

## **ANDERSON UNIVERSITY INVESTMENT POLICY**

### **I. General Investment Objectives**

- A. The primary objective for investment of all funds of the university is to provide an adequate flow of resources sufficient to meet the budgetary and beneficiary payout requirements as determined by the university, to maximize the long-term total return with appropriate risk exposure and to preserve the principal of the investments.
- B. The primary investment objective of endowment and unrestricted funds is to follow those policies that will preserve the principal value, provide predictable income and, to the extent possible with prudence, to increase the principal to offset the long-term effects of inflation. These investments of the university shall be managed in a way as to place an emphasis on total return. The university has adopted a UMIFA resolution which authorizes the total return spending rate for distribution of income to the unrestricted operating budget. This rate is recommended by the Treasurer and approved by the Board of Trustees.
- C. The primary investment objective of trust funds is to follow those policies that will provide the total return necessary to provide for distributions to the beneficiaries of the trusts and the extent possible with prudence, to increase the principal of the trust. Laws governing trust administration will be observed in determining investments appropriate for the trusts.

### **II. Investment Managers.**

- A. The Investment Committee of the Board of Trustees has been delegated authority to select external investment managers, to prepare specific investment guidelines to be used by investment managers, and to appraise investment performance. The Investment Committee will hold periodic meetings with investment managers to discuss current investment philosophy, prepare an annual performance review, and prepare evaluations of the performance of all institutional investment funds for annual presentation to the Board of Trustees.
- B. External investment managers and the Vice President for Finance and Treasurer shall recognize the fiduciary nature of the funds they manage and the significant responsibilities associated with the management of their respective portfolios. Each manager will exercise judgment in purchasing and holding securities which persons of prudence and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds considering the probable income as well as the probable safety of their capital.
- C. The investment performance of all managers will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital appreciation or depreciation. In measuring investment performance, managers will be compared to a broad universe of other managers employing similar investment style characteristics. The Investment Committee shall also establish common equity, bond and real estate indexes for the measurement and evaluation of all investment managers employed by the university.
- D. All investment managers employed will be held responsible for all investment decisions regarding the assets in their funds and shall be held accountable for the objectives and policies of this investment statement. However, it is intended that investment managers will make their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion within policy limits to (1) select individual securities, (2) make periodic adjustments to the portions of equity and fixed income investments, where applicable, and (3) diversify their

portfolios. The Investment Committee reserves the right of advisement on portfolio management by any vestment manager employed by the university.

### III. Portfolio composition

#### A. Endowment Investments

1. The endowment investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security (investment or class of securities) will have a disproportionate or significant impact on the total portfolio.
2. The target allocation for the endowment fund equity component is 80 percent of the current market value with an allowable range of 70 to 90 percent. For this purpose, real estate, venture capital and convertible securities will be considered as equity investments. Allocations to specific asset groups within the equity component (e.g. large cap, mid cap, small cap, real estate) shall be recommended by the investment manager and adjusted to targets on a regular basis (no less often than quarterly).
3. The target allocation for the endowment fund fixed income component of the portfolio will be 20 percent of the current market value with an allowable range of 10 to 30 percent.

#### B. Trust Investments

1. The target allocation for investment of trust funds will be determined individually for each trust based on the unique characteristics of the trust. Attention will be given to the terms of the trust, the age of the beneficiaries and the preferences of the grantor.
2. Recommendations for investment of trust funds by Development officers involved in procurement of trust donations will be considered.
3. Laws governing fiduciary responsibilities will be observed notwithstanding individual preferences and recommendations.

#### C. Unrestricted Investments

1. It is understood that certain investments in the unrestricted pool may be required to be retained because of the nature of the donated asset (e.g. life estates, term trusts). Investments of this nature will be brought to the attention of the Investment Committee by the Treasurer.
2. Investments retained in the unrestricted fund will be managed in accordance with the guidelines of the Investment Policy.
3. Investments which are not retained will be liquidated in an orderly fashion to allow for use of the funds for their intended purpose.

### IV. Fixed Income Investment Policies

- A. The purpose of fixed income investments is to provide a predictable source of income.

- B. The following fixed income assets are specifically approved for investment:
1. Securities issued by the U.S. government and federal agencies
  2. Corporate bonds – will consist of a high quality fixed income portfolio with an aggregate rating of A or better (Moody’s and Standard and Poor’s rating)
  3. Commercial paper – rated A1 or P1
  4. Bank certificates of deposit - FDIC insured
  5. Money market funds – through a financial institution or brokerage firm
  6. Loan to Anderson University unrestricted fund approved by the Board of Trustees per the financial policy.
- C. Fixed income investments should be readily marketable. Investments received as donations which are not readily marketable will be reported to the Investment Committee.
- D. To the extent possible, cash reserves of the institution shall be pooled into a common account to maximize investment potential. All such funds shall be invested in fixed income investments until needed.
- E. Any fixed income security held directly by the university, which drops below its initial credit rating, must be reviewed by the Investment Committee. Such investments need not be sold but should be reviewed by the Committee and specifically approved for continued investment.
- F. As a normal rule, the university shall not invest in any tax-exempt securities. However, authorization is granted for this type of investment when it is a part of an investment strategy pertaining to the management of charitable remainder trusts.
- G. As a general rule, the university shall not directly invest in mortgage notes or other notes receivable. However, it is recognized that such investments may be a necessary part of doing business in selling institutional assets or in receiving such assets through donations. Note investments shall be secured in an appropriate legal manner.

