

**BOARD OF TRUSTEES
INVESTMENT SUBCOMMITTEE**

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**BACKGROUND MATERIALS
Wednesday, November 30, 2016**

- 1. Policy 3356-3-10 (Previous Policy Number 3007.01), Investment of the University's
Non-Endowment**

Tab 1

3356-3-10 Investment of the university's non-endowment and endowment funds.

Previous Policy Number: 3007.01
Responsible Division/Office: Finance and Administration
Responsible Officer: President
Revision History: September 1998; December 2004; June 2006;
December 2008; June 2010; June 2012;
December 2014
Board Committee: Finance and Facilities
Effective Date: December 16, 2014
Next Review: 2017

- (A) Policy statement. The president and the vice president for finance and administration, or designee, is authorized to invest university funds in compliance with this policy, provisions of the Revised Code and all other applicable laws and regulations, including Amended Substitute House Bill 524, 124th General Assembly amending section 3345.05 of the Revised Code.
- (1) For the purpose of this policy on the investment of the university's non-endowment and endowment funds (the "policy"), the non-endowment and endowment portfolios shall include:
- (a) All tuition and mandatory fees, registration, non-resident tuition fees, academic fees for the support of on- and off-campus instruction, laboratory and course fees when so assessed and collected, all other fees, deposits, charges, receipts, and income from all or part of the students, all subsidy or other payments from state appropriations, and all other fees, deposits, charges, receipts, and income received. These funds shall be held and administered by the board of trustees.
- (b) Notwithstanding any provision of the revised code to the contrary, the title to investments made by the board of trustees with funds derived from revenues described above shall not be vested in the state but shall be held in trust by the board. Such investments shall be made pursuant to this

investment policy adopted by the board in public session. Such investments shall be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

- (c) It is the intention of the board of trustees that actions taken pursuant to this policy shall be in compliance with all applicable laws as they may be amended from time to time. No university representative, employee, or agent shall take any action prohibited by or fail to take any action required by all applicable laws in carrying out this policy.
- (d) Members of the board of trustees will annually provide to the chair of the board of trustees a statement disclosing the nature, if at all, of any relationship with the financial institutions involved with the university's non-endowment and endowment funds. Any member having a relationship that creates a conflict prohibited by the ethics laws with any investment entity will withdraw from participating in the selection of, or authorizing the contracts of, those investment managers and/or consultants.
- (e) External investment managers, consultants and advisors retained by the university shall immediately notify the chair of the investment subcommittee and the vice president for finance and administration, or designee, of any potential conflicts of interest which may develop from time to time. In any such situation, the external investment manager, consultant and/or advisor shall identify the nature of the conflict of interest and its potential impact, if any, on the university.
- (f) The university's non-endowment portfolio will remain sufficiently liquid to enable the university to meet all operating requirements. Portfolio liquidity is defined as the maturity or ability to sell a security on short notice near the purchase price of the security. To help retain the desired liquidity, no security shall be purchased that is likely to have few market makers or poor market bids. Additionally,

liquidity shall be assured by keeping an adequate amount of short-term investments to accommodate the cash needs of the university.

- (g) The university's non-endowment and endowment portfolios shall be structured with the objective of attaining the highest possible total return for the investment portfolio while adhering to a prudent level of risk.
- (2) Specific responsibilities of the investment subcommittee of the finance and facilities committee of the board of trustees (hereafter referred to as the "subcommittee") in the investment process include:
- (a) The application of a total return philosophy of asset management;
 - (b) Developing sound and consistent investment policy guidelines;
 - (c) Setting forth an investment structure for managing the university's assets. This structure includes identification of asset classes, strategic asset allocation, and acceptable asset ranges above and below the strategic asset allocation;
 - (d) Providing guidelines that control the level of overall risk and liquidity assumed for the investment portfolio so that all assets are managed in accordance with stated objectives;
 - (e) Complying with all applicable fiduciary, prudence, due diligence requirements, and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that may impact fund assets;
 - (f) Selecting and monitoring investment managers;
 - (g) Selecting an investment consulting organization;
 - (h) Communicating clearly the major duties and responsibilities of those accountable for achieving investment results;

