# Ohio Administrative Code

## Rule 3337-50-01 Ohio University Cash and Pooled Investments (Non-Endowment Funds).

Effective: September 29, 2017

The version of this rule that includes live linksto associated resources is online at

https://www.ohio.edu/policy/50-001.html

(A) Overview

The board of trustees of Ohio university is vested by statute (section 3345.05 of the Revised Code) with the following responsibility: "Notwithstanding any provision of the Revised Code to the contrary, the title to investments made by the board of trustees of a state-supported university or college with funds derived from revenues described in this section shall not be vested in the state but shall be held in trust by the board." Section 3345.05 of the Revised Code can be found in its entirety in appendix C of the IPS.

The purpose of this investment policy statement ("IPS") is to assist the Ohio university ("OU") treasurer or designee in effectively supervising, monitoring and evaluating the investment of the Ohio university cash and pooled investments (the "non-endowed funds") assets on behalf of the board. The funds' investment program is defined in the various sections of the IPS by:

(1) Stating in a written document the treasurer or designee's attitudes, expectations, objectives and guidelines for the investment of funds' assets.

(2) Setting forth an investment structure for managing all funds' assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.

(3) Providing guidelines for each investment manager ("manager") that control the level of overall risk and liquidity assumed in that investment style, so that all funds' assets are managed in

accordance with stated objectives.

(4) Encouraging effective communications and understanding regarding investment performance between the treasurer or designee, the board, the investment consultant (consultant) and the managers.

(5) Establishing formal criteria to monitor, evaluate, and compare the performance results achieved by the managers on a regular basis.

(6) Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact funds assets.

This IPS has been formulated, based upon consideration by the treasurer or designee of the financial implications of a wide range of policies, and describes the prudent investment process that the treasurer or designee deems appropriate.

(B) Background

(1) Mission statement

Ohio university holds as its central purpose the intellectual and personal development of its students. Distinguished by its rich history, diverse campus, international community, and beautiful appalachian setting, Ohio university is known as well for its outstanding faculty of accomplished teachers whose research and creativity advance knowledge across many disciplines.

(2) Background

Ohio university's non-endowment funds provide the liquidity necessary to meet the university's financial obligations as they come due. Secondary to meeting operating requirements, the funds also seek to gain prudently managed investment returns.

(3) Tiered structure

The investment structure of the funds is divided into four liquidity tiers to provide for better preservation of overall asset base, while maintaining an adequate level of reserves for cash flow needs.

(a) Tier I assets provide for short-term (less than one-year) cash flow needs.

(b) Tier II assets serve as the contingency account (reserves to replenish tier I if necessary) and to fund the university's capital improvement plan ("CIP").

(c) Tier III assets are comprised of the residual balance of the non-endowment funds after both tier I and II cash targets have been met. Tier III (and tier IV if necessary) provide tiers I and II with emergency liquidity while also seeking to maximize risk-adjusted returns.

(d) Tier IV assets are comprised of a unitized portion of the university's diversified investment pool ("diversified pool"), and the Ohio university's student investment program funds. Management of the assets in this tier has been delegated by the university and the Ohio university foundation.

Additionally, the treasurer or designee has selected a set dollar approach to determine the targeted market value for each tier. As a result, asset balance ranges have been established. Further details are included in appendix B of the IPS.

(C) Statement of objectives

(1) Objectives

The objectives of the non-endowment funds have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

(a) Safety: safety of principal is the foremost objective of the investment program. Investments of the university shall be undertaken in a manner that ensures, over time, the preservation of capital in the overall portfolio.

(b) Liquidity: the university's non-endowment funds will remain sufficiently liquid to enable the university to meet all its operating requirements. Portfolio liquidity is defined as the maturity or ability to sell a security on a short notice near the purchase price of the security. In addition to the operating requirements of the university, the non-endowment funds will also be used for the univeristy's CIP and additional liquidity will be required.

(c) Return on investments: the university's non-endowment funds shall be structured with the objective of attaining the highest possible "total return" for the portfolio while adhering to the restraints and obligations inherent in the current legal structure of a prudent fiduciary.

(d) Costs: The expenses incurred for the management of the non-endowment funds shall be minimized.

(2) Time horizon

The investment guidelines are based upon unique investment horizons for the various tiers. In general, interim fluctuations in market value should be viewed with appropriate perspective. Tier I has a short time horizon (less than one year), tier II has an intermediate time horizon (two years CIP dependent) and tiers III and IV have a longer time horizon (greater than three years).

