Ohio Administrative Code

Rule 3342-7-03 University policy regarding university investments.

Effective: July 8, 2021

(A) Policy statement. This statement of investment policy reflects the investment policy, objectives and constraints for the Kent state university ("university") operating accounts. This rule defines the authority and responsibilities for the management of investment operations and the standards to be used to monitor investment performance. In general, the purpose of this statement is to outline the policy and philosophy that guides the management of the investment assets toward desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

(1) The mission of the university's investments is to provide sustainable investment returns to fund current and future financial objectives with commensurate risk and return objectives based on the multiple investment time-frames. With recognition to this primary objective, the university shall make reasonable efforts to invest in ethical and socially responsible companies.

(2) As investment balances are in place to fund strategic needs and to ensure funding for debt service, university expenditures that are outside of the current approved budget shall be approved by the president and senior vice president for finance and administration. A decline in portfolio value deemed to be more than temporary in nature shall be distributed proportionately to department fund balances as authorized by the senior vice president for finance and administration.

(3) This rule is set forth by the university in order that:

(a) There is a clear understanding on the part of the board of trustees, the finance and administration committee, the investment committee, the senior vice president for finance and administration and the investment advisor retained concerning the investment policy and objectives for the funds under management;

(b) The investment advisor is given the guidelines and limitations expressed in this rule for the funds under management;

(c) Current and future board of trustees members have a basis for understanding the investment process and evaluating performance.

(B) Roles and responsibilities.

(1) Board of trustees. The board of trustees has the general authority to implement this rule. In accordance with division (C)(3) of section 3345.05 of the Revised Code, the board of trustees has established an investment committee as a subcommittee of the finance and administration committee of the board.

(a) Finance and administration committee: The finance and administration committee authorizes the control and execution of the rule to the investment committee.

(b) Investment committee: The investment committee is responsible for the management of the investment operations working in collaboration with the senior vice president for finance and administration. The investment committee may employ professional advisors to assist in the discharge of these duties. The duties and responsibilities of this committee are outlined in the investment committee charter.

(2) Senior vice president for finance and administration. The senior vice president for finance and administration, or designee, and the investment advisor are delegated the authority to execute investment operations as approved by the investment committee. The senior vice president for finance and administration, or designee, shall be responsible for monitoring fluctuations in cash needs by utilizing monthly updates to cash forecasts. Responsibilities of the senior vice president for finance and administration under this rule are as follows:

(a) Advise the finance and administration committee and the board of trustees on its investments made pursuant to division (C) of section 3345.05 of the Revised Code;

(b) Participate in the review and recommending the selection, retention or release of an investment advisor in compliance with division (D)(1) of section 3345.05 of the Revised Code;

(c) Review and recommend any changes to this rule;

(d) Recommend asset subclasses within the asset classes described in this rule which constitute permissible areas for investment of the university assets in compliance with division (C)(1) of section 345.05 of the Revised Code;

(e) Recommend return and risk objectives and asset allocation targets for the university assets that are invested;

(f) Report to the finance and administration committee at least quarterly on the performance status of the investments of the university.

(3) Investment advisor. The investment advisor has discretion to purchase, sell or maintain securities, including commingled and privately placed funds. The investment advisor must be licensed either by the division of securities or registered with the securities and exchange commission, and must be in compliance with the standards established in division (D)(1) of section 3345.05 of the Revised Code. Specific responsibilities of the investment advisor include:

(a) Design and implement an asset allocation strategy based on the universitys goals and risk tolerance as defined in this rule;

(b) Discretionary investment management including decisions to buy, sell or maintain individual securities, and to alter asset allocation within the guidelines established in this statement and consistent with the terms of the advisor's agreed upon strategy;

(c) Communicate any major changes to economic outlook, investment strategy or any other factors that affect implementation of investment process, or the investment objective progress of the university's investment management;

(d) Attend investment committee meetings and other investment-related conference calls as requested;

(e) Report on a timely basis quarterly investment performance results and activity;

(f) Engage investment managers as necessary for investment advisor to perform responsibilities under this rule;

(g) Vote proxies on behalf of the university in accordance with the terms of the investment management agreement;

(h) Annually review and attest to compliance with this rule;

(i) Instruct the custodian to rebalance assets as needed.

(4) Custodian(s): The custodian shall physically (or through agreement with a sub-custodian) maintain possession of securities owned by the university, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the university accounts.

(5) Additional specialists: Additional specialists, such as auditors, consultants, and technology providers, may be employed by the university to assist in meeting its responsibilities and obligations to administer university assets prudently.

(C) Implementation.