- (i) Monitoring and evaluating results to assure that the guidelines are being adhered to and the objectives are being met;
 - (j) To control costs of administering and managing the funds;
 - (k) Taking appropriate action to discharge an investment manager for failure to perform as mutually expected at the time of selecting; and
 - (l) Undertaking such work and studies as may be necessary to keep the board of trustees of the university adequately informed as to the status of the investment of the balance sheet assets (the "assets").
 - (3) This policy shall be reviewed every five years by the subcommittee or upon the advisement of investment advisors or management. All material changes to the policy will be approved by the subcommittee and submitted to the university's board of trustees for final approval.
- (B) UPMIFA considerations. In accordance with the state of Ohio's adoption of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), effective June 1, 2009, the subcommittee will take the following into consideration when making investment decisions:
- (1) General economic conditions.
 - (2) The possible effect of inflation or deflation.
 - (3) Expected tax consequences.
 - (4) The role that each investment plays within the overall portfolio.
 - (5) Expected total return from income and appreciation.
 - (6) Other resources of the institution.
 - (7) Need of the institution to make distributions and preserve capital.

- (8) Assets special relationship or special value to the charitable purpose.
- (C) Purpose. Investments shall be managed for the use and benefit of the university in a diversified portfolio that focuses, over time, on the preservation of capital, minimization of cost and risk, maintenance of required levels of liquidity in the overall portfolio to meet cash flow requirements, and compliance with state statute. The non-endowment and endowment portfolios are intended to achieve a reasonable yield balanced with a component invested for longer-term appreciation.
- (1) The purpose of this policy is to assist the university in more effectively supervising and monitoring the investment activities of its assets. This policy is designed to assist university staff and the investment subcommittee with regard to its fiduciary responsibility by:
 - (a) Defining the responsibilities of university staff, its investment managers, and its investment consultant;
 - (b) Stating in writing the university's attitudes, expectations, and goals for the investment of the assets;
 - (c) Providing a basis for reviewing investment management organizations in the selection process;
 - (d) Encouraging effective communication between the investment managers, investment consultant, the subcommittee, and Youngstown state university; and
 - (e) Setting objectives against which the performance results of the investment managers, operating within the constraints imposed by the university's policy guidelines, can be measured.
 - (2) A primary expectation for university assets is to support the university by providing current income to the university from both non-endowed and endowed funds, managed on behalf of the university by outside investment professionals, while concurrently growing principal. The asset base is dedicated to providing a

reliable source of funds for current and future enhancements at the university.

(D) Parameters.

- (1) Investment assets are to be held by a reputable custodian/trust company. Investment assets are to be held in safe-keeping in the name of the university. Evaluation, selection, and monitoring of the university's custodian will include, but not be limited to, the following factors:
 - (a) Size and scalability of the underlying financial institution;
 - (b) Delivery of competitive safe-keeping and trust services as measured by attributes such as systems functionality, statement delivery, client service, audit controls and reporting capabilities; and
 - (c) Safe-keeping and trust service pricing and fees.
- (2) The management of the non-endowment and endowment funds involves a tradeoff between two competing goals. On the one hand, the funds must preserve capital and maintain liquidity sufficient to distribute cash to fund immediate operating needs and prior spending commitments. To accommodate these objectives, the university will establish the operating and short-term pool. On the other hand, the funds must accumulate capital sufficient to support nominal growth in expenses for existing programs and to establish new quasi-endowment funds. To accommodate these objectives, the university will establish the long-term/reserve pool. The goal of the funds is to accommodate these competing needs by providing adequate short-term liquidity along with long-term capital appreciation.
- (3) The subcommittee recognizes that risk and volatility are present to some degree with all types of investments. However, high levels of risk are to be avoided at the total asset level. This is to be accomplished through diversification by asset class, style of investment manager, and sector and industry limits.

