

Investment Policy

FIN-TRE-150

About This Policy

Effective Dates:

10-01-2006

Last Updated:

12-05-2019

Responsible University Administrator:

Vice President and Chief Financial Officer

Policy Contact:

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Scope

This investment policy is intended to set forth the framework within which Indiana University's investment activities are conducted. This investment policy applies to the funds held by or for the benefit of Indiana University.

Policy Statement

1. Purpose

The investment policy provides the guiding principles for Indiana University to effectively supervise, monitor, and evaluate the investment of its financial assets to optimize returns within appropriate risk parameters by:

- a.
 - Articulating the legal requirements within which the assets may be invested.
 - Serving as a review document to guide the ongoing oversight of Indiana University's investments.
 - Demonstrating that Indiana University is fulfilling its fiduciary responsibilities in the management of these investments.
 - Maintaining a prudent investor profile consistent with the statutory requirements of the State of Indiana.

2. Description of the Assets

- a. **Operating Funds ("IUOF"):** These are the operating reserves of the university. The management of these funds on a consolidated basis permits flexibility in the investment of these funds and provides a larger base from which to meet liquidity demands. All liquidity needs of the university will be met from these funds.
- b. **Construction Funds ("IUCF"):** These funds represent proceeds of bond issues or appropriations for specific purposes which are being invested until needed to fund construction projects or to fund debt service. The investment of such funds shall be governed by parameters as set forth in applicable bond indentures of the Trustees of Indiana University. The objectives and investment strategy of the IUOF may not apply to these funds.
- c. **Endowment Funds ("IUEF"):** These are gifts that have been donated to the university or funds from other sources to support academic, research, or capital programs. Some may be restricted to a specific purpose; others may be entirely unrestricted. These funds generally have a much longer investment horizon.
- d. **Other Funds ("IUMF"):** These are funds that the university may occasionally hold for various periods of time for the benefit of another entity.
- e. The funds identified in this Section are referred to collectively as the "Invested Assets." The actual investment approach and the return objectives will vary for each of these types of funds. The funds will be invested in a manner commensurate with intended use of the funds by Indiana University, and performance

benchmarks will be established accordingly. In all cases, the funds will be invested consistent with prudent investor standards.

3. Roles and Responsibilities

a. Board of Trustees

The fiduciary responsibilities of the Board of Trustees include, but are not limited to, the following:

1.
 - Approve the investment objectives of the IUOF.
 - Approve the tiered liquidity structure and broad asset allocation strategy.
 - Approve written investment policies consistent with investment objectives of the IUOF.
 - Monitor the investment performance of the IUOF to ensure achievement of investment objectives and compliance with policy guidelines.

b. University Investment Committee (the “UIC”)

1. The purpose of the UIC is to provide oversight of the investment management program and to assure that the policies established by the Board of Trustees are implemented and adhered to. The Board has delegated to the UIC the responsibility to:
 - Approve the manager structure of each investment tier.
 - Approve the selection of qualified investment professionals to assist in the implementation of, management of, and advisement on the investment policies of the IUOF.
 - Monitor the investment performance of the IUOF investment managers to determine achievement of investment objectives and compliance with policy guidelines.
 - Meet with each investment manager of the IUOF as appropriate.
2. The UIC will be chaired by the University Treasurer and will include the Chief Investment Officer of the IU Foundation and a faculty member from the Kelley School of Business. The UIC will also include, but will not be limited to senior members of the following organizations: the Office of the Treasurer, the Office of the Executive Vice President for University Academic Affairs, and the Office of the Vice President and General Counsel. The Vice President and Chief Financial Officer (“VPCFO”) is an ex-officio member of the UIC. The VPCFO may also appoint membership to qualified external candidates, as appropriate. The Office of the Treasurer will provide staff support for the UIC.

c. University Treasurer

The day-to-day management and oversight of the invested assets are the responsibility of the University Treasurer and the staff of the Office of the Treasurer. These responsibilities include:

1.
 - Communicate on an ongoing basis with the Board, UIC, [investment managers](#), [custodial banks](#), [investment funds and consultants](#), and all other parties within and outside the university that have a portion of the responsibility for managing, safekeeping, and accounting for the invested assets.
 - Deliver a quarterly review of the performance of all funds for the UIC and the Finance & Audit Committee of the Board of Trustees.
 - For the IUOF, IUCF and IUMF, gather all data through a Request for Information (“RFI”) process and make recommendations to the UIC with respect to the selection of new investment managers, custodial banks, investment funds and consultants.
 - Meet with investment managers of the IUOF as appropriate. The purpose of each visit is to evaluate that manager’s depth of staff, organization, security, compliance with investment guidelines, performance, outlook, and any and all matters which the Office of the Treasurer deems to be consistent with exercise of due diligence with respect to prudent management of the invested assets.
 - Maintain a level of expertise within the Office of the Treasurer subject to available resources that allows the staff to carry out the responsibilities listed herein.

