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

I. Purpose

The Investment Policy (“Policy”) provides the guiding principles for Indiana University (the “University”) to effectively supervise, monitor and evaluate the investment of its financial assets to optimize returns within appropriate risk parameters. The investment program is defined in the various sections of the policy by:

- Articulating the legal requirements within which the assets may be invested.
- Providing guidelines for each investment portfolio in order to control the level of overall risk assumed by each investment manager.
- Establishing the benchmarks/ criteria from which to monitor, evaluate and compare the performance results achieved by the investment managers.
- 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.

II. Description of the Assets

- Operating Funds (“IUOF”): These are the operating reserves of the University, and are budgeted to designated areas 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. Earnings of these funds will finance the President’s initiatives, Offices of the Vice Presidents and the designated areas of the University.
• **Construction Funds ("IUCF"):** The construction funds represent proceeds of bond issues or appropriations for specific purposes which are being temporarily invested until needed to fund construction projects.

• **Endowment Funds ("IUEF"):** These are gifts that have been donated to the university to support academic, research or capital programs. Some may be restricted to a specific purpose whereas others may be entirely unrestricted. These funds generally have a much longer investment horizon.

• **Other Funds ("IUMF"):** Occasionally, the university may hold funds for various periods of time for the benefit of another entity.

These funds 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.

### III. Taxes

The University is a tax-exempt institution and the portfolios are to be managed accordingly.

### IV. Statutory Authority

IC 30-4-3.5 (Indiana Prudent Investor Act) establishes that the Board of Trustees of Indiana University (hereinafter, “Board”) is a fiduciary for the Invested Assets and requires the Board to act “as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust”. It also requires that management decisions be made “in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the trust”. The Board holds responsibility to assure the assets are prudently invested in a manner consistent with this investment policy. The Board has delegated the day-to-day responsibilities for overseeing the investment program to the Office of the Treasurer.

Other pertinent investment requirements include the following:

- The IUOF, IUCF and IUMF will follow all applicable state and federal laws and regulations in investing and transacting fund balances.
- The Board is to establish and carry out written policies for the investment of funds of the Institution in a manner consistent with applicable Indiana Code, including IC 30-2-12 (Uniform Management of Institutional Funds).

The Board recognizes the above-stated laws govern the decision-making of the funds, however, in an effort to adhere to the highest fiduciary standards, the Board intends to act in accordance with the Uniform Prudent Management of Institutional Funds Act.

### V. Definition of an Investment Consultant

An investment consultant ("Investment Consultant") may be retained by the Treasurer to assist the Board of Trustees, the Vice President and Chief Financial Officer ("VPCFO"), the Treasurer and the staff with the strategic planning, implementation and oversight of the Invested Assets.

### VI. Objectives of the IUOF

Indiana University has no statutory authority to borrow for operating purposes. The objective of the Investment Policy is to adequately provide for the liquidity needs of the University while maximizing the opportunity to increase yield on investments. Objectives include, but are not limited to, the following:

- 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.
• Income maximization and 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 the 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.

VII. Investment Tier Structure for the IUOF

The investment structure is divided into five liquidity tiers to provide for capital preservation and income maximization/total return while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of incremental return over Tier I. Tiers III, IV and V are invested for income maximization, total return potential and diversification, while taking on appropriate levels of risk. Recommended minimum, maximum and/or target balances for each tier are included in Appendix A.

The minimum balance requirements for Tier I and Tier II, which are viewed as the liquidity tiers, will be reviewed and adjusted periodically, as will the investment management styles used in each tier. Tiers III, IV and V are viewed as the total return tiers. For operational ease with regards to accounting, reporting, rebalancing and compliance, Tier V will house those assets deemed to be derived from private sources and suitable for investment in equity securities. It is expected that Tier V will represent a portion of the overall assets determined to be eligible for equity investment, as the asset allocation decision will also factor in the University’s risk tolerance and liquidity needs.

VIII. Rebalancing IUOF Assets

Specific detail covering the rebalancing methodologies, both between tiers and also among underlying tier components, is outlined in Appendix A. In general:

• Between Tiers: Tier balances will be reviewed periodically, including a more formal review annually, typically at the end of July when balances are cyclically lowest. Assets will be adjusted between the tiers to meet the minimum/maximum and/or target balance requirements and cover appropriate reserves. Excess balances in Tiers I and II may be transferred into Tiers III, IV and V. The University will periodically reassess the total assets available for equity investment. When Tiers I and II fall below desired levels, assets may be transferred from Tiers III, IV and V.

