

Wright State University

Investment Policy
Draft: Version 6.0 - 6/8/23

Part I: Investment Program Governance

Article 1.00: Overview

- 1.01 Wright State University (“University”) is a political subdivision of the State of Ohio and as such is responsible for the stewardship of funds received from a variety of public and private sources for accomplishing its legislatively mandated public mission.
- 1.02 The University’s Board of Trustees (“Board”) has ultimate fiduciary responsibility for the financial health of the institution. To this end the Board has adopted a Financial Governance Policy that requires the Board to direct and oversee a prudent investment program for funds entrusted to the University.
- 1.03 Accordingly, this policy establishes the University’s Investment Policy. The purpose of the policy is to provide a framework through which the Board exercises its duty to effectively define, monitor, and evaluate the University’s investment program.

Article 2.00: Policy Objectives and Scope

- 2.01 The goals and objectives of the University’s investment program are to provide a real total return from assets invested that will preserve the university’s purchasing power, while generating income in support of University objectives. The policy:
 - A. Establishes and documents a framework for prudently managing the University’s investible assets within short, intermediate, and long-term time horizons.
 - B. Provides guidelines for the Board’s Finance, Audit, Governance, and Compliance Committee (“FAGC”) to implement and oversee the investment program.
 - C. Defines roles and responsibilities of all parties involved in the University’s investment program.
 - D. This policy governs the investment of cash and reserves that are under control of the Board. It does not govern funds held by any affiliated entity.

Article 3.00: Regulatory Compliance

- 3.01 The University will implement its investment program in accordance with the provisions of Ohio Revised Code (“O.R.C.”) 3345.05 and 1715.52. Accordingly:
 - A. The University will ensure that at least twenty-five percent (25%) of the average of its investment portfolio, over the course of the previous fiscal year, shall at all times be invested in securities of the United States Government or of its agencies or instrumentalities, the

- Treasurer of the State of Ohio's pooled investment program, obligations of the State of Ohio, or any political subdivision of the State of Ohio, certificates of deposit of any national bank located in the State of Ohio, written repurchase agreements with any eligible Ohio financial institution that is a member of the federal reserve system or federal home loan bank, money market funds, or bankers acceptances maturing in 272 days or less which are eligible for purchase by the federal reserve system; and
- B. A maximum of 75% of the average amount of the University's investment portfolio, over the course of the previous fiscal year, may be invested as permitted by the Ohio Revised Code and further defined in this policy; and
 - C. The University may hire qualified third-party investment advisors to assist in administering the investment program. To be "qualified," investment advisors must:
 - 1. Be licensed by the division of securities under O.R.C. section 1707.141 or be registered with the Securities and Exchange Commission.
 - 2. Have experience in the management (i.e., advisory oversight) of investments of public funds, especially in the investment of state government investment portfolios or be an eligible institution referred in O.R.C. section 135.03.

Article 4.00: Duties and Responsibilities

- 4.01. The Board is responsible for the University's investment program. The Board:
 - A. Approves this Investment Policy and any changes thereto;
 - B. Monitors ongoing effectiveness of the investment program;
 - C. Reviews periodic reports to assist in accomplishing its oversight responsibilities.
- 4.02. The Board delegates responsibility for overseeing the investment program to the FAGC. As such, the FAGC serves as the Board's investment committee. The FAGC:
 - A. Reviews University investment policies and policy compliance and recommends changes accordingly;
 - B. Monitors performance of the investment program and reports investment results to the Board;
 - C. Approves third party investment advisors to assist in administration of the investment program; and
 - D. Approves requests to exceed approved asset allocation ranges for temporary or tactical reasons;
 - E. Receives and evaluates investment reports from representatives of university administration ("University Administration").

- 4.03 University Administration is responsible for implementing the University’s investment program in accordance with this policy. University administration will designate internal and/or external fiduciary managers who will have trading authority for implementing the investment program on a day-to-day basis. Fiduciary Managers may include university employees, students managing the student managed pool, and third-party investment managers. University administration will:
- A. Serve as primary contact for any third-party investment advisors, external fiduciary managers, and custodians;
 - B. Report on portfolio composition and performance to the FAGC.

Article 5.00: Conflicts of Interest

- 5.01 All persons responsible for investment decisions, investment management, investment consulting, or any investment advice whatsoever, shall disclose at the beginning of any discussion or consideration by the Board, FAGC, any relationships, material ownership, or other material interests that the person has, with respect to any investment issue under consideration.
- 5.02 The FAGC, university administration, or consultants responsible for investment decisions or who are involved in the management of the investment portfolio shall refuse any remuneration, commission, gift, favor, service, or benefit that might influence them in the discharge of their duties.