- Perform any and all other responsibilities as may be deemed necessary by the UIC or the Board with respect to the prudent oversight of the invested funds.
- Monitor the investment performance of the IUOF.
- Periodically review compliance with applicable state and federal laws.
- Study issues affecting the investment of the IUOF so as to make educated and prudent decisions in establishing investment policies.

d. **Investment Managers**

The responsibilities of an investment manager are to:

1.
 - Manage assets under its care, custody, and/or control in accordance with the guidelines and objectives contained in this policy.
 - Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this policy.
 - Communicate in writing with Indiana University and with any investment consultant identified by the university regarding all significant and/or material changes pertaining to the portfolio it manages or the firm itself.
 - Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities with like aims in accordance and compliance with all applicable laws, rules, and regulations, including those of the State of Indiana.
 - Acknowledge and agree in writing its fiduciary responsibility for full compliance with the entire policy set forth herein, and as modified in the future.
 - Report monthly to Indiana University and to any investment consultant identified by the university regarding the status of the portfolio and its performance for various time periods.
 - Register and retain that registration under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC.

e. **Investment Consultants**

An investment consultant may be retained by the Treasurer to assist the Board of Trustees, the VPCFO, the Treasurer, and staff with the strategic planning, implementation and oversight of the invested assets.

f. **Custodial Banks**

A custodial bank performs functions necessary for the effective management and monitoring of invested assets, detailed within the contract between the custodial bank and Indiana University. These responsibilities include, but are not limited to:

1.
 - Safekeeping of assets.
 - Trade settlement.
 - Collection and receipt of income.
 - Maintenance of accounting records.
 - Performance reporting.

4. **Objectives of the IUOF**

The overall objective of the IUOF is to adequately provide for the liquidity needs of the university while maximizing the opportunity to increase total return on investments. Objectives include, but are not limited to:

- Capital preservation or appreciation consistent with liquidity constraints. It is recognized that market fluctuations will cause the market value of the assets to rise and fall over short periods of time. Therefore, market value declines from one quarter to another, within acceptable limits, will not necessarily be considered a violation of the policy.

- Maximization of the total return within reasonable, unambiguous, and prudent levels of risk and sufficient levels of investment diversification.
- Maintenance of an adequate level of reserves for unexpected changes in market value or to meet unanticipated spending requirements.
- Management of costs to administer and manage the investments.
- Compliance with all statutory requirements of the State of Indiana.

5. Asset Allocation and Investment Tier Structure for the IUOF

Given the fluctuating balances inherent in an operating fund structure, recommended minimum and maximum balances for Tiers I and II, in dollar amounts, are listed below and are designed to ensure liquidity needs are met while balancing the opportunity cost of over-allocating to these tiers:

a. 1.

Liquidity Tiers	I	Cash, Active Cash	\$300 million	\$700 million
	II	Defensive Fixed Income	\$100 million	\$300 million

The total return tiers (Tiers III and IV) are the residual assets after the Liquidity Tiers balances have been satisfied. These tiers are less likely to be used for short-term cash flow needs, thus balance fluctuations are more likely to be caused by market movement.

2.

Objective	Tier	Investment Style
Total Return Tiers	III	Core Plus
	IV*	Equity

#In September 2017, the university deemed the available assets for the equity investment allocation to be approximately \$1 billion. The university will review the maximum allowable allocation on a periodic basis.

6. Selection of Investment Managers for the IUOF, IUCF and IUMF

The university will follow a process that embodies the principles of procedural due diligence in the selection of investment managers. The university may retain a "prudent expert" (a bank, insurance company, or investment advisor as defined by the Registered Investment Advisors Act of 1940) to facilitate this process.

7. Monitoring of the IUOF Investment Managers

Indiana University recognizes that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process.

- a. 1. Monitoring these managers will include evaluation of:
- The volatility of the investment rates of return of the manager compared to the volatility of an appropriate market index and peer group.
 - Comparisons of the investment manager's results to appropriate indices and peer groups.
2. Where appropriate market indexes and/or peer groups are not available, the university and the investment consultant will evaluate factors such as the manager's adherence to stated risk and return objectives and the investment manager's portfolio exposures in relation to the market environment and stated philosophy and process.

3. If the UIC determines that any of the factors identified in this Section or any other development regarding the manager's performance or organization warrants a more thorough examination, the university may place the manager on a formal "watchlist."
 - a. The watchlist period will generally be four to six quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.
 - b. As a result of the watchlisting examination of the investment manager, a recommendation to either replace or retain the manager will be made.
 - c. Being placed on the watchlist prior to removal is not required by this policy. The events identified in this Section, or any other events of concern identified by the university, may prompt the immediate removal of a manager.

8. Securities Lending

To enhance investment income, the university may participate in securities lending programs. Such programs will require that securities be collateralized at a minimum of 102%, and that the collateral will be valued daily. The managers of such lending programs will maintain current credit analyses of the brokers to whom they lend, and a list of the participating brokers will be submitted for approval to Indiana University. Participation in a lending program will not restrict the portfolio manager from trading securities as the manager deems appropriate.

History

This policy was established on October 1, 2006.

The investment policy was reviewed and updated in November 2014. No changes were made to core business practices and responsibilities. The table of investment managers was updated in order to reflect recent changes with respect to portfolio rebalancing and the hiring of new investment managers. Certain limitations on asset allocations in tier one and tier two investments were updated in order to better reflect the specific guidelines of the investment management strategies. Finally, there were minor updates to position titles and nomenclature.

The investment policy was updated by the University Investment Committee in September 2017 and approved by the BOT in October 2017.

The investment policy was updated by the University Investment Committee in November 2018 and approved by the BOT in December 2018. The policy was significantly shortened to articulate only the university's strategic aspects of its investment activities.