Policy: Endowment Fund & Pooled Investment Program

Statement of Investment Objectives and Policy

Section: Investment

Number: 1.IC.EndowedFunds.2009.10.10

Replaces: 1.IC.EndowedFunds.2009.03.02
1.IC.EndowedFundsInvestment.2006.11.03
1.IC.EndowedFunds.2007.05.18

Authority from Resolution:

Resolution Recording Date:

Committee: Board of Trustees

Minutes Number

Scheduled Update:

Last Review Date: October 10, 2009

Procedure Number:

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Article 1: Purpose

The Board of Trustees of the Oregon State University Foundation ("Board") has adopted this Investment Policy to govern the investment of institutional funds held by the Oregon State University Foundation endowment fund and other assets commingled in the Foundation’s Pooled Investment Program (herein after collectively referred to as "the Fund").

This statement is set forth in order that the Trustees of the Oregon State University Foundation, the Investment Committee, Foundation staff, investment consultants, investment manager(s) and the Fund beneficiaries may be made aware of the policies of the Board with regard to the investment of the Fund’s assets, the investment objectives and the expectations and requirements with respect to the ongoing management of the Fund’s assets.

Article 2: The Fund

The Fund is expected to operate in perpetuity and the investments will be invested with a long-term horizon. It is therefore important to follow coordinated endowment policies regarding fund-raising, spending and investment that will protect the principal of the Fund and produce above-average long-term total returns while maintaining a prudent level of risk.

Article 3: Governance Roles and Allocation of Responsibilities

This section describes and delineates the responsibilities of the key parties to the Fund’s investment process.

A. OSU Foundation Board of Trustees

The OSU Foundation Board of Trustees provides performance accountability, membership oversight and governance evaluation for the Committee. The OSU Foundation Board of Trustees’ responsibilities are to:

1. Approve the investment policy and changes to the investment policy.
2. Assess Fund performance against annual goals.
3. Review financial audits.
4. Review and approve final candidates for open positions as recommended by the Committee on Trustees, including appointed members, additional ex officio members, Committee Chair and Committee Vice Chair.
5. Annually review the operational performance of the Committee and its members.
6. Review and approve member de-selection recommendations as submitted by the Committee on Trustees.
7. Maintain “best in class” operations by periodically assessing Committee performance and evaluating changes in the: roles and responsibilities of Committee and staff; structure and composition of the Committee; characteristics and qualifications of Chair and members, Committee support model.
8. Address problems with Committee operations as they arise.

9. Approve a group of higher education institutions where OSU Foundation can benchmark its’ results with endowments similar in size.

B. OSU Foundation Investment Committee

The Committee is responsible for management of the Fund’s investments. It has the authority to delegate fulfillment of investment and administrative tasks to others. Reasonable care shall be exercised in selecting and monitoring such individuals or firms. The Committee’s responsibilities with respect to the Funds’ assets include completing each of the duties below in a prudent manner:

1. Comply with all applicable state and federal laws, regulations, and rulings that relate to the Fund’s investment management process.

2. Recommend investment policy to Board of Trustees.

3. Operate within the allocation ranges of the investment policy.

4. Establish and regularly review policies, objectives, asset allocation and guidelines for the investment of the Funds’ assets.

5. Establish and periodically review the Fund’s spending policy.

6. Establish and regularly review manager structure guidelines for the Fund’s components.

7. Establish and comply with policies addressing issues that may result in perceived or actual conflicts of interest (including but not limited to relationships with investment managers or other firms doing business with the Fund and receipt of gifts or entertainment above a certain dollar value from firms doing business with the Fund) and other governance issues.

8. Select qualified external investment managers to manage the Fund’s assets.

9. Select other service providers it deems appropriate to carry out its function, including, but not limited to, independent investment consultant(s).

10. Meet quarterly to evaluate policy compliance, review progress in achieving the Fund’s goals and assess the effectiveness of the investment program.

11. Evaluate the Fund’s performance and the performance of the professionals hired to assist the Committee in managing the Fund’s investment program.

12. Communicate on a regular basis with the investment managers and investment consultant.

13. Periodically review and evaluate ongoing understanding and relevance of investment policies of commingled funds in which Fund assets are invested.
14. Take appropriate action if objectives are not being met or if policy and guidelines are not being followed.