- (4) The following statements and guidelines are set forth in an effort to provide direction to each of the investment managers that manage separate accounts for the university. Managers are retained to manage separate pools of assets, and funds are allocated to such managers in order to achieve an appropriate, diversified, and balanced asset mix. The subcommittee, from time to time, may shift assets from one manager to another to maintain the appropriate mix. Additionally, the subcommittee recognizes that mutual or commingled funds used by the university may not adhere to these guidelines. However, when selecting mutual or commingled fund products, the subcommittee will refer to these guidelines as a basis to select new funds.
- (5) Evaluation, selection, and monitoring of the university's individual investment managers will include, but not be limited to, the following factors:
 - (a) Each investment manager should have clearly stated investment objectives.
 - (b) The performance (return) and volatility (risk) of each investment manager should be evaluated over time, evaluating performance in light of how closely the investment manager has adhered to its stated investment objectives.
 - (c) The depth and experience of the portfolio manager(s) should be evaluated (both with respect to the current investment portfolio he or she manages and any funds previously managed).
 - (d) The depth and financial stability of the relevant investment fund company should be considered.
 - (e) The fees and expenses charged with respect to such investment management services should be considered.
- (6) A written "Investment Guideline Statement" or prospectus clearly outlining objectives and responsibilities will be in place with each investment manager. For the non-endowment funds, the managers shall have discretion to invest assets in cash reserves as they deem

appropriate but will be expected under normal circumstances to be fully invested in their assigned asset class. A manager's performance will be evaluated against their fully invested passive benchmark and against similar portfolio results. Passive benchmarks will be used for comparative purposes which most closely approximate the investment mandate's duration, credit quality, security composition, capitalization, style, asset class, etc.

- (7) To the extent bequests are made to the university via shares of marketable equity securities, the following provisions apply:
- (a) The policy on bequests as defined by rule 3356-5-07 of the Administrative Code will supersede all provisions within this policy.
 - (b) If the bequest is a non-endowed gift, the securities will be sold as soon as prudently possible.
 - (c) If the bequest is an endowed gift, the securities will be invested as specified by the donor and agreed to by the board of trustees.

(E) Procedures.

- (1) The vice president for finance and administration, or designee, shall be accountable to the board of trustees for implementing this policy.
- (2) The vice president for finance and administration, or designee, will report to the investment subcommittee at least quarterly on the status of the non-endowment and endowment portfolios.
- (3) It shall be permissible for the vice president for finance and administration, or designee, to realize gains and losses if such an action would be consistent with the university's investment goals. Losses and gains realized on the non-endowment portfolio shall be charged against current income unless otherwise approved by the investment subcommittee.
- (4) Between meetings of the board of trustees, if deemed advisable, other investments not specifically authorized by this policy may be

made if approved by the investment subcommittee. Any such actions shall be taken to the board of trustees for review at its next meeting.

- (F) Spending policy. The board has established a spending policy for certain funds. This policy reflects the tradeoffs between short-term liquidity and long-term capital appreciation needs, as described in paragraphs C and D of this rule.
- (1) Non-endowment assets. Non-endowment assets are comprised of operating and non-operating funds and include cash, cash equivalents, and investment assets.
 - (2) Operating funds comprised of cash, cash equivalents, and certain investment assets make up the university's general funds. The use of cash, cash equivalents, and investment assets in these general funds is not subject to any board-approved spending policy as the university's annual operating budget establishes parameters for the use of these funds.
 - (3) The university's remaining non-endowed investment assets are primarily in reserve for project-related funds. Spending within these funds is subject to rule 3356-3-11.1 of the Administrative Code, project-specific spending plans, and various other university operating and financial policies and procedures. If deemed necessary for university operations, university management, working with the investment consultant, has authority to raise an appropriate level of cash from non-operating investments.
 - (4) Income earned on non-endowed investment assets is primarily used to support university operations; thus, it is the policy of the board not to limit annual distributions of realized investment income. The annual operating budget establishes parameters for the use of this income, and the disposition of total annual net operating inflows over outflows requires board approval. Unrealized investment income from non-endowment assets shall always be non-spendable.
 - (5) Endowment assets. It is the policy of the board to set annual distributions each fiscal year to five per cent of the twelve-quarter average of the market value for the preceding twelve calendar

quarters. In calculating the twelve-quarter average, census dates of March thirty-first, June thirtieth, September thirtieth, and December thirty-first for the previous three years shall be used. Any distribution greater than this would require written justification and approval by the board of trustees. For all other managed funds, distributions are project-specific and, thus, are limited only to the extent needed to sustain appropriate cash flow for the expenditure cycle of the corresponding project.