

The Cleveland State University Foundation Statement of Spending and Investment Policy

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Purpose

This statement of Spending and Investment Policy (“Statement”) details the policies, procedures, asset allocation and guidelines for investment of the Cleveland State University Foundation (the Foundation), as established by its Board of Directors (Directors). It defines and assigns the responsibilities of all involved parties. The policy is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Foundation Purpose

The purpose of the Cleveland State University Foundation is to support the educational programs of Cleveland State University.

Investment Objectives

The Foundation annually spends 6% of the trailing three-year average of the market values of its assets; 5% supports University programs and 1% supports administration of the Foundation. The overall investment objective, then, is to achieve this spending rate in addition to maintaining the real or inflation-adjusted spending power of the portfolio. This would imply an investment objective of at least 6% plus the rate of inflation, as measured by the Consumer Price Index. The use of 6% plus CPI as an investment objective indicates that the Foundation’s preference for an absolute return benchmark more than relative return benchmarks, such as market indices or peer group comparisons.

Spending Policy

The Foundation intends to spend 6% annually of the trailing three-year average market value of its portfolio annually, determined at the end of each fiscal year. The Foundation expects to review the spending policy, as appropriate, from time to time.

The Foundation’s spending policy should be consistent with the guidelines established by its Directors. The Foundation’s spending policy has been established following prudent practices, including but not limited to requirements of the Uniform Prudent Management of Institutional Foundations Act.

Performance Benchmarks

The primary benchmark will be 6% plus the rate of inflation (CPI).

The secondary benchmark will be a blended benchmark based on the targeted asset allocation for the Foundation portfolio:

- 37% Russell 3000 Index
- 18% MSCI ACWI ex. U.S. Index
- 25% Blended Alternative Component
- 20% Barcap Aggregate Bond Index

The tertiary benchmark will be the total return of the portfolio to a peer group universe of similar funds.

Likewise, individual investment managers will be compared to relevant market indices and peer group universes of similar funds.

Asset Allocation Guidelines

The asset allocation target for the Foundation is as follows:

Asset Class	Target Percentage of Portfolio Value	Range of Portfolio Value
US Large Capitalization Equities	25%	15% - 35%
US Middle and Small Capitalization Equities	12%	7% - 17%
International Equities	18%	13% - 23%
Total Equities	55%	45% - 65%
Alternative Investments	25%	0% - 30%
Fixed Income Securities	20%	15% - 25%
Cash	0%	0% - 10%

Diversification

The total portfolio will be constructed and maintained to provide prudent diversification with regard managers, styles, regions, sectors, and number of holdings.

Permissible Investments

Foundation assets may be invested in the following types of investments:

1. Equity Securities

- Common Stocks
- Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- Equity mutual funds

2. Alternative Investments

- Private equity fund-of-funds
- Hedge fund-of-funds
- Tactical asset allocation
- Real Estate Investment Trusts (REITs)
- Merger arbitrage
- Managed futures
- Commodities
- Alternative mutual funds

3. Fixed Income Securities

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Convertible Notes and Bonds
- Mortgage Backed Bonds
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations

- Tax-exempt bonds
- Fixed income mutual funds

4. Cash Equivalents

- Treasury Bills
- Money Market Funds
- Commercial Paper
- Banker's Acceptances
- Repurchase Agreements
- Certificates of Deposit

While the Foundation anticipates investments in alternative investments, including private investments (such as venture capital, private placements, buyout, and distressed debt partnerships), hedge funds and from time to time other relatively illiquid assets, all such investments must be made with the express permission of the Foundation in advance.

Equity Securities

- Stocks included in the portfolio should emphasize companies with total market capitalizations normally exceeding \$100 million. Investments may include a prudent participation in smaller and newer companies of outstanding investment attraction.
- Cash equivalents may be included in equity portfolios at each manager's discretion.
- Assets may include the use of commingled equity funds.
- In a separately managed equity account, an individual common stock commitment at the time of purchase will not represent more than 7% of the market value of the manager's portfolio responsibility, nor shall an industry or sector group exceed more than 30%.
- Security trading is to emphasize best execution, i.e., the highest proceeds and lowest costs, net of all transaction expenses.

Alternative Investments

- The alternative investment strategies may include any one or more of the following investments in funds or fund-of-funds that invest in private market investments, buyouts, venture capital, distressed debt, mezzanine debt, real estate, and or a combination of some or all strategies.
- Alternative investment strategies may also include any one or more of the following investments in hedge funds or fund-of-funds that invest in public market investments in market-neutral, long/short, risk arbitrage, convertible arbitrage hedge funds, commodities, currency or a combination of some or all strategies.
- Alternative investment strategies may also include public real estate securities (REITs), tactical asset allocation merger arbitrage, managed futures or commodities.