#### V. Equity Investment Policies

- A. The purpose of equity investments is to provide current income, growth of income and appreciation of principal.
- B. Common stocks and convertible securities shall be included in portfolios primarily to provide potential long-term capital growth and appreciation with current income as a secondary investment objective.
- C. Stock investments are to be made taking into account the following factors among others:
1. Quality of company management
  2. Superior marketing capabilities
  3. Balance sheet of company
  4. Consistent return on equity
  5. Expected future ability to partially or completely finance growth through internal cash management

6. Favorable historical pattern of earnings and dividend growth and expected future favorable trends.

D. Investments shall be primarily in common stock with companies whose securities enjoy marketability adequate for the respective portfolio. In order to broaden the investment opportunities for investment managers, they are permitted to invest in equity securities listed on the New York Stock Exchange, American Stock Exchange and NASDAQ, and other exchanges trading in stocks consistent with guidelines in the investment policy.

E. The Board recognizes that the university receives through donations stock in closely held companies that is not readily marketable. It is further recognized that some of these equity investments should be continued because of continuing relationships to the donor or for other reasons. Such situations must be brought to the attention of the Investment Committee by the Vice President for Finance and Treasurer and approved by the Committee for continued investment.

F. The risk exposure of the equity portfolio will be consistent with that of the benchmark indices used for comparison purposes and consistent with the objectives and guidelines of the investment policy.

## VI. Other Investment Policies

A. Convertible securities represent an appropriate medium for the equity portfolio when they offer a better risk/return ratio than the equity in the same company. Policies regarding these securities are essentially the same as those for common stock.

B. The university shall not invest in the following:

1. Short sales, margin purchases or borrowing
2. Private placements or other restricted securities, except as specifically approved by the Investment Committee
3. Puts, calls, straddles or hedging (exception: fully collateralized anticipating hedges)
4. Warrants or other equity options, except when acquired as a part of a stock purchase or through the ownership of stock
5. Commodities, except as received through donations with continued ownership requested and approved by the Investment Committee
6. Precious metals, gemstones and other tangibles except as received through donations with continued ownership requested and approved by the Investment Committee.

C. No venture capital investment shall be made without the specific approval of the Board of Trustees.

D. It is recognized that the university's gift program encourages the donation of a wide range of property assets. It shall be the university's policy to liquidate these asset gifts as soon as possible. However, it is recognized that some assets may need to be retained either to fulfill an agreement with a donor or to allow time for a reasonable sales value to be obtained from the asset. All such miscellaneous investment assets shall be reviewed by the Investment Committee.

E. The Board of Trustees assumes responsibility for the establishment of investment objectives and policies (as defined in this statement) that are to guide the investment of the university's endowment

and other investment assets. The Investment Committee of the Board of Trustees has been delegated authority to adopt specific policies and guidelines for investment management in accordance with this statement. The Vice President for Finance and Treasurer is authorized to take whatever steps necessary in order to comply with the objectives and policies of this statement and other specific policies and guidelines adopted by the Investment Committee. The Vice President for Finance and Treasurer is responsible for providing annual reports to the Investment Committee on all investments.

- F. The Board recognizes the university's responsibility as a minority stockholder to encourage corporate citizenship, as well as corporate growth, in the companies whose shares it owns. Thus, continuing performance of social responsibilities by corporate managements should be encouraged by proxy votes or by other appropriate actions based upon information available to the Investment Committee. In all investment management decisions, the Investment Committee shall be guided and instructed by the Anderson University Mission Statement adopted by the Board of Trustees on April 22, 1983.
- G. Should changing conditions make it desirable to modify this Statement of Investment Objectives and Policies, such modification may be made upon recommendation by the Finance Committee and approved by the Board of Trustees.
- H. No single investment shall exceed 10 percent of the market value of the university's total investments. Deviation from this policy due to donated investments or market value fluctuations will be brought to the attention of the Finance Committee.
- I. The Finance Committee may at its discretion appoint an Investment Committee to perform the various functions herein assigned to the Finance Committee. The committee will consist of 6-10 members. Its membership will include the Treasurer of the university and no less than one member of the Finance Committee. It is recommended that persons within the trust administration area of Development also be included on the committee.

Office of the Treasurer

April 11, 2005