(1) Investment considerations. In accordance with division (C)(1) of section 3345.05 of the Revised Code, across all university funds, an average of no less than twenty-five per cent of the total operating assets over the previous fiscal year must be invested in publicly-traded fixed-income securities, defined as:

(a) Securities issued by the United States government or its agencies or instrumentalities;

(b) The treasurer of the state of Ohios poled investment program;

(c) Obligations of the state of Ohio or any of its political subdivisions;

(d) Certificates of deposits of any national bank located in the state of Ohio;

(e) Written repurchase agreements 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, as a reserve.

(2) Monies from various university funds may be pooled to maximize return or reduce expenses.

(D) Specific investment objectives. The university investment pool is divided into three investment pools.

(1) Short-term pool. The short-term pool contains university funds needed for day-to-day operating expenses, generally at least totaling the amount of projected expenditures occurring within a one-year time frame.

(a) Investment objective. The investment objective of the short-term pool is to provide for preservation of capital for ongoing liquidity with the maximum income commensurate with the need for principal safety. Investment selection shall be based on the need for this pool to fund day-to-day operating expenses and planned expenditures occurring within a one-year time frame.

(b) Relative rate of return objective. The performance of the short-pool investments shall be measured relative to the ninety-day US treasury bill index.

(c) Asset allocation guidelines:

Asset class	Policy target
Cash & equivalents	100 per cent

(2) Intermediate-term pool. The intermediate-term pool contains funds that may be authorized for university unrestricted priorities, as well as to support the short-term pool on a temporary or permanent basis pursuant to the university budget, the use of which could occur over an intermediate time frame generally considered between one and five years. The funding of the intermediate-term pool may come from, but is not limited to, accumulated short-term funds that exceed projected operating needs over the subsequent year, funds set aside for specific initiatives, excess earnings from the long-term pool, and other amounts that are set aside by the senior vice president for finance and administration.

(a) Investment objective. The investment objective of the intermediate-term pool is to earn a higher return on funds that are not identified as day-to-day operating expenses. Emphasis is placed on income and principal appreciation with an attempt to minimize return volatility.

(b) Relative rate of return objective. The intermediate-term pool shall attempt to achieve a return in excess of a blended benchmark calculated by applying each strategys target asset allocation to the comparable benchmark. Additional market-based blends may be utilized for further comparative uses.

(c) Asset allocation guidelines:

Asset class	Strategic target	Range
Growth Strategies	25 per cent	15-35per cent
Inflation protection	5 per cent	0-15 per cent
Risk reduction	70 per cent	60-80 per cent

Growth strategies are expected to provide long-term growth and offer high expected real returns, and shall include several asset classes with a bias toward equity (public and private, as well as long-biased hedge funds) and equity-like investments (such as high yield and emerging markets debt) due to their higher long-term return expectations.

Inflation protection strategies shall include public real asset strategies as well as private real estate. Real assets and private real estate provide the portfolio with a diversified hedge against inflation as well as a strong yield component.

Risk reduction strategies shall include diversified fixed income and non-directional hedge funds. Fixed income provides stability and protection in deflationary environments. Non-directional hedge funds are designed to reduce volatility while providing fixed income-like returns.

(3) Long-term pool. The long-term pool represents a "permanent core" fund not needed for working capital in any given single year.

(a) Investment objective. The primary investment objective of the long-term pool is to maximize capital appreciation over an extended time horizon, deemed approximately five to ten years or greater, the purpose which is to enhance the university's ability to provide for programs and initiatives. Emphasis is placed on capital appreciation over intermediate income needs or short-term capital preservation.

(b) Relative rate of return objective. The intermediate-term pool shall attempt to achieve a return in excess of a blended benchmark calculated by applying each strategys target asset allocation to the comparable benchmark. Additional market-based blends may be utilized for further comparative uses.

(c) Asset allocation guidelines: "Asset class Strategic target Range Growth strategies 69% 59% - 79% Inflation protection 11% 0% - 21% Risk reduction 20% 10% - 30%"

Asset class	Strategic target	Range
Growth strategies	69 per cent	59-79 per cent
Inflation protection	11 per cent	0-21 per cent
Risk reduction	20 per cent	10-30 per cent

The terms "growth strategies," "inflation protection," and "risk reduction" shall have the same meaning as provided for in paragraph (D)(2)(c) of this rule.

(4) Return allocation policy. No less than annually, the investment committee shall review investment returns and determine any reallocation of the returns to the short-term or intermediate-term pools.

