

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: *210*

DATE:

March 20, 2007

RECOMMENDATION

REVISED POLICY: INVESTMENT OF UNIVERSITY FUNDS

ACTION REQUESTED

It is recommended that the Board of Regents approve the revised Policy 11.1.2, Investments.

STAFF SUMMARY

The proposed revisions to the Investment Policy would allow the University to invest in long-term investment instruments. The primary objective for the long-term investment pool accounts will be to provide for long-term growth of principal and income without undue exposure to risk. Funds not expected to be needed for expenditures within three years will be considered for long-term investment. To ensure broad diversification in the long-term investment pool among major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following ranges and target percentages: Equities (15-45 percent) and Fixed Income (55-85 percent), with target ranges of 30 percent and 70 percent respectively.

Investment performance will be reviewed on a quarterly basis. The University will continue to provide to the Board of Regents a report on the status of the entire investment program.

Attached is the current policy as well as the University's recommendation for the revised investment policy.

FISCAL IMPLICATIONS


None

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date _____

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|---------------------------------|-------------------------|--|
| | |  Policies, Rules And Regulations |
| Effective Date | Date of Revision | |
| 1-10-66 | 03-20-2007 | |
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PURPOSE

Eastern Michigan University's investment objective shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. Investment decisions shall be based on specific guidelines which incorporate quality, safety, diversity and liquidity of funds.

SCOPE

The short-term investment pool guidelines are intended to cover the investment of university funds that are required for daily liquidity and normal operating needs. The intermediate-term investment pool guidelines are intended to cover funds that are earmarked for use in the next one to three years. Cash not expected to be needed for operational purposes will be designated for the long-term investment pool.

GENERAL OBJECTIVES

Short-Term Investments

The primary investment objective for the short-term investment pool accounts will be to provide for preservation of capital and liquidity with a secondary emphasis upon maximization of investment income without undue exposure to risk. Funds needed for normal operating expenditures will be considered short-term on a less than one-year basis.

Intermediate-Term Investments

The primary investment objectives for the intermediate-term investment pool accounts will be preservation of capital and maximization of income without undue exposure to risk within the parameters specified in this investment policy statement. Funds needed for expenditures within one to three years will be considered intermediate-term.

Long-Term Investments

The primary investment objectives for the long-term investment pool accounts will be to provide for long-term growth of principal and income without undue exposure to risk. Funds not needed for expenditures within three years will be considered long-term.

ASSET ALLOCATION

Short-Term Investment Pool

The short-term investment pool shall be managed to maintain a portfolio with an average weighted maturity between one day and one year.

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Intermediate -Term Investment Pool

The intermediate-term investment pool shall be managed to maintain a portfolio with an average weighted maturity between one year and three years.

Long-Term Investment Pool

Deliberate management of the asset mix among classes of investments is a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a highly desirable objective. The university's general policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

In making asset allocation judgments, the university is not expected to seek to time subtle changes in financial markets, or to make frequent or minor adjustments. Instead, the university is expected to develop and adopt expressed guidelines for broad allocations on a long-term basis, in light of current and projected investment environments.

To ensure broad diversification in the long-term investment pool among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentages and within the following ranges:

| <u>Type of Securities</u> | <u>Overall Fund</u> | |
|------------------------------------|---------------------|--------------|
| | <u>Target</u> | <u>Range</u> |
| Equities | 30% | 15-45% |
| <i>Domestic Large Cap Equities</i> | 15 | 10-30 |
| <i>Domestic Mid Cap</i> | 7 | 5-15 |
| <i>Domestic Small Cap</i> | 4 | 0-10 |
| <i>Global/International</i> | 4 | 0-10 |
| Fixed Income | 70% | 55-85% |
| Cash | - | 0-10% |

REBALANCING ASSET ALLOCATION

The university representatives will monitor the asset allocation structure of the long-term investment pool and will attempt to stay within the ranges allowed for each asset class. If the portfolio becomes over weighted or exceeds the range of percentage for that asset class, the university representatives will develop a plan of action, either for

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immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

MARKET BENCHMARK

The total return for all investments shall be compared to consistent industry standard benchmarks appropriate for each investment pool.

INVESTMENT GUIDELINES

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for these investments.

Any investment manager and university representatives will use their best social conscience when investing.

EVALUATION OF INVESTMENT MANAGERS

Any investment managers will be reviewed on an ongoing basis and evaluated based upon the following additional criteria:

- a. Ability to exceed the performance objectives stated in this investment policy statement.
- b. Adherence to the philosophy and style which were articulated to the university at, or subsequent to, the time the investment manager was retained.

