SUBJECT: ENDOWMENT FUND INVESTMENT POLICY

The Endowment Fund Investment Policy, as amended and dated June 27, 2019, is adopted as follows:

Investment Policy Statement

Authority: BTM 06-27-19 at 6657/6671

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; BTM 7-14-11 at 5619.

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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 Vice President for Finance and Administrative Services 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.

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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. **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 chair of the investment committee and act as primary contact for the Fund's investment managers, investment consultant, and custodian.

3. **Investment Committee**
   The Investment Committee is responsible for recommending to the Vice President for Finance and Administrative Services investment policies and strategies; advising on 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.

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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 between 4.5 - 4.75% of the 20-quarter rolling average of the market value of the Endowment pool. The annual spendable income allocation cannot reduce original gift principal. Up to .25% of the annual spendable income will be reserved for administrative costs. 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

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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:

ASSET CATEGORY	TARGET			RANGE	Benchmark
Equity	***48%***			***30-65%***	
U.S. Equities		19		*10-40*	*Russell 3000*
Large Cap			*15*	*5-22*	
Small/Mid Cap			*4*	*0-18*	
International Developed		11		*5-20*	*MSCI EAFE net*
Emerging Markets		6		*0-10*	*MSCI EME net*
Global Equities		9		*0-15*	*MSCI ACWI*
Long/Short Equity		3		*0-10*	*HFRI L/S Equity*
Fixed Income	***19%***			***8-25%***	
Core bonds		9.5		*0-15*	*Bloomberg Barclay's*
Unconstrained Bonds		5		*0-10*	*Bloomberg Barclay's*
Diversified Fixed Income		3		*0-10*	*Bloomberg Barclays Multiverse*
Emerging Market Debt		1.5		*0-8*	*50% EMBI/50% GBI-EM*
Alternatives	***27%***			***0-40%***	
Private Equity		10		*0-15*	*Cambridge Associates US All PE*
Real Assets - Illiquid		7		*0-12*	*Based on Investment*
Hedge Funds		10		*0-20*	*HFRI Fund of Funds*
Other	***6***			***0-20%***	
Global Asset Allocation		6		*0-15*	** See footnote*
Opportunistic	***0%***			***0-10%***	
Cash	***0%***			***0-10%***	

* 60% MSCI All Country World/40% FTSE World Govt Bond Index Hedged

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C. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers, when each is appropriate. Highly efficient areas of the capital markets will more likely 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. 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:

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Classification of Asset	Limits
Liquid	At least 55% of the portfolio
Semi-liquid	No more than 25% of the portfolio
Illiquid	No more than 25% 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. Hedged equity strategies that are more highly correlated to the equity markets will be part of the overall equity allocation. 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, which may include opportunistic and value added private real estate, and real assets.

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.

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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 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 may be committed to venture capital, buyout, growth equity, special situations (secondaries, distressed, mezzanine, etc.) and opportunistic and value added real estate to build a diversified private equity portfolio. As commitments 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 generally will be utilized to mitigate manager specific, as well as deal specific risk, complemented with direct fund strategies.

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.

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2. **Real Assets**
   The objective of the real assets allocation is to serve as an inflation hedge. The real assets program may invest along the liquidity spectrum. This allocation may consist of real estate, timber, commodities, global natural resource equities, or TIPs.

   For the real assets 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**
      As commitments to real assets 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**
      There is a wide selection of types of real asset investments, including energy, timber and other commodities. The portfolio will be diversified by type of investment.

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3. **Opportunistic Bucket**
   The objective of the Opportunistic Bucket is to provide an opportunity to invest tactically in exceptional opportunities that occasionally present themselves due to anomalies in the market. These opportunities may be short term and may not fit into the target allocation. When no such opportunities exist the allocation will be 0%, hence the target of 0% and range of 0 – 10%. The investment time frame may be from a few months to longer term. The investments may be liquid but more likely will be illiquid for the duration of the investment.

   Each of these investments will be presented to the Investment Committee for vetting and the Vice President for Finance and Administrative Services for approval prior to funding and each investment will comply with the latest approved Investment Policy Statement.

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 investment objective is to achieve a total return in excess of the Policy Benchmark comprised of each asset category benchmark weighted by its target allocation. The target weights and benchmarks are summarized in Section II.B Investment Policy – Asset Allocation.

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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
    g. Exceeding the median performance of a peer group of managers with similar styles of investing

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.

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.

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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;
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

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benchmark (does not apply to TIPS managers)

2. Each unconstrained and diversified investment manager shall:
   a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's
   b. Have the flexibility to vary the allocation across global high yield, global credit, emerging market debt, bank loans, securitized assets, and currencies
   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. The unconstrained bond manager may vary the duration of the portfolio from -3 to +8 years.

D. Global Asset Allocation Manager Guidelines

1. Each global asset allocation investment manager shall:
   a. Have the flexibility to invest across fairly liquid traditional and non-traditional asset classes in order to further diversify the Endowment, control risk and enhance return potential. The majority of the assets will be invested in liquid and global equities, bonds, currencies, and commodities.
   b. Have the ability, from time to time, to make additional diversifying investments in other asset classes or securities such as hedge funds.
   c. Have the ability to use derivatives in this portfolio, but are limited in use relative to the Derivatives Policy Statement herein, unless approved in writing by the Vice President Finance and Administrative Services (or designee)

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 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

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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 Guidelines

1. Derivative instruments are permitted only as specified in this policy. Where appropriate, investment managers may use derivative securities for the following reasons:

   a. Hedging. To the extent that the portfolio is exposed to clearly defined risks and there are available derivative contracts that can be used to reduce those risks in accordance with portfolio objectives, the investment managers are permitted to use such derivatives for hedging purposes.

   b. Creation of Market Exposures. Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.

   c. Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes. Non-U.S. equity and global bond managers may employ an active currency management program and deal in futures and options within the discipline of that currency management program. The use of futures and options to establish a leveraged exposure position is prohibited in a long-only mandate but permissible in a hedge fund strategy.

   d. Leverage. Financial leverage may be employed prudently by hedge fund managers. Derivatives may be used to magnify or mitigate overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable which would be allowed by the investment guidelines contained above for the underlying portfolio.

2. The following use of derivatives is expressly prohibited unless an exemption is provided from the Vice President for Finance and Administrative Services :

   a. Unrelated Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable if such exposures would not be allowed by the investment manager’s guidelines for the underlying portfolio.

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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.