Article 6.00: Third Party Investment Advisors

- 6.01 The University is authorized to employ third party investment advisors (“advisors”) in the administration of its investment program as approved by the FAGC.
- 6.02 The scope and responsibilities of advisors may vary, but they will, at all times, be subject to a current written agreement that complies with this investment policy and that includes, but is not limited to, definitions of scope of work, expectations, performance objectives, limitations to advisor duties and authorities, and a commitment to abide by the contents of this investment policy.
- 6.03 As directed by written agreement, advisors may:
- A. Have full investment discretion with regard to security selection, subject to the limitations of this policy.
 - B. Vote proxies that are in the best interests of the University and its investment program.
 - C. Provide electronic access to, or electronic copies of, quarterly (or more frequent as may be applicable) account information including the performance, activity, and value of investments being managed.
 - D. Monitor and maintain compliance with this investment policy
 - E. Support administration in implementing approved tactical asset allocation changes

- F. Monitor performance of the overall investment program and the performance of individual investments
 - G. Provide research, advice, and education on investment issues as needed or requested
 - H. Share best practices with the FAGC and university administration.
- 6.04 As of the date of this policy, the following third-party investment advisors are approved by the Board:
- A. SEI Investments Company

Article 7.00: Approved Financial Institutions/Custodians

- 7.01 The Board may engage one or more financial institutions and/or custodians to hold physical possession of University financial assets, including cash, stock certificates, bonds, and other financial instruments. University custodians are responsible for safeguarding these types of assets.
- 7.02 Approved Financial Institutions/Custodians perform agreed upon services as outlined below in accordance with either written account disclosures or a written custodial agreement as well as the terms of this policy. Financial Institutions/Custodians for the University's investment program is responsible for:
- A. Functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, and preparation of reports.
 - B. Providing timely reports detailing investment holdings and investment transactions to Administration and the FAGC.
 - C. Meeting with University Administration and FAGC as requested.
 - D. Notifying University Administration and FAGC of any significant changes in personnel or ownership of the Financial Institution/Custodian.
- 7.03 The approved Custodians and Financial Institutions for the University's investment program are:
- A. SEI Investments Company
 - B. TD Ameritrade
 - C. STAR Ohio
 - D. JP Morgan
 - E. KeyBank

Part II: Investing Guidelines

Article 1.00: General Investing Guidelines

- 1.01 The policies in this article provide high level investment guidelines that govern the University's investment program.
- 1.02 The long-term objective of the University's investment program is to maximize the real return, or the nominal return less inflation, of assets under management over a complete market cycle with an emphasis on preserving capital and reducing volatility through prudent diversification.
- 1.03 To achieve its investing objective, the University will prioritize capital preservation and liquidity of University funds, especially for shorter investment horizons, while minimizing the amount of idle cash. Achieving real returns is important but will not take priority over the preservation of capital on a year-over-year basis.
- 1.04 The University employs an asset allocation strategy along with a pooled portfolio approach for its investment program based upon the university's short, intermediate, and long term funding needs. Asset allocation may be implemented using both active and passive investment management strategies in order to achieve investment objectives.
- 1.05 To monitor performance, the University will compare its investments to suitable benchmarks in each investment pool.

Article 2.00: Managing Risk

- 2.01 The University will primarily take a conservative approach to its investment program in order to maintain a level of financial assets sufficient to fund operations.
- 2.02 Over a full market cycle, the risk of each investment pool should be consistent with the selected benchmark.
- 2.03 "Credit Risk" is the possibility of a loss resulting from a borrower's failure to repay a loan issue or meet their contractual obligations. To minimize credit risk, WSU will:
 - A. Pre-qualify the financial institutions, broker/dealers, and Advisors with which the University conducts business;
 - B. Diversify the investment portfolio sufficiently to minimize potential losses;
 - C. Actively rebalance the portfolio based upon a prudent asset allocation strategy;
 - D. Actively monitor investment holdings.
- 2.04 "Liquidity Risk" is the risk that an organization cannot meet its short-term obligations. To minimize liquidity risk, the University's investment portfolio will be managed such that thirty percent of assets would be liquid within one year, and at least seventy five percent of assets would be liquid within three years.