Fixed Income Securities

- Fixed income investments should emphasize high-quality (on average, the portfolio should have an A rating or better) and reasonable diversification with no inherent preference for government issues or corporate issues.
- Fixed-income investments shall be made primarily in those rated "BAA" (investment grade) or better by Moody's and BBB (investment grade) or better by Standard & Poor's with emphasis toward "A" or better issues. However, up to 20% of the fixed income investments can be made in below investment grade debt (high yield).

- Fixed income investments may include U.S. and Non-U.S. issues, including high yield, global fixed income, emerging market debt instruments, and municipal bonds.
- Diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of single issuer should not exceed 10% of the market value of the manager's portfolio responsibility.
- There are no restrictions on the use of convertible securities, beyond those implied by the emphasis on quality and a low degree of investment risk.
- Maturity scheduling will be periodically reviewed with liquidity needs, cash flow projections, and prudent investment standards in mind.

Cash Equivalents

- All cash and equivalent investments should be made with concern for quality and liquidity. High return is desirable, but the highest possible investment return should be sacrificed where quality is considered questionable.
- Diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of single issuer should not exceed 10% of the market value of the manager's portfolio responsibility.

Duties and Responsibilities

Directors

Directors have responsibility for ensuring that the investment process is managed in a prudent manner, seeking to meet the Foundation's spending objectives and maintain the real or inflation-adjusted value of the portfolio. The Directors have authority to select, retain and replace investment managers; to control asset allocation; and to determine the investment policies for the Foundation with the support of an investment consultant. This includes, but is not limited to, selection of acceptable asset classes, allowable ranges of holdings by asset class and individual investment classes as a percent of total assets, the definition of acceptable securities within each asset class, and investment performance expectations. The Directors do not reserve direct control over investment decisions, with the exception of specific limitations described in this statement. The Directors, with the assistance of the investment consultant invited to serve by the Directors will review investments and allocation on a quarterly basis. Moreover, in accordance with the State of Ohio's adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Investment Committee will take the following into consideration when making both investment decisions and setting spending policy but not limited to:

- Duration and preservation of the funds
- Need of the endowment to make distributions and preserve capital
- Expected total return from income and appreciation
- The role that each investment plays within the overall portfolio
- General economic conditions
- The possible effect of inflation or deflation
- Other resources of the organization
- Assets of special relationship or special value to the charitable purpose
- Expected tax consequences

The investment policies and restrictions presented in this Statement serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives and to minimize the potential of excluding any appropriate investment opportunities.

Investment Consultant

The investment consultant is responsible for providing information and analysis to assist the Directors with the following:

- Reviewing asset allocation and investment strategy to determine if the current strategy meets the needs of the Directors and is maximizing the long-term total return of the Foundation;
- Recommending strategic and tactical changes to asset allocation from time to time, both between and during regularly scheduled review meetings, following the investment process of the firm;
- Reviewing all separately managed accounts to ensure that each investment manager is adhering to the issued policy guidelines;
- Communicating with all investment managers on a quarterly basis to determine portfolio composition and ascertain information concerning organizational change. (Each portfolio will be reviewed for style drift through portfolio holdings and returns-based style analysis. Additionally, each portfolio to be reviewed for prohibited investments);
- Providing a quarterly performance evaluation report and assessment of the Foundation;
- Reviewing asset allocation on a quarterly basis to determine if the current levels are consistent with the asset allocation policy stated in this document;
- Providing information for the investment manager selection process;
- Monitoring the performance of each investment manager retained by the Foundation to determine how the investment product is performing relative to the established benchmarks over a specific quarter and rolling 1,3,5,7, and 10-year time periods;
- Monitoring the performance of the total portfolio to determine if the collective investment strategy is outperforming the established benchmarks over rolling 3-, 5-, 7- and 10-year time periods; and
- Perform an annual fee assessment of the investment portfolio.

Investment Managers

Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Foundation's investment objectives. Each investment manager will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper any investment manager, the investment manager should request modifications that it deems appropriate.

Custodian

The custodian will physically maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. The custodian shall also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Foundation accounts. The custodian is also responsible for providing monthly statements to the Foundation and investment consultant. Access to online balances and statements should be made available.

Additional Providers

Additional specialists such as attorneys, auditors, and others may be employed by the Directors to assist in meeting its responsibilities and obligations to administer the Foundation prudently. If such experts employed are deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Foundation as deemed appropriate and necessary.