• Between Tier Components: Rebalancing at the strategy and manager level represents a secondary level of rebalancing and is expected to have less of an impact on the overall characteristics of the IUOF (i.e. risk, return, liquidity). Nonetheless, guidelines are in place to maintain the desired investment structure over time. Additionally, if an investment manager is on the formal watchlist, rebalancing may be delayed if the result would require the manager on the watchlist to receive additional assets.

IX. General Guidelines of the IUOF, IUCF and IUMF

All investment managers will discharge their duties solely in the interests of the University and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the investment managers shall observe the following rules, unless specific prior approval has been obtained in writing:

• Specific Limitation on Individual Holdings: The purchase of securities in the maximum amount invested in any single issuer of a non-agency mortgage-backed, asset-backed, corporate fixed income or equity security shall be limited to an initial cost of 2.5% of the market value of an investment manager’s portfolio. This limit shall not apply to U.S. Government securities, or mortgage-backed securities that are issued by an agency of the U.S. Government. Through capital appreciation, no such holding should exceed 3.5% of the market value of the total holdings of such investment manager’s portfolio. The individual issuer limit does
not apply to securities within a broadly-diversified passively managed index fund designed to represent a broad market (e.g. S&P 500 Index Fund).

• **Securities Trading:** Each investment manager is to send copies of each transaction record to the University’s custodian(s), as requested. The investment manager is further required to reconcile the account(s) under its management on a timely basis each month with the custodian(s). Each investment manager is responsible for complying fully with the University’s policies for securities trading and selecting brokerage firms.

• **Acknowledgments in Writing:** Each investment manager retained by the University must be a person, firm, or corporation registered as an investment adviser under the Investment Advisers Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis. All investment managers shall acknowledge in writing their receipt of the Investment Policy and their agreement to abide by its contents. All investment managers shall have an affirmative duty to bring suggestions for modification or change to Indiana University.

• **Fiduciary Liability Insurance:** Each investment manager will obtain fiduciary insurance coverage in such amount as required by the University. Each investment manager shall annually provide written evidence of such coverage.

• **Fidelity Bond:** Each investment manager will obtain fidelity bonds, in such amount as required by the University. Each investment manager shall annually be required to provide written evidence of such coverage.

• **Conflicts of Interest:** An investment manager through its actions on behalf of the University shall not invest any part of the operating funds with itself or with any person or entity with which or in which it has any economic interest, unless such investment manager receives prior written approval from the University. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no investment manager, through its actions on behalf of the University, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such investment manager receives prior written approval from the University.

• **Prohibited Securities and Transaction:** Article XI Section 12 of the Indiana Constitution prohibits the investment in equity securities of any type for funds that have been deemed to be state-appropriated (Tier V may utilize equity securities, defined as an ownership share or stock in a corporation or entity, given the private derivation of those funds). Additionally, unless the University gives its prior written approval, the following prohibited transactions and restrictions are in effect for investment managers:

  – Convertible fixed income securities (within Tiers I, II, III and IV)
  – Purchases of unregistered securities except securities issued under Rule 144
  – Purchases of futures and options except futures contracts on U.S. Treasury notes and bonds (“U.S. Treasury Futures”), U.S. deposit rates (“Eurodollar futures”), non-US dollar denominated government instruments (“Non-Dollar Futures”), non-US dollar denominated deposit rates (“Euribor Futures”). Exchange traded put and call options on such futures contracts may be purchased, sold, written or entered into on behalf of the IUOF. Such futures and options may only be used for risk management purposes, including adjustment of portfolio duration and yield curve exposure and to create synthetic securities positions. The use of interest rate futures and options for speculation is strictly prohibited
  – Any transaction that would be a “prohibited transaction” under the Internal Revenue Code
  – Purchases of precious metals
  – Purchases of commodities
  – Margin purchases or sales, or any other form of leverage
  – Purchases of derivative securities except for Collateralized Mortgage Obligations (CMO’s), Credit Default, Interest Rate, Index Swaps and Swaptions.

• **Correction of Violations.** In the event a violation of the guidelines occurs, unless otherwise approved by the University in writing, based upon a determination of the best interests of the University, the violation:

  – Shall be corrected immediately by sale no later than the day following detection and notification; and
- Shall result in the reimbursement to the University by the investment manager for any losses which may have been incurred due to the violation; and
- Shall result in the University retaining any gains which are realized from the violation; and
- May be grounds for termination by Indiana University.
- In the event of a violation of these general guidelines or specific guidelines listed in Section X., the investment manager is to notify the University Treasurer immediately, in writing. The University Treasurer will promptly notify the VPCFO who will communicate the violation to the Finance & Audit Committee Chair.