C. Chair of the Committee
The Chair is responsible for the following duties:
1. Provide leadership in the conduct of Committee responsibilities and preside at Committee meetings.
2. Report Committee activities and actions and Fund performance at meetings of the OSU Foundation Board of Trustees.
3. Communicate on behalf of the Committee, as the Committee speaks with one voice through the Chair.
4. Review member performance with the Committee on Trustees and assist in new member orientation and the de-selection process.
5. Participate in new member orientation sessions.
6. Collaborate with Chief Financial Officer on developing meeting agendas and meeting locations.
7. Must be a member of the Board of Trustees.

D. Chief Financial Officer
The Chief Financial Officer is responsible for the following duties:
1. Assist the Committee in maintaining relevant policies and procedures.
2. Coordinate contract reviews and execution.
3. Day to day relationship management of investment program service providers.
4. Act as liaison between the Committee and investment program service providers.
5. Monitor asset allocation and rebalance as needed.
6. Provide direction letters to the investment managers, bank custodian and consultant.
7. Determine liquidity needs and communicate same to appropriate service providers.
8. Monitor manager compliance with the Fund’s investment policy.
9. Provide reports to internal and external constituencies as required.
10. Develop meeting agendas and collaborate with Chair and appropriate service providers, as needed.
11. Provide orientation to new Committee members.

E. Custodian Bank
Fund assets will be held by an institution designated as the Custodian Bank, who shall manage, control and collect the assets of the Fund in accordance with the
terms of a separate custodial agreement as well as the terms of this policy. The
custodian bank for the Fund is responsible for:

1. Fulfilling all the customary fiduciary duties of a custodian in accordance
   with applicable state and federal laws.
2. Receiving all contributions and paying all disbursements and Fund
   expenses as directed by Staff.
3. Safekeeping of assets, timely settlement of securities transactions, and
   the daily sweep of excess cash from manager accounts into suitable cash
   management vehicles.
4. Accurate and timely reporting of the assets to the Staff by individual
   manager account(s), investment pool, and total Fund.
5. Coordinating asset transfers as requested by the Staff.
6. Meeting with the Staff as requested.

F. Investment Managers
The manner in which the Funds’ investment objectives are to be accomplished
and the accountability of the investment managers in seeking to achieve the
investment objectives shall be consistent with pertinent state and federal laws,
regulations, and rulings that relate to the investment process.

The investment managers are given full discretionary authority to accomplish
specific investment objectives of the Fund, subject to the guidelines set forth in
this investment policy. The investment managers are responsible for the
following:

1. Implementing the style and strategy for which they were hired.
2. Implementing security selection and timing decisions.
3. Providing reports and data as requested by the Committee, Staff, bank
   custodian and/or investment consultant.
4. Meeting with the Committee and Staff, as requested.
5. Voting proxies and providing a report at least annually on the proxy votes
   cast on behalf of the Foundation.

Investments in pooled funds shall be subject to the investment policy guidelines
established by the respective fund managers.

G. Investment Consultant
The investment consultant is responsible for the following:

1. Assist the Committee and Staff in maintaining a relevant investment
   policy.
2. Evaluate and report performance of Fund assets on a quarterly basis.
3. Monitor and report any material changes in personnel, organization or
   investment strategy of the Funds’ investment managers.
4. Proactively suggest improvements to the Funds’ investment program.
5. Identify appropriate investment manager candidates.
6. Provide investment expertise and analyses, as needed by the Committee and Staff.
7. Keep the Committee informed of current investment trends, issues and material changes in the regulatory environment.
8. Evaluate investment opportunities.
9. Recommend asset allocation and manager allocation targets.
10. Recommend asset manager finalists.
11. Provide results of selected benchmark schools for Committee to track.
12. Provide the Committee with an assessment of plan results in comparison to policy guidelines and expectations.

**Article 4: Investment Policy Guidelines**

The Board does not expect to be reactive to short-term investment developments, recognizing that the needs for payout are long-term and that investment performance must be measured over a meaningful period of time. While the quantitative assessment of managerial competence will be measured over a complete market cycle, the Board anticipates the need to make interim qualitative judgments. Specific qualitative factors which will be reviewed by the Investment Committee on an ongoing basis include any fundamental changes in the manager’s investment philosophy, any changes in the manager’s organizational structure, financial condition and personnel, and any change, relative to their peers, in the manager’s fee structure.