(5) Time horizon. Based on historical data, it is anticipated that the university shall have a strong probability of achieving its stated objectives over the long-term. Since it is assumed that the university and its purpose shall exist over a long period of time, long-term investment time horizons are used (e.g. ten, twenty, and thirty years) to establish the appropriate asset allocation policies and guidelines in order to attain these objectives. Year by year and over shorter-term time horizons these objectives may not always be attained. Nevertheless, emphasis on evaluating performance shall be over rolling three-year and five-year periods, rather than short-term, to determine the portfolio's progress towards its objectives.

(E) Definition of risk. Any person or organization involved in the process of advising the university regarding the investment of assets shall understand how the investment committee defines risk so that the assets are invested in a manner consistent with the university objectives and investment strategy as outlined in this rule. The investment committee defines risk across all university funds, collectively, as the probability of not meeting the university's liabilities or cash flow requirements as determined by its objectives.

(1) The investment advisor shall manage portfolio risk at multiple levels: strategic asset allocation, manager selection and portfolio construction. Strategic asset allocation recommendations shall be made with the goals of managing portfolio risk (supporting preservation) and providing return enhancement (supporting perpetuity). Diversification across asset classes is critical to minimizing volatility of returns. Risk (absolute and relative) shall also be managed and monitored at the investment manager level. Multi-manager strategies shall be designed to offer optimal diversification, reduce risk and deliver consistency.

(2) Portfolio risk shall be monitored on a regular basis and the advisor shall provide reporting on risk related metrics such standard deviation, Sharpe ratios, value at risk, max drawdown and stress testing.

(3) Each pool's risks are different. Generally, the primary risk of each pool is:

(a) Short-term pool. Any temporary or permanent loss that is not recoverable in ninety days or less time.

(b) Intermediate-term pool. A temporary or permanent of loss of purchasing power over rolling three-year periods. That is, the primary risk associated with the intermediate-term pool is the loss of real value (after inflation) over three-year periods.

(c) Long-term pool. Excess volatility measured in relation to the blended benchmark described above, as well as long-term permanent loss of principal measured over full market cycles, as defined in this rule.

(F) Liquidity. Sufficient liquidity and income should be maintained to pay the University wages, benefits and other expenses, and any predictable and/or reasonable contingencies. To minimize the probability of a loss occasioned by the sale of a security forced by the need to meet a required payment, the investment committee shall, along with the investment advisor, take the necessary steps to provide sufficient liquidity on an ongoing basis. In the event of an unforeseen cash requirement, the investment committee shall work with the investment advisor to provide the necessary liquidity. As a general rule, when providing for liquidity, the strategic allocations as delineated in this rule and accompanying exhibits shall be, within reason, a primary consideration.

(G) Investment guidelines.

(1) Allowable assets.

(a) Cash equivalents. Treasury bills, money market funds, short term investment funds, commercial paper, banker's acceptances, repurchase agreements, certificates of deposit.

(b) Fixed income securities. U.S. government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stock, fixed income securities of foreign governments and corporations, planned amortization class collateralized mortgage obligations (PAC CMOs) or other "early tranche" collateralized mortgage obligations.

(c) Equity securities. Common stocks, convertible notes and bonds, convertible preferred stocks, American depository receipts (ADRs) of non-U.S. companies, stocks of non-U.S. companies (ordinary shares).

(d) Funds. Mutual funds and hedge funds.

(e) Other assets. Guaranteed investment contracts, limited partnerships which invest in securities as allowed in this statement.

(f) Private equity, real estate and other non-marketable alternatives:

(i) In making investments, there is a pre-disposition to using funds-of-funds over direct investments in a single, or several single investment funds.

(ii) The investment committee may authorize up to fifteen per cent total investment, at cost, in such non-marketable alternative investments.

(2) Equity investments. Across university funds,

(a) No more than five per cent (at cost) or ten per cent (at market) of the total portfolio may be invested in any one company; no more than twenty-five per cent exposure to any one industry. For the purposes of these guidelines, the Standard and Poor's definition of industry classification shall be used for clarification when necessary.

(b) Foreign equity securities are a permissible investment both on an American depository receipt ("ADR") basis as well as ordinary shares.

(c) Preferred stock and convertibles are permitted.

(d) The investment advisor is responsible for monitoring equities to be sure guidelines are satisfied. If guidelines are not satisfied, the investment advisor shall notify the senior vice president for finance and administration promptly. The senior vice president for finance and administration, based on advice from the investment advisor, shall determine what action shall be taken.

(3) Fixed income investments and cash equivalents. Across university funds,

(a) At least seventy per cent of all fixed income investments must be rated investment grade or better by either Moody's or Standard & Poor's (Baa/Moody's or BBB/Standard & Poor's) as to domestic securities, and AA rated by those agencies or their foreign counterparts as to foreign securities.

