

SUBJECT: EXCEPTION TO INVESTMENT POLICY, MARTHA SEGER FUND

An exception is made to the Investment Policy established by the Board of Trustees, to permit the student Investment Club to raise money for an endowment fund to be managed by student members of the club.

On December 17, 2015, The Board of Trustees approved a document entitled “Exception to Investment Policy, Martha Seger Fund.”

Student Endowment Investment Policy Statement

I. Policy

The goal of this fund is to achieve a positive compound annual return with low standard deviation. The time horizon is long term and investments will be made primarily in undervalued securities. To accomplish our goal, the fund will diversify monies across asset classes with low correlation, thereby reducing risk and increasing the return.

II. Roles & Responsibilities

A. Structure

The purpose of this structure is to establish a more efficient process on how investments are decided upon and executed. This structure requires one head faculty member (with a designated backup) and will normally be composed of four student executives, seven student portfolio managers, and 14 student analysts. The four executives will have titles of Chief Investment Officer (CIO), Chief Economist (designated backup to CIO), Chief Accounting Officer, and Marketing Director. The fund will focus on the analysis of market sectors, including, but not limited to, fixed income, consumer goods (consumer discretionary/non-discretionary), financial and alternative investments, healthcare, industrials and materials, technology/IT, and utilities/energy.

The goal is to have one portfolio manager and two industry analysts for each sector. They will be responsible for monitoring sector performance, assessing current positions and evaluating potential opportunities.

B. Faculty, Executives, Portfolio Managers and Analysts

Authority: BTM 12-17-2015 at 6006

History: BTM 12-12-91 at 2779; BTM 2-28-92 at 2798/2800

A. Faculty, Executives, Portfolio Managers and Analysts

The positions referred to in this section are only to be held by currently enrolled, full time students of Central Michigan University.

In the case that either the head faculty member or Chief Investment Officer are unavailable, it is required to designate a backup for each position. The backup for the CIO will be the Chief Economist. The head faculty member will select, or work with the students, to select a backup faculty advisor. Each backup will have the authority to make decisions in the absence of either, the head faculty member or the CIO.

1. Head Faculty Member & Executives

Head Faculty: Involved in Investment Committee meetings, stays in contact with Chief Investment Officer, assures fund is staying within its guidelines and has veto power over any investment recommendation.

As noted on page six, one of the faculty advisors' major responsibilities is to ensure the fund adheres to the following: **Any security, or combination of securities, that has a feature of potentially incurring unlimited losses is prohibited. Margin accounts are prohibited. Short selling is prohibited.**

Chief Investment Officer: Plans, manages and directs the fund. Monitors research and performance of the funds' investments and maintains asset allocation guidelines set forth in this proposal.

Chief Economist: Researches, summarizes and communicates current economic data and indicators. Provides guidance to the fund about state of the economy, monetary and fiscal policy. If the CIO is unavailable to make decisions, then the Chief Economist is the designated backup and has the authority to make decisions.

Chief Accounting Officer: Monitors the funds accounting, records, budgets and financial data from brokerage statements, trade confirmations, and maintaining spreadsheets of fund performance metrics.

Marketing Director: Directs funds internal and external communications, objectives, marketing policy, website development and updating. Prepares informational and promotional material about the fund. Develops marketing plan and adjusts it when necessary.

All executive managers will be responsible for providing oral and written reports once a year to the Finance & Law Department. The reports will show recent activity, fund performance and projections for each asset class.

2. Portfolio Managers

Portfolio managers are responsible for managing a market sector and the analysts in their sector. Analyzes developments within the sector, trends, news, company filings, M&A and the

financial/competitive position of funds' investments in that sector. Conducts ongoing research on investment opportunities and makes presentations to the Investment Committee with buy, sell or hold recommendations. Common responsibilities include but are not limited to: performing investment screens, fundamental research, evaluation of new investments, documentation for the basis of a trade and status reports.

The endowment primarily focuses on a sector rotation strategy. Given this focus, portfolio managers will be responsible for maintaining a macroeconomic outlook on their assigned sector. They will use their analysis to determine if the current allocation—to their sector—is optimal. If not, then the portfolio manager will propose to rotate money out of/or into their covered sector vs. another.

3. Analysts

Analysts monitor the funds' investments in their respective market sector. Analyzes developments within the sector, trends, news, company filings, M&A and the financial/competitive position of funds invested in that sector. Conducts ongoing research on investment opportunities and assist portfolio managers in making presentations to the Investment Committee with buy, sell or hold recommendations. Common responsibilities include but are not limited to: performing investment screens, fundamental research, evaluation of new investments, documentation for the basis of a trade and status reports.

C. Investment Committee

The Investment Committee will normally be composed of the four executives outlined above and the seven portfolio managers. Each member of the committee will have one vote and is responsible for voting on investment decisions proposed by managers/analysts. They will be responsible for establishing asset allocation policy and investment strategy within each asset class and maintaining the target ranges set forth in the guidelines of this policy statement. The chair of the Investment Committee will be the CIO; they are responsible for running the Investment Committee meetings.

The Investment Committee will coordinate and monitor the activities of the fund, vote on investment decisions, collect documentation of funds operations, verify up to date documentation of transactions and research reports is maintained. The committee must prepare an annual report and submit the report to the Finance & Law Department.