**A. Asset Allocation**

The assets of the Foundation are invested in accordance with policy as approved by the Board. Based upon historic results and future expectations, equity investments are expected to produce higher total rates of return for the Fund than will fixed income investments over long periods of time. In order to achieve this goal, and provide for regular income and liquidity the board has established policy ranges and a long-term target for the Fund investment mix as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Maximum</th>
<th>Target</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Domestic Equities</td>
<td>34.0%</td>
<td>17.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Small/Mid Cap Domestic Equities</td>
<td>16.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>International Equities</td>
<td>24.0%</td>
<td>23.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Domestic/Global Fixed Income</td>
<td>50.0%</td>
<td>17.0%</td>
<td>10%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>20.0%</td>
<td>17.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>20.0%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10.0%</td>
<td>6.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Real Return</td>
<td>20.0%</td>
<td>5.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
The asset mix policy and acceptable minimum and maximum ranges established by the Foundation represent a long-term view. As such rapid and significant market movements may cause the fund’s actual asset mix to fall outside the policy range. The Investment Committee must report to the Board any change in the overall investment allocation. The Board must approve any overall investment allocation, which is in excess of the maximum thresholds set forth above.

B. Risk
The acceptable risk profile for the Foundation should generally be to assume the lowest possible risk for the return goal desired. While negative returns in any single year may be unavoidable, over longer terms, asset allocations should be selected which are expected to achieve overall positive portfolio returns. In order to assess and monitor portfolio risk, the Investment Committee will review its asset allocation policy and asset allocation at least annually. A formal asset allocation study will be conducted every two years.

Risk can be construed to include multiple different outcomes including loss of principal, failure to meet an expected return or most commonly volatility of investment returns around an expected mean (standard deviation). The Investment Committee’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. Investment committee members, with the help of their investment consultant and investment managers, are responsible for understanding the risks inherent in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them. It should be considered in the hiring of new investment managers as well as in the continued monitoring of existing investment managers and the overall portfolio. Risk should also be considered in the selection of individual asset classes and the overall portfolio asset allocation. Most importantly, the level of overall portfolio risk taken should be consistent with the overall return objectives the Foundation.

C. Rebalancing
Foundation staff will rebalance the investment portfolio on an ongoing basis as new gifts to the Foundation are received, or market value fluctuations occur. Rebalancing will be addressed on a quarterly basis and it is the responsibility of the investment consultant to prepare recommendations on rebalancing to be approved by the Investment Committee. The portfolio is expected to remain within the boundaries of the ranges around the target asset allocation. It is understood that during the initial implementation of alternative asset classes, the allocation may fall below the established minimum range until the program can be fully established. Further, the strategic allocation to alternative asset classes may differ from the target ranges outlined for extended periods of time, due to the illiquid nature of these asset classes.

D. Liquidity
Foundation staff will monitor cash flow on a regular basis, and sufficient liquidity shall be maintained to ensure spending policy is met. When withdrawals become necessary, staff will notify the investment manager(s) as
Article 5: Relative Returns – Total Portfolio Objectives

The investment objectives for the Foundation will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run through a combination of investment income and capital appreciation. The Board is dedicated to active management and its goal is that the Foundation’s total portfolio investment performance over the market cycle will be within the top 25% over 5 to 10 year periods of a nationally recognized universe of other endowment/foundation sponsors. In addition, the composite results will be compared to a static asset mix of:

- 13.5% large cap domestic equities (S&P 500 Index)
- 5% small cap domestic equities (Russell 2000 Index)
- 13.5% international equities (MSCI ACW ex US Index)
- 30% fixed income (Barclays Capital Aggregate Bond Index)
- 10% real estate (NCREIF Property Index)
- 15% absolute return (HFN Fund of Funds Multi-Strategy Average Net)
- 6% private equity (actual time-weighted rate of return of Foundation’s private equity investments)
- 7% real return (CPI + 5%)

Article 6: Real Returns – Investment Performance Criteria

In addition to the Fund’s total return objective and asset allocation guidelines, and any other criteria applicable to a particular Investment Manager, the manager or portion of marketable securities under review shall be evaluated by the Investment Committee over rolling three-year periods, or shorter appropriate market cycle identified by the Committee, against the following:

A. U.S. Equities – Large Cap

Equity accounts or portfolios shall be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the S&P 500 Index, or appropriate style index (i.e. Russell 1000 Value or Growth) by at least 1%, net of fees; and
2. Rank in the top half of a nationally recognized universe of equity managers possessing a similar style; and
3. Volatility to be comparable to the S&P 500 Index, or appropriate style index.