Each investment manager that the University contracts with shall immediately notify the university representatives in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

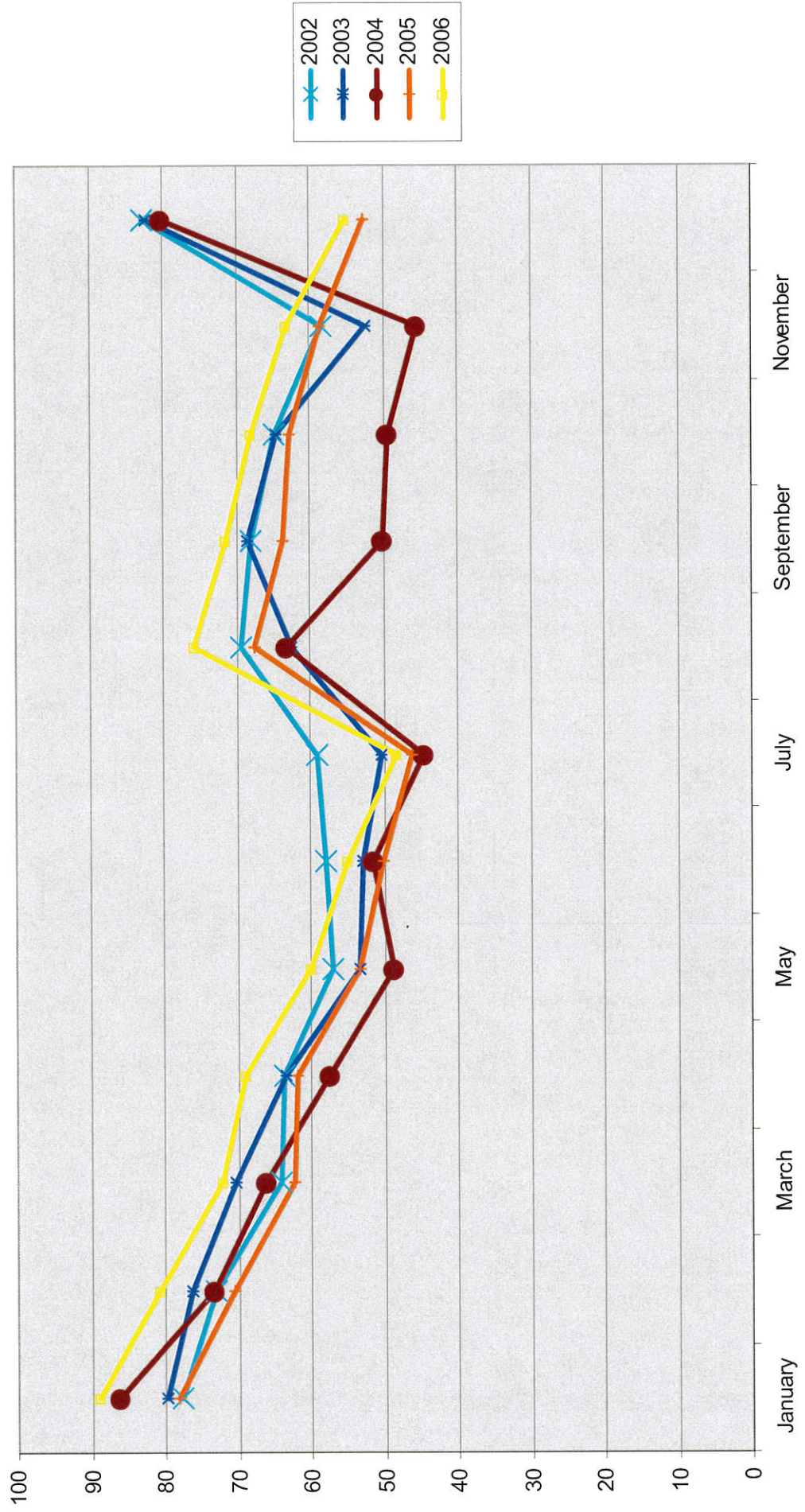
CONCLUSION


The investment performance will be reviewed on a quarterly basis and a report will be provided periodically to the Board of Regents on the status of the investment program.

Authority for Creation or Revision

Minutes of the Board of Regents: January 10, 1966, para. 334M.
Minutes of the Board of Regents: March 15, 1972, para. .1086M and .1087M.
Minutes of the Board of Regents: May 17, 1978, para. .1941M.
Minutes of the Board of Regents: May 25, 1993, para. .4698M.
Minutes of the Board of Regents: September 15, 1998, para. .5412M.

EASTERN MICHIGAN UNIVERSITY **Total Cash and Investments** **Month End Balances Excluding Bond Proceeds**



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UNIVERSITY POLICY STATEMENT:

Eastern Michigan University's investment objective shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. Investment decisions shall be based on specific guidelines which incorporate quality, safety, diversity and liquidity of funds.

