



LAKE SUPERIOR STATE UNIVERSITY

ENDOWMENT INVESTMENT POLICY STATEMENT

INVESTMENT OBJECTIVES

The investment objectives of the LSSU Endowment are to manage the portfolio in a manner that will 1) maximize the support of University programs and 2) achieve a total return over time sufficient to preserve and increase the purchasing power of the assets.

SCOPE

This Investment Policy Statement applies only to those assets for which the investment managers have discretionary authority.

BOARD OF TRUSTEES

As one of the standing committees of the Board of Trustees, the Finance and Development Committee is responsible to make recommendations on all matters of fiscal and financial impact on the University including but not limited to recommending investment policies and strategies; appointing investment managers, advisors and other fiduciaries; monitoring the performance of the investment managers, advisors and other fiduciaries; and ensuring that policies and guidelines are in place and routinely followed.

IMPLEMENTATION OF INVESTMENT POLICIES

The investment policies of the Endowment will be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, judgment regarding the allocation of the Endowment's assets among different kinds of investment opportunities, identification of appropriate investment vehicles, and the making of specific investment decisions.

STANDARD OF INVESTMENT JUDGMENT

In seeking to attain the investment objectives set forth in this statement, the Finance and Development Committee shall exercise prudence and appropriate care.

EXTRAORDINARY EVENTS

In the instance of an unusual intra-quarter event that may impact an investment, such as a key personnel departure, the Chief Financial Officer (or an officer appointed by the President) and appropriate Board Members, in consultation with the investment advisor will discuss the materiality and urgency of the event. The preference is to address the situation at the next scheduled committee meeting or to convene a special meeting; however, if the fiduciary standard of prudence warrants immediate action and a special meeting is not feasible, an investment may be sold. Any such action and rationale will be immediately communicated to the Finance and Development Committee. Proceeds from such a sale may be held in cash; an index fund; or redeployed among existing managers. New managers may not be hired without the appropriate approval of the Board of Trustees.

SPENDING POLICY

The Endowment income to be spent annually will be **4.5% of the 20-quarter rolling average of the market value** of the Endowment pool. At no time will original principal of the Endowment pool be invaded to implement this spending policy. The spending policy will be reviewed periodically to assure that the overall investment objective of maximizing the benefit over time is met.

ASSET ALLOCATION

Deliberate management of the asset mix among classes of investments is both 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 Finance and Development Committee'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 Finance and Development Committee is not expected to seek to "time" subtle changes in financial markets, or to make frequent or minor adjustments. Instead, the Committee 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 portfolios among the major categories of investments, the asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

<u>Type of Securities</u>	<u>Overall Fund Target</u>	<u>Range</u>
Domestic Equity	50%	40% - 70%
Domestic Large Cap	20%	15% - 30%
Domestic Mid Cap	15%	10% - 20%
Domestic Small Cap	15%	10% - 20%
International	20%	15% - 25%
Fixed Income	25%	20% - 30%
Real Assets	5%	0% - 10%
Cash	0%	0% - 10%

REBALANCING ASSET ALLOCATION

The Finance and Development Committee will monitor the asset allocation structure of the Endowment and will attempt to stay within the ranges allowed for each asset class. If the portfolio becomes overweighted or exceeds the range of percentage for that asset class, the Finance and Development Committee will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

TIME HORIZON

Due to the inevitability of short-term market fluctuation, the Finance and Development Committee intends that the following specific performance objectives will be achieved by the investment manager(s) over a **5-year moving period, net of investment management fees**. Nonetheless, the Finance and Development Committee 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 Managers” section of the statement.

SPECIFIC PERFORMANCE OBJECTIVES

Total Fund

1. The total return shall exceed the Consumer Price Index plus 5.0%
2. The total return shall exceed a target Balanced Index composed of: 20% of the S&P 500 Index, 15% of the Russell Mid Cap Index, 15% of the Russell 2000 Index, 20% of the MSCI EAFE (Morgan Stanley Capital International Europe, Asia, and Far East) Index, 5% Alerian MLP Index and 25% of the Barclays Capital Aggregate Bond Index.