B. U.S. Equities – Small/Mid Cap

Small and mid-capitalization accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Russell 2000 or Russell 2500 Index, or appropriate style index, by at least 1%, net of fees; and
2. Rank in the top half of a nationally recognized universe of equity managers possessing a similar style; and
3. Volatility to be comparable to the Russell 2000 or Russell 2500 Index, or appropriate style index.

C. International Equities
International equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:
1. Exceed the return on the MSCI All Country World ex U.S. Index or MSCI EAFE Index, or appropriate style index, by at least 1% net of fees;
2. Rank in the top half of a nationally recognized universe of international equity managers possessing a similar style; and
3. Volatility to be comparable to the MSCI ACW ex U.S Index or appropriate style index.

D. Fixed Income
Fixed income accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:
1. Exceed the return of the Barclays Capital Aggregate Bond Index by at least 0.25% net of fees;
2. Rank in the top half of a nationally recognized universe of fixed income managers; and
3. Volatility to be comparable to the Barclays Aggregate Bond Index.

E. Index Funds or Exchange Traded Funds (ETF’s)
The investments in passively managed funds are not required to meet the investment performance targets stated in this document. Passively managed funds should meet the performance of the targeted benchmark before fees with minimal tracking error.

F. Real Estate
Real estate accounts shall be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:
1. Core funds are to exceed the return of the NCREIF Property Index or NCREIF Open-End Diversified Core Equity (ODCE) Fund Index, net of fees;
2. Core Plus, Value-Added and Opportunistic Real Estate funds are to exceed the return of the NCREIF Property Index (NPI) by an appropriate risk premium (net of fees) over the most recent five-year period. This risk premium will vary depending on investment manager strategy and should be consistent with the objectives stated in the investment manager’s offering documents.

G. Absolute Return
Absolute Return manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:
1. Exceed the 90-day T-bill return by at least 5%, net of fees; and

2. Exceed the return of the HFN Fund of Funds Multi-Strategy Average, net of fees

3. Maintain an acceptable risk level, measured by the standard deviation of quarterly returns, of half (50%) the volatility of the broad equity market, represented by the S&P 500 Index.

H. Private Equity
Private equity manager(s) or portfolios shall be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Over the long-term (5-10 years) exceed, on an Internal Rate of Return (IRR) basis, the return of the S&P 500 Index by at least 5% net of fees;

2. Exceed, on an Internal Rate of Return (IRR) basis, the Venture Economics Private Equity median return for the appropriate vintage year.

I. Real Return Strategies
Real Return Strategy manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the increase in the CPI by at least 5%, net of fees.

J. Watch List
A number of factors may contribute to a manager’s over- or under-performance at any given time, such as market dynamics, investment skill, etc. The following represent guidelines to be used in making a recommendation to placing an asset class manager on the Watch List:

Test 1  If the manager’s rolling, three-year return (gross of fees) falls below the rolling, three-year benchmark return for three (3) consecutive quarters.

Test 2  If the manager’s rolling, three-year return (gross of fees) for three (3) consecutive quarters ranks in the bottom third of the Consultant’s peer group universe.

Once a manager is placed on a Watch List, performance will be closely monitored and scrutinized. A comprehensive review will be conducted by the investment consultant of the manager on watch. An explanation of the underperformance from the manager will be provided to the Investment Committee. Additional actions could include meetings with the manager and a formal re-interview of the manager by the Investment Committee. Expectations will be established by the Investment Committee on a case-by-case basis specific to the manager for removal from the Watch List. If the investment manager’s performance fails to improve relative to the standards detailed above, and/or qualitative concerns arise from the Watch List due diligence, the manager may be considered for termination.
Article 7: Alternative Investments - Valuation and Controls

The following policy shall pertain to all Alternative Investments. Alternative Investments shall be defined as any investment in private equity (buyouts, venture capital and special situations), non-listed and market priced absolute return strategies (hedge funds) and non-listed and market priced vehicles investing in real assets (real estate, energy, natural resources, commodities, etc).