(3) Risk tolerance

The treasurer or designee recognizes the difficulty of achieving the funds investment objectives in light of the uncertainties and complexities of contemporary investment markets. Some risk must be assumed in order to support the objectives for the funds, including providing for the annual level of disbursements required by the operating needs, CIP spending needs, and achieving preservation of the overall asset base.

Specifically, the risk tolerance for tier I has been defined by the treasurer or designee as having little to no volatility given the objective of this tier to supply sufficient day-to-day operating liquidity. The risk tolerance for tier II has a slightly longer-term focus, as this tier is to provide sufficient level of reserves in case of unanticipated liquidity needs as well as CIP spending needs for the next two calendar years. Therefore, tier II is anticipated to provide enhanced returns from that of tier I, but with limited volatility. tiers III and IV have been designed with a longer-term objective in order to provide the University with additional return opportunities. The treasurer or designee is willing to accept more volatility within tiers III and IV in order to achieve a longerterm objective.

The treasurer or designees risk tolerance is reviewed periodically in order to determine whether such objectives can be met given the current market environment. Based on these evaluations, along with cash forecasts and budgetary needs, the treasurer or designee may make adjustments to the tiered structure, asset allocation and investment manager structure to maintain an acceptable level of risk for the funds. Further details are contained within appendix B of the IPS.

(4) Performance expectations

In general, it is expected that the funds investment strategies are structured to provide returns consistent with the treasurer or designees goals and objectives. However, it is understood that the performance of the funds is affected by the market environment. Therefore, performance expectations will be reviewed periodically by the treasurer or designee in order to determine whether the treasurer or designees objectives can be met given the current market environment. Additionally, the treasurer or designee recognizes the conundrum of balancing liquidity needs for the operations and CIP spending needs of the university with the overall return of the funds. Based on these evaluations, the treasurer or designee may make adjustments to the tiered structure, portfolio construction and investment manager structure to maintain an acceptable level of risk for the funds.

(5) Portfolio construction

The treasurer or designee views the appropriate construction of each tier in relation to two broad components: liquidity and total return. The balance between these two components is reviewed on a periodic basis and is determined in light of the goals and objectives of each tier, the risks and opportunities available at a given time and the risk tolerance of the treasurer or designee. Additionally, the treasurer or designee reviewed a number of manager structure alternatives to further define investment strategies for inclusion within each component. Finally, the risk to any one manager was evaluated regarding proper diversification among investment strategy and business risk, along with proper diversification among investment vehicles. Further details are contained below and within appendix B of the IPS.

(6) Rebalancing

(a) Between tiers: Tier balances will be reviewed on a periodic basis, generally quarterly. Assets will be adjusted between the tiers to meet the minimum balance requirements and cover appropriate reserves.

(b) Between tier components: From time to time, the components and underlying strategies of each tier may deviate from the targeted percentages due to market conditions. A range has been established for each component and underlying strategy to control risk and maximize the effectiveness of the universitys overall investment strategy, while avoiding unnecessary turnover at the security level. When a component or underlying strategy is outside of its allowable range, the treasurer or designee will evaluate the feasibility of rebalancing back to the target allocation and may initiate portfolio rebalancing. Under extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing may unduly hinder the funds, the treasurer or designee may choose to delay rebalancing in order to better reflect the overall goals and objectives of the funds. During that period, it is expected that more frequent reviews of the CIP and market conditions will be evaluated to assess the appropriateness of rebalancing.

Further details are contained within appendix B of the IPS.

(D) Security guidelines

(1) Reserve requirement

A reserve equal to at least twenty-five per cent of the average amount of the investment portfolio over the course of the previous fiscal year must be invested in publicly traded securities that fall into one or more of the following categories:

(a) Securities of the United States government or of its agencies or instrumentalities,

(b) The treasurer of states pooled investment program,

(c) Pobligations of this state or any political subdivision of this state,

(d) Certificates of deposit of any national bank located in this state or state of Ohio chartered bank,

(e) Written repurchase agreements (collateralized with permissible securities having a market value of at least one hundred two per cent of the investment) with any eligible Ohio financial institution that is a member of the federal reserve system or federal home loan bank,

(f) Money market funds, or

(g) Bankers acceptances maturing in two hundred seventy days or less which are eligible for purchase by the federal reserve system.

It is anticipated that the entire tier I allocation, in addition to a portion of the tier II allocation will accommodate this requirement.