Equity and Real Assets Managers

Domestic and International

1. The total return for each active equity and real assets manager shall exceed the relevant equity benchmark: Domestic Large Cap – S&P 500 Index, Domestic Mid Cap, - Russell MidCap Index, Domestic Small Cap – Russell 2000 Index, Core International – MSCI AC World Index, Real Assets - Alerian MLP Index. Each passive manager shall approximate the total return of the relevant benchmark.
2. Each active equity and real assets manager will be expected to rank above the median versus the appropriate Manager Universe.
3. Each active equity and real assets manager will be expected to maintain a volatility (beta) no greater than 1.40 versus the relevant equity benchmark. Each passive equity manager will be expected to maintain volatility (beta) of approximately 1.00 versus the relevant equity benchmark.
4. The risk-adjusted performance (alpha) for each active equity and real assets manager is expected to be positive. The risk adjusted performance (alpha) for each passive equity manager is expected to approximate 0% or better.

Fixed Income Manager

1. The total return for core fixed income manager shall exceed the Barclays Capital Aggregate Bond Index
2. Each fixed income manager will be expected to rank above the median versus the appropriate Fixed Income Universe.

EVALUATION OF INVESTMENT MANAGERS

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

1. Ability to meet or exceed the performance objectives and comply with the investment manager requirements stated in the Investment Policy Statement.
2. Adherence to the philosophy and style that were articulated to the Finance and Development Committee at, or subsequent to, the time the investment manager was retained.
3. Continuity of personnel and practices at the firm.

Each investment manager shall immediately notify the Finance and Development Committee in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

INVESTMENT MANAGER REQUIREMENTS

1. 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 of 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 the Endowment's investments.
2. Although there are no strict guidelines that will be utilized in selecting investment managers, the Finance and Development Committee will consider the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the University already has invested with the firm.
3. 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 Endowment. Although the Finance and Development Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee'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.
4. Unless prior written approval is obtained from the Finance and Development Committee to the contrary:
 - a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.
 - b. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with this Investment Policy Statement.
 - c. The investment manager shall be evaluated on a quarterly basis and should be prepared to meet with the Finance and Development Committee at least annually.

- d. Each investment manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the Endowment and consistent with the investment objectives contained herein.
- e. The investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the portfolio. 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 Contract, options, short sales, margin trading and such other specialized investment activity is prohibited.

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

The Committee must explicitly authorize the use of such derivative instruments, and shall consider certain criteria including, but not limited to, the following:

- i. Manager's proven expertise in such category,
 - ii. Value added by engaging in derivatives,
 - iii. Liquidity of instruments,
 - iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers), and
 - v. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.
- f. The equity and fixed income investment managers shall not invest in non-marketable securities.
 - g. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies.
 - h. Each fixed income manager must maintain a duration within + 25% of the Barclay's Capital Aggregate Bond Index.
 - i. Each fixed income portfolio must have an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. In addition, there shall be no bond investments rated below "B".
 - j. The equity and fixed income investment managers shall not effect a purchase, which would cause a position in the portfolio to exceed 5% of the issue outstanding at market value.

CONSULTANT'S RESPONSIBILITIES

The Investment Consultant is responsible for assisting the Finance and Development Committee in all aspects of managing and overseeing the Endowment investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

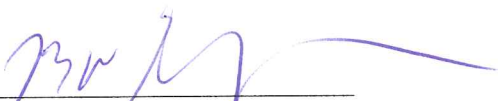
1. Provide the Finance and Development Committee with quarterly performance reports within 30-45 days following the end of the quarter;
2. Meet with the Finance and Development Committee as needed;
3. Provide the Finance and Development Committee with an annual review of this Investment Policy Statement, including an assessment of the Endowment's current asset allocation, spending policy and investment objectives; and
4. Supply the Finance and Development Committee with other reports or information as reasonably requested.

ACKNOWLEDGEMENT




Jim Curran, Chair
LSSU Board of Trustees

April 29, 2016
Date



Morrie Walworth, Treasurer
LSSU Board of Trustees

April 29, 2016
Date



Acknowledged on behalf of
Fund Evaluation Group, Inc.

4-29-16
Date