- 2.05 “Interest Rate Risk” is the risk of potential investment losses due to adverse changes in market interest rates. To minimize interest rate risk, the overall effective duration of the University’s aggregate fixed income investments will not exceed 3.0 years.
- 2.06 “Concentration Risk” is the risk of a loss in the value of an investment portfolio arising from excessive investments in a single security, type of securities, or asset class. To minimize concentration risk, the University will seek to avoid, to the extent possible, excessive concentrations in specific security types, maturity dates, and other investment attributions.

Article 3.00: Asset Classes and Asset Allocation

- 3.01 To achieve its investment objectives, the University will allocate its investment portfolio among several asset classes in order to achieve appropriate liquidity, risk-adjusted returns, reduce volatility through diversification, and provide a hedge against inflation.
- 3.02 The University recognizes two general asset classes for its investment portfolio - Fixed Income, and Equities.
- A. Fixed Income includes cash and cash equivalents, investment grade marketable bonds, and other high quality, short-term liquid investments. Fixed income investments are designed to meet near-term operating needs, provide capital for portfolio rebalancing, fund capital calls to private market investment vehicles, reduce overall volatility, and generate current income.
 - B. Equities consist mainly of direct or indirect investments in public or private equities. Equities are likely to be the most volatile asset class.
- 3.03 Asset allocation in the context of this policy is designed to balance the overall structure of the investment program over the long-term.
- A. The University’s Asset Allocation includes the long-term target for each asset class as well as the allowable allocation minimum and maximum around each target. The allowable allocation ranges help to ensure adequate diversification, define permissible magnitude of tactical asset allocation, and constrain both absolute and relative risk.
 - B. Administration and the Fiduciary Managers are authorized in their discretion to adjust allocations to each asset class within the approved allocation ranges.
 - C. Requests to adjust allocations of each asset class outside of the approved allocation ranges requires approval of the FAGC.

Article 4.00: Rebalancing

- 4.01 The University will periodically review the asset allocation of its investment portfolio. Rebalancing may occur whenever the fair value accounted for by an asset class deviates from the approved allocation range for that asset class and the Fiduciary Manager is authorized to rebalance the portfolio within the asset allocation targets documented in this policy.
- 4.02 In general, the investment portfolio’s average asset allocation should match the targets documented in this policy. However, there may be times when tactical over- or underweights may

be desired to take advantage of favorable market conditions or offset idiosyncratic risks in WSU's operating environment. In addition, the Board recognizes that investing in certain illiquid investments (e.g. Private Equity) may make it challenging to quickly adjust those allocations.

- 4.03 Any change to the University's asset allocation targets must be approved by the FAGC with notification to the Board. Accordingly, Management may recommend a tactical adjustment to the allowable allocation ranges that would remove the immediate requirement to rebalance.

Article 5.00: Investment Pools

5.01 To enhance its asset allocation strategy, the University will further segment its investment portfolio into separate pools based on the University's need for funds over varying time horizons. The University's authorized investment pools are:

- A. Cash Pool: The objective of the Cash Pool is to safeguard funds required to meet the university's short-term operating needs. It will be invested according to this policy in highly liquid investments with little or no risk of principal loss.
- B. Liquidity Pool: The objective of the Liquidity Pool is to provide a liquid source of funds for the intermediate term, and to back up the Cash Pool in the event it falls below minimum policy levels. It will be invested according to this policy in high quality, investment-grade securities that offer greater return than the cash equivalent investments of the Cash Pool.
- C. Strategic Pool: The objective of the Strategic Pool is to support the long-term strategic plans of the university. It may be invested according to this policy in securities that produce higher risk-adjusted returns and the potential for capital appreciation.
- D. Student-Managed Pool: The Board may authorize one or more student-managed investment funds to provide educational opportunities for WSU students to gain real-world portfolio management experience in institutional investing. Student-managed funds will be invested according to a written investment policy with guidelines consistent with the University's investment program.

Article 6.00: Cash Pool Investment Guidelines

- 6.01 The Cash Pool will be maintained at no less than two months of expected university operating expenses adjusted seasonally, or ~~thirty~~twenty percent of the university's investment portfolio, whichever is greater.
- 6.02 The Cash Pool will be limited to the Fixed Income asset class, which includes cash, money market accounts, and other cash-equivalent investments with an effective duration of one year or less.
- 6.03 Authorized Cash Pool investments include:
- A. Obligations of the United States Treasury, including obligations issued by United States agencies, any other obligation guaranteed by the U.S. Government.