The named Investment Manager for each such Alternative Investment shall provide, in writing, the policies and procedures used in periodic portfolio valuation. These policies and procedures, along with portfolio composition, are to be reviewed with the client at least annually. At a minimum, the manager will address the following:

- Nature of underlying investments, including factors such as complexity, liquidity, volatility, and frequency of trading
- Methodology and assumptions used in valuation
- Checks and balances in place to ensure a fair valuation process

Furthermore, the Investment Manager will also notify the client immediately regarding any changes made to the valuation methodology or the assumptions used in the valuation process. The Investment Manager is also responsible for providing audited financial statements at least annually, and non-audited statements on at least a quarterly basis.

Article 8: Restrictions

The Investment Committee will allow Manager(s) to have full discretion over portfolio investment decisions within the policy established herein, and with the following specific restrictions.

A. No investment in any single issue, security, or property shall be greater than five percent (5%) of the total amount or value of that issue, security, or property.

B. Fixed Income investments shall consist of government debt instruments and/or debt instruments issued by commercial enterprises. To the extent that investments are made in corporate or municipal bonds, securities with below investment grade ratings will be limited to ten percent (10%) of the portfolio. Investment grade ratings are considered to be all rating categories above BBB or Baa, as assigned by Moody's or Standard & Poors. The overall average quality of fixed income portfolios will be maintained at AA or better.

C. Subject to the above limitations, the following are permitted investments: securities issued under Rule 144A and Yankee securities. Investments in Rule 144A securities are inherent to a maximum of ten percent (10%) of the Portfolio.

D. Investments in both Agency and non-Agency mortgage-backed securities, including collateralized mortgage obligations, may be made through the use of a mutual funds, dedicated direct portfolios or other means. Investments in such
portfolios may include derivatives used to hedge the prepayment risk inherent in mortgage-backed securities.

E. Investments in foreign currency bonds, up to a maximum of twenty percent 20% of the portfolio, may be made on an opportunistic basis. The currency exposure in these securities may either be hedged or unhedged. Investments in these securities may be made through the use of an advisory mutual fund portfolio.

F. Fixed-Income managers have full discretion over the allocation between long term, intermediate or cash equivalent investments subject to the above limitations, provided that the duration of any manager’s portfolio shall not vary from the appropriate Barclay’s Bond Index by more than plus or minus 20%.

G. An Investment Manager investing in traditional assets shall not use derivatives to increase portfolio exposure above the level that could be achieved using only traditional assets. These same managers will not use derivatives to acquire exposure to changes in the value of assets or indices that, by themselves, would not be purchased for the portfolio. Investment managers, investing in Alternative Assets shall be allowed to use leverage, consistent with their strategy, which shall have been approved by the Investment Committee during the hiring process, and amended, if applicable.

Article 9: Manager(s) Responsibilities

A. Legal Compliance.
   1. Fiduciary Standard. The Investment Manager(s) is responsible for strict compliance with the fiduciary standards and the prudent investor rule set forth in the Oregon Uniform Prudent Investor Actor and the Oregon Uniform Management of Institutional Funds Act. All transactions that use assets of the Fund shall be undertaken for the sole benefit of the Foundation.
   2. Internal Revenue Restrictions. No investment shall be made that would result in the denial of that tax exemption of Section 501(c)(3) of the Internal Revenue Code.

B. Evaluation Timetable. The Manager(s) will be expected to provide such data as is required for proper monitoring to the Investment Committee on a timely basis each quarter. In addition, the Manager(s) will provide transaction registers and portfolio valuations, including cost and market data, on a monthly basis.

The Investment Manager(s) is requested to meet with the Investment Committee at least annually to review:

1. The investment forecast for the following year.
2. The effect of that outlook on the attainment of the Foundation’s objectives.
3. The manager’s actual results for the preceding forecast period compared to the previously established return goal for the reporting period.

4. The Investment Objectives and Policy of the Endowment Fund. If the Investment Manager believes that the investment policy is too restrictive or should be amended in any way, written notification must be communicated immediately.