(2) Manager guidelines

Subject to the IPS, each separate account manager shall have full discretionary investment authority over the assets under his or her management. Each manager shall be retained to implement a specific investment style and strategy for the funds. Accordingly, securities guidelines for managers managing assets in a separate account fashion shall be negotiated and agreed upon in writing on a case-by-case basis and referenced in an attachment to the IPS. If a portion of the assigned assets are chosen to be in mutual funds, exchange-traded fund, commingled investment trusts or private offerings, the products selected shall adhere to the guidelines set forth in the prospectus, trust document or offering memorandum.

(E) Selection of investment managers

The treasurer or designee has the responsibility for selecting managers. The treasurer or designee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting managers, the treasurer or designee will:

(1) Retain a "prudent expert" (a bank, insurance company, or investment advisor as defined by the "Registered Investment Advisors Act of 1940").

(2) The treasurer or designee may evaluate criteria specific to the mandate being sought. Such criteria may include, but is not limited to:

(a) Manager strategy and approach

(b) Organizational structure

(c) Minimum and maximum assets under management

(d) Client servicing capabilities

(e) Performance criteria relative to an appropriate index and peer group, where appropriate

(f) Capacity in the appropriate vehicle

(g) Initial lockup and redemption provisions, where appropriate

(h) Fund transparency (confidentiality agreements may be necessary)

(i) Fees and alignment of economic interests

(3) Follow a due-diligence process so as to avoid selecting managers on an ad-hoc basis. The due diligence process should involve analyzing manager candidates in terms of certain:

(a) Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.

(b) Quantitative characteristics, such as GIPS-compliant composite return data, investment performance over multiple time periods, performance volatility, risk-adjusted rates of return (e.g., Sharpe ratios), and certain portfolio characteristics.

(F) Control procedures

(1) Duties and responsibilities of the treasurer or designee

The treasurer or designee is ultimately responsible for the overall management of the investment program including: managing the funds overall investment strategy and diversifying assets; following investment policy objectives and guidelines as established by the board; hiring prudent experts to make investment decisions; controlling and accounting for expenses; and performing ongoing monitoring. The treasurer or designee is also responsible for ensuring that the funds are managed in the best interests of the university. The treasurer or designee shall conduct its responsibilities as outlined in this IPS.

(2) Duties and responsibilities of the board

The board is responsible for establishing and monitoring investment policy objectives and guidelines to be carried out by the treasurer or designee. The board is also responsible for ensuring that the funds are managed in the best interests of the university. The board shall conduct its responsibilities as outlined in this IPS.

(3) Duties and responsibilities of the investment managers

The duties and responsibilities of each separate account manager shall be as set forth in the applicable investment management agreement entered into between Ohio university and the manager retained by the treasurer or designee and shall include the following:

(a) Managing the funds assets under its care, custody and/or control in accordance with the IPS objectives and guidelines (including without limitation, the securities guidelines, set out in this policy) set forth herein, and also as may be expressed in separate written agreements between the manager and Ohio university when deviation is deemed prudent and desirable by the treasurer or designee upon recommendation of the investment consultant.

(b) Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.

(c) Promptly informing the treasurer or designee in writing regarding all significant and/or material matters and changes pertaining to the investment of funds assets, including, but not limited to:

(i) Investment strategy

(ii) Portfolio structure

(iii) Tactical approaches

(iv) Ownership

(v) Organizational structure

(vi) Financial condition

(vii) Professional staff

(viii) Recommendations for guideline changes

(ix) All legal material, SEC and other regulatory agency proceedings affecting the firm.

(d) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the funds set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

(e) Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.

(f) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

Managers selected to manage funds assets through a mutual fund, exchange-traded fund, commingled investment trust or private offering must adhere to the guidelines set forth in their respective prospectus, trust document or offering memorandum.

(4) Duties and responsibilities of the investment consultant (tiers I, II and III)

The investment consultant for tiers I, II and III has been retained by the university. The investment consultant for tier IV has been delegated to the Ohio university foundation.

The duties and responsibilities of the consultant include the following:

(a) Assist in the development of an overall strategy that meets the risk/reward requirement of Ohio university.

(b) Prepare a written IPS and assist in the documentation of all investment decisions.

(c) Assist in the selection of prudent experts (investment managers) who, in turn, are charged with making investment decisions that are consistent with the IPS.

(d) Assist in the control of investment expenses, including helping to negotiate investment manager and custodian fees, and to insure that brokerage is transacted at best execution.

(e) Monitor the activities of hired managers and service vendors.

(f) Educate treasurer or designee and board members of their fiduciary responsibilities and the fundamentals of investment management.