- B. Cash accounts/CDs with any federally insured U.S. financial institution, up to the federal deposit insurance limit (currently \$250,000).
- C. STAR Ohio as long as it maintains an “AA” S&P rating or higher.
- D. Certificates of Deposit/Bankers’ Acceptances/Repurchase Agreements issued by highly rated commercial banks having a Tier 1 Capital Ratio greater than or equal to eight percent where public fund deposits are collateralized under O.R.C. 135.
- E. High quality commercial paper issued by U.S. and Foreign corporations, at least eighty percent of which must have a minimum rating of A1/P1 by Standard & Poor’s and Moody’s, with no more than twenty percent having a minimum rating of A2/P2.
- F. High quality Asset Backed Commercial Paper issued by U.S. and foreign corporations, at least eighty percent of which must have a minimum rating of A1/P1 by Standard and Poor’s and Moody’s, respectively, with no more than twenty percent having a minimum rating of A2/P2.

Alternative: (Commercial paper issued by an entity that has assets exceeding \$500 million which have a minimum rating of “A” at the time of purchase and that mature not later than 270 days after the date of purchase).

Article 7.00: Liquidity Pool Investment Guidelines

- 7.01 The Liquidity Pool will be maintained at an amount such that when combined with the Cash Pool, the two pools together hold no less than six months of prior or current year expected operating expenses, whichever is greater.
- 7.02 The Liquidity Pool will be limited to the Fixed Income asset class, including investment grade securities with an effective average duration of three years or less.
- 7.03 Authorized Liquidity Pool investments include:
 - A. Any investment authorized for the Cash Pool;
 - B. United States Treasury notes, bonds, bills, or certificates of indebtedness, or any investment backed by the full faith and credit of the United States.
 - C. Lawfully issued debt obligations of the agencies and instrumentalities of any U.S. state or their political subdivisions with a long-term rating of at least “A” or equivalent from a Nationally Recognized Statistical Rating Organization (“NRSRO”), or with the highest rating for short-term debit.
 - D. High quality, investment grade fixed-income securities including non-agency collateralized mortgage obligations, asset-backed security, and corporate bonds, with a rating of at least “BBB” or equivalent from an NRSRO.
 - E. Repurchase Agreements (“Repos”) with a limit of up to six months.

Article 8.00: Strategic Pool Investment Guidelines

- 8.01 The Strategic Pool consists of funds designed for long term strategic opportunities, and may have a time horizon of greater than five years. Accordingly, only funds deemed not needed in a shorter time frame may be invested in this pool.
- 8.02 By its long term nature, it is understood that the Strategic Pool will be subject to greater levels of volatility in exchange for higher long term returns which are at a minimum in excess of the rate of inflation. The enhanced risk profile of the Strategic Pool notwithstanding, long term preservation of principal remains the primary objective. The probability of a twenty-five per cent or greater annual loss of net asset value of the strategic pool should not exceed five per cent.
- 8.03 Given the Strategic Pool's enhanced risk characteristics, approval by the Board, upon recommendation of the FAGC, is required prior to the university making any new investment in the Strategic Pool.
- 8.04 The Strategic Pool may be invested in any of the asset classes authorized in this policy, diversified across multiple markets that are not similarly affected by economic, political, or social developments.
- 8.05 Authorized Strategic Pool investments include:
- A. Any investment authorized for the Cash, Liquidity, and Student Managed pools;
 - B. Investments in Private Equity

Article 9.00: Student Managed Pool Investment Guidelines

- 9.01 The Student-Managed Pool is funded by approval of the Board upon recommendation of the FAGC; balances will be maintained at a minimum of the amounts approved by the board, plus accumulated gains/losses. The University may not move funds in or out of this Pool without explicit authorization of the Board.
- A. Included in this pool is the Raider Asset Management fund authorized to invest in equity and fixed income securities.
 - B. The Board, upon recommendation of the FAGC, may establish, additional funds in this pool.
- 9.02 Security selection decisions will be made by students, under the supervision of a member(s) of the University faculty, and according to written investment policy statements for each student-managed fund which are further governed by this investment policy. The investment policy statement for each fund will be consistent with the University Investment program.