III. Procedures

A. Investment Reports

Prior to any investment, a research report and visual presentation is required in order to execute a transaction. The report and presentation are to be maintained and documented for successive managers/analysts. The research report will include the following:

- timely information;
- written in clear language, with key assumptions clearly identified;
- distinguishes clearly between opinion and fact;
- contains analysis, forecasts, valuation, and a recommendation that are internally

consistent;

- presents sufficient information to allow a reader to critique the valuation;
- states the key risk factors involved in an investment in the company; and
- discloses any potential conflicts of interests faced by the analyst.

B. Trade Execution

The new brokerage account will be accessible by the Chief Investment Officer and the designated backup only; whom is responsible for executing transactions voted on by the Investment Committee. The brokerage will include a dual signature feature; meaning the transactions will not be fully executed until Central Michigan University's VP of Finance & Administrative Services designee approves the transactions through a second password (the dual signature feature).

Given the established process and authority to clear transactions through any CMU account, all trades are to be submitted to the office of the VP of Finance and Administrative Services on the 15th of every month. Trades are to be submitted once a month and such trades will **ONLY** clear once a month. There are many tools to utilize that automatically execute trades based on specific criteria; meaning, if the specified criteria become true, the trade will automatically execute.

C. Rebalancing

It is expected that individual security/asset class positions will deviate from their ranges. When a security/asset class breaches the minimum or maximum constraint, it is expected that the Investment Committee will rebalance the portfolio to meet policy guidelines. Rebalancing is to be, at minimum, reviewed annually.

D. Succession

The Chief Investment Officer and any other individual given access will be required to sign an agreement with the, office of the VP of Finance & Administrative Services regarding the dual signature login. When the term ends for the current CIO, that individual will be required to sign off as the current CIO and ensure their successor signs the agreement with the office of the VP of Finance & Administrative services.

All documents and research regarding each transaction are to be maintained for successive analysts to understand the reasons why the fund has established positions in the securities they are analyzing. This will allow for greater transparency and allows the analyst to evaluate whether the analysis still holds true.

The documents and thumb drive are to be maintained in the head faculty members office. When an advisor change occurs, it is the advisors responsibility to transfer the documents to the new advisor. If the fund ceases to operate, the documents are to be returned to the finance department office, where the documents will be held for a period of at least two years.

E. Investment Earnings

Investment earnings credited to the Investment Club will be those generated by its investment activities. Short-term investment earnings from the University's pooled cash will not be distributed to the Investment Club. Endowment fund principal will only be used to affect investment transactions and will not be used for operating expenses of the Investment Club.

IV. Investment Objectives

A. Risk & Return

The goal is to seek an annual return in excess of the long-term annual return of the market portfolio as measured by the S&P 500, while providing lower risk (volatility). The objective is not to chase a specific benchmark. Any asset class can experience periods of superior/recessive performance. The fact is the market reverts back to an equilibrium value. Therefore, we expect to achieve a return in excess of this mean reverted return; doing it in a way that reduces volatility.

V. Asset Allocation

A. Target Allocation

The Investment Committee will use a tactical asset allocation approach in determining the appropriate weights assigned to each asset class. The objective is to diversify investments across multiple non-correlated assets to minimize risks and enhance returns. Asset classes include equity, fixed income/credit markets, cash, real assets, and alternatives. Fundamental and quantitative data will be used in making security selection decisions.

ASSET CATEGORY	TARGET	RANGE
Equity	60%	45-75%
Fixed Income	25%	15-35%
Alternative/Hedged	10%	0-20%
Cash	5%	0-10%

Restrictions are set forth below:

- No more than 10% of endowments assets can be invested in one company's common or preferred stock.
- Companies with market cap of less than 100 million cannot exceed 20% of endowments assets.
- No more than 10% of endowments assets can be invested in less than investment grade fixed income securities.
- No more than 5% of endowments assets can be invested in one company's, less than investment grade, fixed income securities.

- No more than 1.0% of endowments assets can be invested in one derivative contract, derivative contracts not used for hedging cannot exceed 3% of the portfolio.

B. Asset Classes

Any security, or combination of securities, that has a feature of potentially incurring unlimited losses is prohibited. Margin accounts are prohibited. Short selling is prohibited.

Equity & Equity Like Securities

Investments are restricted to common and preferred stocks listed on major U.S. stock exchanges or traded on the National Over the Counter (OTC) Market. Over the Counter Pink Sheets and Over the Counter Bulletin Board securities are prohibited.

The following are permitted (see prohibited ETFs and ETNs):

- Index Mutual Funds
- Exchange Traded Funds (ETF)
- Exchange Traded Notes (ETN)
- Foreign Securities
- REIT's
- Fund-of-Funds/Alternative Securities
- Managed Futures

The following are prohibited:

- OTC Pink Sheets
- OTC Bulletin Board
- Leveraged ETF
- Leveraged ETN

Fixed Income & Cash Equivalents

Fixed income/money market investments will primarily be in investment grade corporate, municipal and government securities. Emerging market debt securities are permitted.

Derivatives

Permitted:

- Covered Call
- Protective Put
- Cash Secured Put
- Long Call
- Long Put
- Any combination that adheres to guidelines/restrictions

Prohibited (most are already prohibited because brokerage account is not a margin account):

- Naked Call Writing
- Naked Put Writing
- Futures Contracts
- Futures Options

VI. Performance and Evaluation

A. Global Investment Performance Standards (GIPS)

The goal for performance measurement is for the endowment to be in compliance with the Global Investment Performance Standards. This will allow students to become familiar with the industry standard for fund reporting and performance measurement. It is likely that the fund will not be in compliance with GIPS; the purpose is to expose students to the standards.