(b) Commercial paper should be rated A1 (or equivalent) or better.

(c) Diversification. No more than ten per cent exposure (at cost) to any one company, or twenty-five per cent exposure (at cost) to any one industry. U.S. treasury securities are exempt from this restriction.

(d) Foreign fixed income securities are permissible investments.

(e) Division (C)(1) of section 3345.05 of the Revised Code must be adhered to, as described in paragraph (C) of this rule.

(f) The investment advisor is responsible for monitoring fixed income and cash equivalents pursuant to these guidelines. If guidelines are not satisfied, the investment advisor shall notify the senior vice president for finance and administration promptly. The senior vice president for finance and administration, based on advice from the investment advisor, shall determine what action shall be taken.

(4) Alternative investments. Investments in alternative investment strategies are permissible within the context of the overall investment allocation. The objective of such strategies shall be to diversify the portfolio, complementing traditional equity and/or fixed-income investments to improve the overall performance consistency of the pool(s). The primary purpose for including alternative investments is greater diversification and an emphasis on returns less correlated to market risk. Only investment funds that provide annual audited financial statements are eligible for investment.

(a) As a whole, alternative investments (as equivalents for the asset classes above) shall not exceed thirty per cent of the total portfolio. Within the alternative investment limitation, non-marketable investments may not exceed fifteen per cent of the total portfolio. Non-marketable investments are those considered illiquid until sold by the investment advisor, such as private equity or private real estate.

(b) Hedge fund strategies. Eligible strategies include, but are not limited to: statistical arbitrage, equity market neutral, convertible arbitrage, distressed securities, merger arbitrage, fixed income arbitrage, equity long/short, global macro, short selling, managed futures, structured products, micro finance and portable alpha.

(c) Funds of hedge funds. The investment committee may elect to invest in funds of hedge funds. The funds of hedge funds structure helps to provide an additional layer of diversification relative to relying on a single-manager or single-strategy hedge fund approach.

(d) Single-manager hedge funds. The investment committee may elect to invest with single-manager hedge funds. In general, single manager funds are anticipated in instances where there are directly accessible strategies or market exposures that are not efficiently accessed through fund of funds.

(e) Hedge funds and funds of hedge funds investments are often less transparent than traditional investments, and therefore investments shall be made only in funds where investment, operational, and legal due diligence as well as ongoing monitoring are performed by the investment advisor. Liquidity in such investments may also be limited, including lock-up provisions and redemption or withdrawal fees. Liquidity constraints shall be weighed when making allocations to the managers responsible for the investments in these funds.

(H) Investment advisor review.

(1) Performance reports generated by the investment advisor shall be compiled at least quarterly and communicated to the investment committee for review. The investment performance of the total portfolio, as well as asset class components, shall be measured against commonly accepted performance benchmarks as described throughout this rule. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this rule.

(2) The investment advisor performance is generally measured over a full market cycle, though there is always the right to terminate the advisor for any reason including but not limited to the following:

(a) Significant qualitative changes to the investment advisors organization, personnel or strategy.

(b) Investment performance, which is significantly less than anticipated given the discipline employed, and the risk parameters established, or unacceptable justification of poor results.

(c) Failure to adhere to agreed upon or communicated investment parameters or the terms of an agreement with the university, including communication and reporting requirements.

(d) Change in fee structure.

(e) Performance against peers.

(I) Investment policy review. To ensure continued relevance of the guidelines and objectives established in this rule, the investment committee and the investment advisor shall review this rule at least annually. However, the investment committee reserves the right to amend this rule at any time.

(J) Definitions. For the purposes of this rule, the following terms are defined as follows:

(1) Indices.

(a) MSCI all country world index (MSCI ACWI). The MSCI ACWI index is a market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI is divided approximately across all stock markets, in proportion to their size across the globe. The US markets are approximately forty-five per cent to fifty-five per cent of the global markets, and other developed and emerging markets comprise the remainder in proportion to their sizes.

(b) Barclays capital U.S. intermediate government/credit bond index. The index measures the performance of U.S. dollar denoinated U.S. treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

(2) Full market cycle. A full market cycle is generally described as the intermediate- to long-term

period during which capital markets exhibit upward, downward, and then upward again behavior (historically five to seven years on average, though time-frame may be shorter or longer depending on the market environment). Because market cycles tend to present themselves differently over time, a longer-term orientation enables the university more fully to judge performance in light of the unique characteristics of each period rather than project based on more difficult to discern short-term results.