Article 10.00: Prohibited Investments/Activities

- 10.01 The following investments are not authorized for any university investment pool:
- A. Investments in cryptocurrency

- B. Contracts to sell securities that have-not yet been acquired on the speculation that prices will decline (i.e., short sales);
- C. Reverse repurchase agreements
- D. Leveraging current investments as collateral to purchase other assets;
- E. Purchasing individual securities denominated in foreign (non-U.S. dollar) currencies;
- F. Derivative securities (i.e., options or futures contracts) except for writing covered calls and buying protective puts for the Raider Asset Management fund.
- G. Purchasing mortgage pass-through securities, collateralized mortgage obligations including interest-only and principal-only securities;
- H. Borrowing funds to invest in higher-yielding securities;
- I. Purchasing illiquid securities or illiquid investment partnerships.

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Appendix A
Fiduciary Roles & Responsibilities

	Board	FAGC	University Administration	Fiduciary Manager
Set/Approve Investment Policy	Approves	Recommends	Recommends	N/A
Investment Strategy		Approves	Monitors	Implements
Evaluate/Select Third Party Advisors	Approves	Recommends	Recommends	
Portfolio Rebalancing			Monitors	Implements
Monitor Ongoing Activity/Reports Performance	Delegates	Delegates	Monitors	Oversees
Portfolio Holdings			Delegates	Monitors
Committee Education				Provides

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Appendix B
Investment Pool Targets & Ranges

Pool	Policy Target	Allowable Minimum	Allowable Maximum
<i>Cash</i>	35.0%	20.00%	70.00%
<i>Liquidity</i>	60.0%	20.00%	70.00%
Cash and Liquidity	95.0%	75.00%	97.50%
Student Managed	5.00%	2.50%	10.00%
Strategic	0.00%	0.00%	15.00%
Total	100.00%		

Appendix C
Asset Allocation Policy Targets & Ranges

	Policy Target	Allowable Minimum	Allowable Maximum
Equities:			
Public Equity	2.50%	1.25%	5.00%
Private Equity	0.00%	0.00%	10.00%
Total Equities	2.50%	1.25%	15.00%
Fixed Income:			
Bonds	62.50%	30.00%	80.00%
Cash & cash Equivalents	35.00%	20.00%	70.00%
Total Fixed Income	97.50%	80.00%	95.00%
Total	100.00%		

Appendix D
Approved Policy Benchmarks

Asset Class	Benchmark
Public Equities	S&P 500 Index
Fixed Income	Blmbrg Barcl 9-12 Month Short Treas Index Bloomberg U.S. Treasury: 1-3 Year Index <u>Bloomberg Barclays US Aggregate Bond Index</u>
Cash and Cash Equivalents	ICE BofA ML 3 Month US T-Bill Index

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Appendix E

Glossary

Agency Bonds:	An agency bond is a security issued by a government-sponsored enterprise or by a federal government department other than the U.S. Treasury. Some are not fully guaranteed in the same way that U.S. Treasury and municipal bonds are. Also known as agency debt.
Asset Allocation:	The process of apportioning an investment portfolio among different asset classes, such as equities, fixed income, cash, etc.
Commercial Paper:	An unsecured, short-term debt instrument issued by corporations.
Corporate Bonds:	A type of debt security issued by a firm and sold to investors.
Custodian:	A financial institution that holds customers' securities for safekeeping. Custodians often manages the settlement of financial transactions, account for the status of assets, and ensure compliance.
Duration:	A measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. In general use, a bond will lose 1% of its value for every one percent increase in interest rates.
Equities:	Shares issued by a company which represent ownership in the company. Also known as "stocks".
Fiduciary:	A person organization that makes financial decisions on behalf of another party. Fiduciaries are legal obligated to act in their client's best interests.
Financial Institution:	A company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, etc.
Fixed Income:	Broadly refers to investment securities that pay investors fixed interest or dividend payments until their maturity date. At maturity, investors are repaid the principal amount they had invested.
Investment Grade:	The quality of a bond issuer's credit. To be considered an investment grade issue, a company must be rated "BBB" or higher, or equivalent, by a Nationally Recognized Statistical Rating Organization (NRSRO), such as Moody's or Standard & Poor's.
Market Cycle:	A broad term referring to trends or patterns that emerge during different markets or business environments. Typically defined as the period between the two latest highs, or the two latest lows, of a common benchmark such as the S&P 500, therefore highlighting performance through both an up and a down market.

Municipal Bonds:

A debt security issued by local, county, and state governments, typically to pay for capital expenditures such as the construction of highways, bridges, schools, etc.

Private Equity:

Private equity describes investment partnerships that buy and manage companies before selling them. Private equity is considered an alternative investment class in which investors purchase shares in privately held businesses.

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