1. All cash shall be invested and/or reinvested in the following:
 - A. Obligations of, or fully guaranteed as to both principal and interest by, the United States of America and/or obligations of federal or state agencies rated AA or better by Moody's Investors Service (or equivalent rating).
 - B. Obligations of (1) commercial banks, bank holding companies, savings banks, and savings and loan associations, organized under the laws of the United States of America or any state thereof, including their foreign branches; and (2) corporations organized under the laws of the United States of America or any state thereof, including their foreign subsidiaries. In each of the foregoing instances, the obligations shall be at least rated equal to or better than the following ratings of these or equivalent sources:

| | One Year or Less | Greater Than One Year |
|-------------------------------|------------------|-----------------------|
| Duff & Phelps, Inc. | D-1/A | D-1/AA |
| Fitch Investors Service, Inc. | F-1/A | F-1/AA |
| Moody's Investor Service | P-1/A | P-1/AA |
| Standard & Poor's Corp. | A-1/A | A-1/AA |
| Thomas BankWatch | B/C | B/C |

In the event of a split rating in which one of the ratings falls below the minimum established above, the investment shall be disqualified. Investments shall generally be made in the following securities:

| | |
|----------------------|-------------------------|
| Banker's Acceptances | Certificates of Deposit |
| Corporate Bonds | Commercial Paper |
| Corporate Notes | Deposit Notes |
| | Eurodollars |

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- C. Investments in Eurodollars may only be made in countries that are rated 1 or better by Thomson BankWatch (or equivalent rating).
 - D. All foregoing obligations may be either in fixed rate or "simple" floating rate instruments. Floating rate instruments may not exceed 50% of the total portfolio.
 - E. Investments may be made in external mutual funds, separate managed funds and/or other pooled funds with investment policies which match the University's credit and market risk tolerance and have acceptable risk management procedures as approved and monitored by the Investment Committee. The neutral position of an external Intermediate Term Cash pooled fund and each of the managers' portfolios will be the average maturity and duration of the Merrill Lynch 1- 3 Year Treasury Index (in the range of two years). Typically, the weighted average maturities of the managers' portfolios will fan between one and three years. Duration should generally be in the two-year range.
 - F. Investments may be made in other types of securities given that they are comparable in nature with those listed above.
2. Except for obligations issued or guaranteed by the U.S. Government, Federal Agencies and Government-sponsored corporations, no more than 100% of the portfolio value shall be invested in the securities of one issuer.
 3. Any single investment in an intermediate term fund shall be limited to 25% of the total portfolio value.
 4. Any investment in a single short-term investment fund shall be limited to 50% of total portfolio value.
 5. Use of derivative securities by internal management is prohibited.
 6. Derivative use shall be allowed by external investment managers to neutralize or reduce risk. Derivative applications must be in compliance with the derivative use scope defined in the service agreement. Derivatives used for leverage or speculative purposes is explicitly prohibited.
 7. No investment manager shall have physical control or custody of an investment asset. All investments shall be held in custody by bank/trust rated B/C or higher by Thomson BankWatch, Inc. provided with satisfactory fidelity bond, error and omissions and crime liability insurance. Securities lending by custodians is prohibited.

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7. A donated security will be evaluated upon receipt and determination, barring donor restrictions, on whether to sell or hold the donated security shall be made by the Treasurer or designee.

UNIVERSITY PRACTICE:

University practices for implementing this policy include:

1. An Investment Committee shall be established consisting of the Treasurer, Assistant Treasurer and other designated administrative staff. The Investment Committee shall meet regularly (no less than twice a month) to review existing investments and evaluate recommendations for adjusting the investment portfolio.
2. Exceptions to this policy may only be made by the Treasurer. The exceptions must be made in writing and reported to the Board of Regents at the next scheduled Finance Committee meeting. In addition, any investment which deviates from past investment practices, even if within policy, shall also be noted at the next scheduled Finance Committee meeting.
3. It is the responsibility of the University Controller to immediately notify the Treasurer of any credit downgrade, default, bankruptcy or event which may affect an investment's value. The price of investments will be monitored regularly (not less than weekly) and any material change or identifiable trend shall be reported to the Treasurer and the Investment Committee. The report shall include an analysis of viable options with respect to the investment in question.

Securities or investments which no longer meet the criteria of this policy shall be sold or exchanged when market conditions permit realization of reasonable value. The Treasurer, or designee, shall decide on an appropriate strategy regarding such an investment. The status of these securities or investment and any actions taken shall be reported to the Board of Regents at the next scheduled Finance Committee Meeting.

4. The Treasurer, or designee, shall each regular meeting of the Board of Regents report on the financial activities governed by this policy.
5. The rate of return of the investment portfolio shall be compared with standard established indices as follows:

Short Term Investment
Intermediate Investment

90 days Treasury rate
Merrill Lynch 1-3 year Treasury Index

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6. The Treasurer, or designee, is authorized to obtain advisory services for acquisition, disposal, and custody of investments. The Treasurer is authorized to arrange for services in the acquisition, disposal and custody of investments with security dealers registered with the Security and Exchange Commission (SEC) and the National Association of Security Dealers (NASD) or other financial institutions that meet the restrictions detailed herein (i.e. commercial banks).

RESPONSIBILITY FOR IMPLEMENTATION:

The University Treasurer has overall responsibility for the implementation and administration related to the Cash Management and Investments policy.

SCOPE OF POLICY COVERAGE:

This policy applies to all cash investments made by the University.

Authority for Creation or Revision

Minutes of the Board of Regents: January 10, 1966, para. 334M.
 Minutes of the Board of Regents: March 15, 1972, para. .1086M and .1087M.
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