Statement of Investment Policy Review

To assure the continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this Statement of Spending and Investment Policy, the Directors plan to review this statement annually, or as deemed necessary.

Liquidity

Investment managers may be expected to provide funds for distribution. In the event investment income is insufficient to meet withdrawal requirements, investment managers will be instructed to sell securities and remit required funds. In the case of mutual funds, the custodian will be contacted to sell shares. It is the intent of the Directors to maintain sufficient liquidity with the portfolio to meet future obligations.

Marketability of Assets

The Directors desire that Foundation assets be invested substantially in liquid securities, - defined as securities that can be bought and sold quickly and efficiently with minimal impact on market price. The Directors anticipate some investments in illiquid securities or partnerships, as described in the section *Permissible Investments*, above. Though the Directors expect that illiquid assets received through gifts shall be sold and the proceeds invested in accordance with the asset allocation guidelines in place for the Foundation, there may be occasions the Directors decide to keep such assets for a period of time. In any case, disposition of illiquid assets contributed to the Foundation will be at the discretion of the Directors.

Voting of Proxies

The Custodian shall vote the proxies for separately managed accounts on behalf of the Foundation. When mutual funds are used, the fund company will vote proxies.

Execution of Security Trades

The Directors expect the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution.

Selection of Investments and Managers

Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.

The Directors intend to retain investment managers with some or all of the following attributes to manage the asset pool:

- The institution should be a bank, insurance company or investment management company or an investment adviser under the Registered Investment Advisers Act of 1940.
- The institution should be operating in good standing with regulators and clients, with no material pending or concluded legal actions.
- The institution should provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.

Assuming the minimum criteria are met, the particular investment manager under consideration should meet the following standards for selection:

- Performance should be equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a three to five year period.
- Performance reporting should be in compliance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Specific risk and risk-adjusted return measures should be established and agreed to by the Directors and the investment consultant and be within a reasonable range relative to an appropriate, style-specific benchmark and peer group.
- The investment manager should demonstrate adherence to the stated investment objective.
- Fees should be competitive compared to similar investments.
- The investment manager should be able to provide all performance, holdings, and other relevant information on a quarterly basis.

Investment Manager Review

The investment manager performance will be reviewed on a monthly and quarterly basis and a report will be provided by the investment consultant. The manager will be welcomed to provide any suggestions regarding appropriate adjustments in this statement or the manner in which investment performance is reviewed. Investment manager results will be reviewed quarterly with an emphasis on longer term performance and also measured over rolling three and five year periods.

Each investment manager must advise the Directors and the investment consultant concerning any changes in their investment philosophy and of changes in ownership, personnel or any other matter that may impact the performance of the portfolio.

Removal of an Investment Manager

There may be circumstances which provide the Directors through consultation with an investment consultant reason to consider the removal of an investment manager. Following are the general guidelines which may give reason to remove an investment manager:

- Failure to comply with this Statement.
- Failure to meet any of the investment return benchmarks, as established by the investment consultant and the Directors.
- Failure to comply with investment restrictions as defined for the manager by the Directors.
- Significant qualitative changes to the investment management organization.

Each investment manager shall be reviewed at a minimum annually regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact its ability to achieve the desired investment results. If the investment manager has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Failure to remedy the circumstances of unsatisfactory performance by the investment manager, within a reasonable time, shall be grounds for removal. Any recommendation to remove an investment manager will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include professional or client turnover, or material change to investment processes. Considerable judgment must be exercised in the removal decision process. A manager shall be removed using one of the following approaches:

- Remove and replace with an alternative manager.
- Freeze the assets managed by the manager and direct new assets to a replacement manager.
- Phase out the manager over a specific time period.
- Continue with the manager but add a complementary manager.
- Remove the manager and do not provide a replacement manager.

Terms and Definitions

For purposes of this Statement, the following definitions apply:

1. “Fiduciary” shall mean any individual or group of individuals that exercise discretionary authority or control over foundation management or any authority or control over management, disposition or administration of the Foundation’s assets.
2. “Investment Manager” shall mean any individual, or group of individuals, employed to manage the investment of all or part of the Foundation’s assets. An investment manager shall be responsible for determining investment strategy, implementing selection of investments and the timing of purchases and sales of investments within the policy guidelines set forth in this Statement and as otherwise provided by the Directors.
3. “Investment Consultant” shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
4. “Securities” shall refer to the marketable investment securities that are defined as acceptable in this Statement.
5. “Investment Horizon” shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met.