(g) Assist fiduciaries and trustees in avoiding conflicts of interest.

(5) Duties and responsibilities of the custodian

The treasurer or designee believes that timely and accurate completion of custodial functions is necessary for effective management and monitoring of the funds assets. Specifically, the duties and responsibilities of the custodian include the following:

(a) Implementing in a timely and effective manner the investment actions as directed by the manager(s);

(b) Investment of any cash into the chosen sweep vehicle;

(c) Holding all securities in safekeeping for Ohio university;

(d) Collecting and receiving all income and principle;

(e) Maintaining accounting records and preparing reports that are required by the consultant, treasurer or designee, and board;

(f) Providing performance measurement numbers consistent with GIPS standards as requested by the consultant, treasurer or designee, and board;

(g) Processing distributions from the funds as requested by the treasurer or designee and board;

(h) Conforming to all provisions in its contract with Ohio university.

(6) Brokerage policy

All transactions effected for the funds will be "subject to the best price and execution." If a manager utilizes brokerage from the funds assets to effect soft dollar transactions, detailed records will be kept and communicated to the treasurer or designee.

(7) Performance evaluation

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. Additionally, over complete business cycles, each tiers performance will be compared to a customized, weighted benchmark that represents each tiers portfolio construction. Further details are contained within appendix B of the IPS.

(8) IPS review and evaluation

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. The treasurer or designee and the consultant will review the IPS periodically to determine whether any changes are appropriate. Based on the treasurer or designee's and the consultant's IPS review, the treasurer or designee may revise the IPS or alter the managers to meet current needs.

(G) Monitoring of investment managers (tiers I, II and III)

The treasurer or designee is aware that the ongoing review and analysis of the managers is just as important as the due diligence implemented during the manager selection process. Monitoring these managers is a three step process, outlined as follows:

(1) Step 1 - ongoing monitoring

(a) The consultant and the treasurer or designee will perform a constant and on-going analysis of all the funds' managers. In addition to reviewing quarterly investment performance, the consultant and the treasurer or designee will continually evaluate:

(i) The manager's adherence to the IPS guidelines

(ii) Material changes in the manager's organization, investment philosophy and/or personnel

(iii) The volatility of the investment rates of return of the manager compared to the volatility of an appropriate market index and peer group (as listed in appendix C of the IPS).

(iv) Comparisons of the manager's results to appropriate indices and peer groups (as listed in appendix C of the IPS).

(b) If appropriate market indices and/or peer groups are not available, the consultant and treasurer or designee will evaluate factors such as the managers adherence to stated risk and return objectives and the managers portfolio exposures in relation to the market environment and stated philosophy and process.

(2) Step 2 - formal watchlist

If the consultant and the treasurer or designee determine that any of the above factors, or any other development regarding the managers performance or organization, warrants a more thorough examination, the treasurer or designee will place the manager on a formal watchlist. Factors examined during the watchlist period include, but are not limited to, the following:

(a) Extraordinary events (organizational issues)

Extraordinary events that may lead to a manager termination include such things as:

(i) Change in ownership (e.g., key people "cash out")

(ii) Change in professionals

(iii) Changes to a manager's philosophy or the process it uses to implement the agreed upon strategy

(iv) Manager is involved in material litigation or fraud

(v) Client-servicing problems

(vi) Significant account losses or significant account growth

(vii) Change in cost

(viii) Change in financial condition

(ix) Extreme performance volatility

(b) Long-term performance in relation to appropriate market index, market environment or stated goals and objectives

Long-term performance standards measure a manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

(c) Shorter-term performance in relation to appropriate "style group," market environment or stated goals and objectives

Shorter-term performance standards incorporate a time period of at least three years. Each manager is expected to consistently perform in the top fiftieth percentile versus an appropriate peer group of investment managers with similar investment styles. Additionally, each manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. If appropriate peer groups are not available, the managers adherence to stated risk and return objectives and the managers portfolio exposures in relation to the market environment and stated philosophy and process will be evaluated. Risk-adjusted performance measures will vary, but may include: Sharpe ratio, downside risk, information ratio, and/or relative standard deviation.

(3) Step 3 - replace or retain

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the watchlisting examination of the manager, a recommendation to either replace or retain the manager will be made.

It is at the treasurer or designee's discretion to take corrective action by replacing a manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing manager. The aforementioned events, or any other events of concern identified by the treasurer or designee, may prompt the immediate removal of a manager without it being watchlisted.

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