverage, and actively manage market exposure.

Other strategies, such as absolute return strategies, are non-directional, non-benchmark driven strategies that attempt to provide positive absolute returns in all market environments. These strategies seek to provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

For the hedged strategies allocation to achieve the expected objectives without unnecessary risk, the Fund will seek access to skilled hedge fund managers and be well-diversified. Hedge funds may have “lock-up” periods of 1-3 years from the date of investment, during which money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

H. Illiquid Investments

Illiquid investments include private equity, private real estate, and natural resources.

1. Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5 percentage points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Fund should seek access to top-quality managers and be diversified. Individual

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

funds may be concentrated in a particular sector, stage, or geographic region, but the overall private equity allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

Assets should be committed to venture capital, buyout, and special situations (secondaries, distressed, mezzanine, etc.) to build a diversified private equity portfolio. As commitments to private equity are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

Fund of funds will generally be utilized to mitigate manager specific, as well as deal specific risk.

d. Stage

Investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.

e. Geography

Investments should be considered across the U.S. and internationally (developed and emerging markets).

f. Sector

The portfolio should be diversified by sector, as well as across industries within a sector.

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

2. Private Real Estate

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Fund should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular region or property type, but the overall real estate allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

Private real estate investments should be considered in either value-added or opportunistic funds, which are designed to generate excess return for the overall real estate allocation. These strategies typically require some lease-up, development or repositioning, as well as utilize more leverage than public real estate investment trusts (REITs). As commitments to private real estate are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

By combining public REITs as a core holding (also provides liquidity) with investments in several private partnerships (or fund of funds), manager specific, as well as property specific risk, within the real estate allocation can be diminished.

d. Geography

Investments should be considered across the U.S. and internationally.

e. Property Type

The portfolio should be diversified across property types (e.g., apartments, office, industrial, and retail).

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

3. Natural Resources (Energy and Timber)

The objective of the natural resources allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Fund should seek access to top-quality managers and be diversified. Individual investments may be concentrated in a particular region, production stage, or commodity exposure, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The target allocations to energy and timber investments will serve as a guideline for committing capital. As commitments to natural resources are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

Investments should be committed to several private partnerships (or fund of funds) to mitigate manager specific, as well as deal specific risk.

d. Geography

Investments should be spread across the U.S. and internationally.

e. Stage/Type

(1) Energy

Investments in energy funds will focus primarily on the upstream end of the energy market with development and production, and to a lesser extent exploration. Exposure to the upstream markets will be gained through private

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

equity investments, working interests, and royalty interests. Investment in downstream activities such as refining, transmission, and distribution may be considered opportunistically. Upstream markets offer two primary benefits:

- (a) Inefficiencies, which offer attractive investment opportunities, and
- (b) Exposure to the underlying commodity (oil and gas), which provides an inflation hedge.

(2) Timber

Investments with Timber Investment Management Organizations (TIMOs) should be diversified by wood type (hard and softwood, species, etc.). Investing in TIMOs exposes the portfolio to timber prices, providing inflation protection, with the potential to generate additional return through the underlying management of the timberland.

III. Evaluation & Performance Measurement

A. Total Fund Benchmarks

The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Fund may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

1. The primary objective of the Fund is to achieve a total return, net of fees, equal to or greater than spending, administrative fees, and inflation. The primary objective of the Fund is:

***Total Return greater than Consumer Price Index + Spending Policy +
Administrative Fees***

2. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark comprised of each broad asset category benchmark weighted by its target allocation.

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

The current Broad Policy Benchmark is:

WEIGHT	INDEX	ASSET CATEGORIES
45%	Russell 3000	U.S. Equity / Hedged Strategies / Real Assets
30	MSCI ACWI ex-US	Int'l Equity / Hedged Strategies / Real Assets
25	Barclays Capital Aggregate Bond	Fixed Income / Hedged Strategies

3. Another investment objective is to achieve a total return in excess of the Target Weighted Benchmark comprised of each asset category benchmark weighted by its target allocation.

B. Manager Evaluation

1. Each active liquid investment manager will be reviewed by the Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:
 - a. Maintaining a stable organization
 - b. Retaining key personnel
 - c. Avoiding regulatory actions against the firm, its principals, or employees
 - d. Adhering to the guidelines and objectives of this Investment Policy Statement
 - e. Avoiding a significant deviation from the style and capitalization characteristics defined as “normal” for the manager
 - f. Exceeding the return of the appropriate benchmark and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the “Summary of Quantitative Performance Objectives” table
 - g. Exceeding the median performance of a peer group of managers with similar styles of investing

CENTRAL MICHIGAN UNIVERSITY CHAPTER 11
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS PAGE 11-36(R)

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

2. Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Fund already has invested with the firm.

C. Summary of Quantitative Performance and Risk Objectives

1. Liquid Active Managers

The following table summarizes the quantitative performance objectives for the liquid active managers. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager’s personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure. These managers are expected to outperform their primary benchmark, and the equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20.

