WESTERN MICHIGAN UNIVERSITY  
Operating Cash Investment Policy Statement

PURPOSE

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and investment objectives for Western Michigan University (hereinafter, “University”) operating cash accounts. This document will further describe the standards utilized by the University in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

RESPONSIBILITY AND AUTHORITY

The general authority to implement this policy is delegated to the Vice President for Business and Finance. The Vice President for Business and Finance may delegate to appropriate staff the authority to make investments within the guidelines as described in this policy. Cash of various funds may be pooled to maximize return or reduce expenses. The Vice President for Business and Finance will report as requested, or at least quarterly, the status of the investment pool.

GENERAL OBJECTIVES

1. The primary investment objectives for the **short-term investment pool** accounts will be to provide for preservation of capital with a secondary emphasis upon maximization of investment income without undue exposure to risk. *Funds needed for expenditures in one year or less will be considered short-term.*

2. 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 expected to be needed as working capital for one year or greater and are designated as “permanent-core”, will be considered long-term.*
ASSET ALLOCATION

(Short-Term Investment Pool)

The short-term investment pool shall be managed by one or more short-term fixed income investment managers, each maintaining a portfolio with an average weighted maturity between one day and one year.

(Long-Term Investment Pool)

The long-term investment pool shall be managed by one or more investment managers with investment horizons beyond one year. The asset allocation, as a percent of the total market value of the long-term investment pool, will be set with the ranges below.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>24%</td>
<td>10-30%</td>
</tr>
<tr>
<td>International Equities</td>
<td>21</td>
<td>10-30%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>55</td>
<td>45-65%</td>
</tr>
</tbody>
</table>

TIME HORIZON

Due to the inevitability of short-term market fluctuations, the following Performance Objectives are expected to be achieved by the investment manager(s) over a 5-year moving period, net of investment management fees. Nonetheless, the University reserves the right to evaluate and make any necessary changes regarding the investment manager over a shorter term using the criteria established in the “Evaluation of Investment Manager” section of this statement.

PERFORMANCE OBJECTIVES

The moving 5-year period performance objectives shall be as follows:

1. **Market Benchmark**
   a) The total return for each short-term fixed income investment manager shall exceed the rate of return on 3-month U.S. Treasury Bills.
   b) The total return for each active long-term investment manager shall exceed the total return of the relevant benchmarks which include the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index, Bloomberg Barclays U.S. Aggregate Index, Credit Suisse Leveraged Loan Index, Russell 3000 Index, MSCI ACWI ex USA Index, and the MSCI World ex USA Index. Passive managers are expected to replicate the total return of the index. The total return for the long-term pool shall exceed the total return of the target weighted index comprised of the relevant indexes in the same proportion as the target asset mix.
2. **Variability**
   a) The standard deviation for each short-term fixed income investment manager shall not exceed 1.2 times the standard deviation of 3-month U.S. Treasury Bills.
   
b) The beta (volatility) for each active long-term equity manager shall not exceed 1.2 times that of their relevant benchmarks. Each active investment manager is expected to achieve a positive alpha (risk-adjusted return). Passive managers are expected to have a beta of approximately 1.00 and an alpha of 0%. The standard deviation for each long-term fixed income investment manager shall not exceed 1.2 times the standard deviation of the appropriate index. The duration for each fixed income manager in the long-term pool shall not vary more than +/- 20% compared to the appropriate index with the exception of global bond managers who do not manage the portfolio to any pre-set average duration.

3. **Peer Group Ranking**
   a) The total return for each fixed income investment manager shall rank in the top half of the appropriate Fixed Income Universe.
   
b) The total return for each active long-term equity investment manager shall rank in the top half of the appropriate Equity Universe.

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**GUIDELINES**

1. In today’s rapidly changing and complex financial world, no list or types of categories of investments can provide continuous 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.

2. The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the University. Although the University cannot dictate policy to pooled/mutual fund investment managers, the University’s intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.

   a) No more than 10% of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. Government Securities.
   
b) The weighted average credit quality is to be no less than “AAA” (or its equivalent rating by two national rating agencies) for the short-term investment pool accounts.
In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be “A” for the short-term pool accounts. The long-term pool may invest in non-investment grade bonds and loans.

c) The average weighted maturity for each short-term investment manager shall be between one day and one year.

d) Commercial paper must be, at the time of purchase, rated within the highest classification established by not less than two national rating services.

e) Bank Certificates of Deposit are to be rated within the top two rating classifications by any one national rating service.

f) The investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the accounts. Subject to other provisions in this Investment Policy Statement, the use of primary derivatives, including, but not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), principal only (PO) or interest only (IO) strips, inverse floating securities, futures contracts, options, short sales, margin trading, and such other specialized investment activity is prohibited.

Moreover, the investment managers are precluded from using derivatives to affect a leveraged portfolio structure (if options and futures are specifically approved by the University, such positions must be offset in their entirety by corresponding cash or securities).

g) The investment manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the University and consistent with the investment objectives contained herein.

h) The investment manager shall immediately notify the University in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

EVALUATION OF INVESTMENT MANAGERS

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

1. Ability to exceed the performance objectives stated in this Investment Policy Statement.

2. Adherence to the philosophy and style which were articulated to the University at, or subsequent to, the time the investment manager was retained.

3. Ability to exceed the performance of other investment managers who adhere to the same or similar style.

4. Continuity of personnel and practices at the firm.

CONCLUSION
This statement of investment policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis and the report will be provided by an independent third party. The investment managers may provide any suggestions regarding appropriate adjustments to this statement or the manner in which investment performance is reviewed.

Acknowledged___________________________________ Date:____________
Western Michigan University

Acknowledged___________________________________ Date:____________
Marquette Associates, Inc.

Acknowledged___________________________________ Date:____________
Investment Manager

IPS Revision - September 2019