ASSET CATEGORY	PRIMARY BENCHMARK	PEER UNIVERSE
<i>Equity</i>		
U.S. Large Cap	S&P 500	Top 50%
U.S. Mid Cap	Russell Midcap	Top 50%
U.S. Small Cap	Russell 2000	Top 50%
International Developed	MSCI EAFE	Top 50%
International Small Cap	MSCI EAFE Small Cap	Top 50%
Emerging Markets	MSCI Emerging Markets	Top 50%
<i>Fixed Income</i>		
Investment Grade	Barclays Capital Aggregate Bond	Top 50%
High Yield	Merrill Lynch High Yield	Top 50%
Bank Loans	CSFB Leveraged Loan	Top 50%
<i>Hedged Strategies</i> ¹	Appropriate HFRI Index	-
<i>Real Estate</i>		
U.S. REITs	FTSE NAREIT	Top 50%
Global REITs	FTSE EPRE/NAREIT Global Real Estate	Top 50%
<i>Commodities</i>	Dow Jones AIG Commodities or Rogers International Commodities	-

¹ Hedge fund managers are not constrained by traditional benchmarks and will have varying degrees of net exposure. Therefore, hedge fund returns are not easily benchmarked. For performance evaluation purposes however, each manager’s return will be compared to an appropriate HFRI index.

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

2. Public Liquid Passive Managers

Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

3. Private Illiquid Managers

Private equity, private real estate, and natural resource funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Fund may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns in the early years (3-5 years), creating a drag on fund performance until these investments begin to liquidate. This is often referred to as the J-curve, due to the shape of the performance. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations and compared to an appropriate peer group. An IRR calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private equity, private real estate, and natural resource managers.

a. Private Equity

Returns will be compared to the appropriate peer group in the Thomson Financial Venture Economics universe of similar style (buyout or venture capital) and vintage year.

b. Private real estate

Returns will be compared to the NCREIF Property Index, which is reported on a time-weighted basis, but will be translated into an IRR for measurement purposes.

c. Timber

Returns will be compared to the NCREIF Timberland Index, which is reported on a time-weighted basis, but will be translated into an IRR for measurement purposes.

d. Energy

There are no suitable benchmarks for private energy. Private energy funds are utilized as an inflation hedge and thus, their returns will be compared to CPI + 8%.

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

IV. GUIDELINES & RESTRICTIONS

A. Overview

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Fund's investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Fund. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each traditional equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement
2. Immediately notify the Vice President for Finance and Administrative Services (or designee) and consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management.

B. Public Equity Manager Guidelines (including REITs)

Each active equity investment manager shall:

1. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured at market
2. Vote proxies and share tenders in a manner that is in the best interest of the Fund and consistent with the investment objectives contained herein
3. Maintain a minimum of 25 positions in the portfolio to provide adequate diversification;

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

4. Construct a properly diversified portfolio across sectors and industries
5. U.S. equity managers should have no more than 20% of the total portfolio invested in foreign stocks or American Depository Receipts (ADRs)

C. Public Fixed Income Manager Guidelines

1. Each investment grade fixed income investment manager shall:
 - a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's
 - b. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating
 - c. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers)
 - d. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies
2. Each high yield/bank loan investment manager shall:
 - a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's
 - b. Hold no more than 20% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating
 - c. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies

D. Commodities Manager Guidelines

Each active commodities investment manager shall:

1. Be diversified with exposure to energy, metals, and agricultural commodities.
2. Have no more than 25% in any one commodity contract.

E. Illiquid Guidelines

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Fund may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request

CENTRAL MICHIGAN UNIVERSITY **CHAPTER 11**
MANUAL OF BOARD OF TRUSTEES
POLICIES, PRACTICES AND REGULATIONS **PAGE 11-36(R)**

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Fund is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Fund, potential tax ramifications must be considered during the investment analysis and selection process. The Fund shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Fund.

F. Derivative Security Guidelines

1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:
 - a. Manager's proven expertise
 - b. Value added by utilizing derivatives
 - c. Liquidity of instruments
 - d. Amount of leverage
 - e. Management of counterparty risk
 - f. Manager's internal risk controls and procedures

SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

2. The strategies in which derivatives can be used are:
 - a. Index Funds – Derivatives (typically futures contracts) will be used to securitize cash in order to fully replicate the performance of the index being tracked.
 - b. Portable Alpha – Derivatives (typically futures or swap contracts) will be used to generate “beta”, while the notional exposure amount is actively managed to generate “alpha”.
 - c. Fixed Income – Derivatives will be used as a cost efficient means to control and/or hedge risks such as duration, credit, and currency.
 - d. Overlay/Transition Management – Derivatives (typically futures contracts) will be used to securitize cash to maintain the target asset allocation without buying and selling physical securities.
 - e. Commodities – Derivatives will be used primarily for market exposure through futures and swaps. Positions should be fully collateralized to ensure leverage is not utilized to increase market exposure.
 - f. Hedge Funds – Derivatives will be used for many purposes. These uses include hedging, risk management, leverage, and market exposure.

V. ACKNOWLEDGEMENT

We recognize the importance of adhering to the philosophy and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to this Investment Policy Statement or the manner in which investment performance is reviewed are welcome.