X. Securities Guidelines of the IUOF

Investment managers must adhere to the following guidelines as well as any applicable Indiana statutory requirements. Subject to the guidelines below, each separate account investment manager shall have full discretionary investment authority over the assets under his or her management. Each manager shall be retained to implement a specific investment style and strategy for the University. In addition, if the University chooses to invest a portion of the assigned assets in mutual funds or other commingled investment vehicles, the products selected shall adhere to the guidelines set forth in the prospectus or trust document.

The guidelines for the fixed income and equity styles listed below are written with the intent to provide investment managers sufficient flexibility to carry out their investment process. Investment Managers, however, may be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums. These adjustments to the above guidelines may be made on a case-by-case basis with an investment manager by Indiana University. Investment managers are expected to notify, in writing, the University Treasurer and the Investment Consultant of significant sector movement, as defined by a deviation in sector allocation of 10% or more of the total portfolio value from the previous quarter.

Fixed Income Styles (Tiers I, II, III and IV)

- **Money Market (Tier I)**
  - Money Market Mutual Funds must meet guidelines set forth within Rule 2a-7 of the Investment Company Act of 1940.

- **Liquidity Reserves (Tier I)**
  - The maximum average duration of the portfolio shall be 1.5 years.
  - The minimum average portfolio quality shall be AA- (S&P), Aa3 (Moody’s), or AA- (Fitch).
  - In aggregate, the portfolio shall have a maximum allocation to securities in each sector as a percentage of the portfolio’s total value as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Government Agency or Instrumentality</td>
<td>100%</td>
</tr>
<tr>
<td>Mortgage-backed (residential and commercial)</td>
<td>30%*</td>
</tr>
<tr>
<td>Asset-backed</td>
<td>40%*</td>
</tr>
<tr>
<td>Corporate Investment Grade</td>
<td>50%*</td>
</tr>
<tr>
<td>Taxable Municipal Bonds</td>
<td>15%</td>
</tr>
<tr>
<td>Money Market Instruments and Funds</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Combined exposure to Mortgage-backed, Asset-backed and Corporates not to exceed 60%.

- **Defensive Duration Fixed Income Managers (Tier II)**
  - The average duration of a defensive fixed income investment manager may not vary more than 20% of the average duration of that manager’s benchmark index. The benchmark index is listed in Appendix A.
– The average credit quality of the defensive duration fixed income manager’s portfolio shall not be lower than “AA-” using a generally accepted process for measuring the market value weighted average quality deemed appropriate by the investment manager. The manager shall rely upon the rating agencies Moody’s, Standard & Poor’s, and/or Fitch’s for rating the holdings in the portfolio to determine the average credit quality.

– 90% of all fixed income securities at the time of purchase shall have a Moody’s, Standard & Poor’s and/or Fitch’s credit quality rating of no less than “BBB-”. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio. For split-rated securities, the lower rating will govern.

– At least 85% of all securities in the portfolio shall be rated “A-” or higher by Moody’s, Standard & Poor’s, and/or Fitch’s at the time of purchase.

– Issuers of General Account GICs must be rated the equivalent of AA- or higher by at least one of the Rating Services at the time of purchase.

– Money market instruments must be rated the equivalent of A-1 or higher at the time of purchase.

– Sec. 144A private placements are limited to 20% of the market value of the portfolio.

– In aggregate, the portfolio shall have a maximum allocation to securities in each sector as a percentage of the portfolio’s total value as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Government Agency or Instrumentality</td>
<td>100%</td>
</tr>
<tr>
<td>Mortgage-backed (residential and commercial)</td>
<td>50%</td>
</tr>
<tr>
<td>Asset-backed</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate Investment Grade</td>
<td>50%</td>
</tr>
<tr>
<td>Taxable Municipal Bonds</td>
<td>20%</td>
</tr>
<tr>
<td>Non-benefit responsive GIC’s</td>
<td>10%</td>
</tr>
<tr>
<td>Money Market Instruments and Funds</td>
<td>100%</td>
</tr>
</tbody>
</table>

• Core Plus Fixed Income Managers (Tier III)

– At least 65% of the fixed income securities held in the portfolio shall have a Moody’s, Standard & Poor’s, and/or Fitch’s credit quality rating of no less than “BBB”. U.S. Treasury and U.S. Government Agencies, which are unrated securities, are qualified for inclusion in the portfolio.

– Investments in high-yield and non-U.S. dollar denominated securities are permitted. Exposure should be limited to 25% high-yield and 25% non-U.S. dollar denominated securities with a combined exposure to those sectors not to exceed 40%.

– The average credit quality of each manager’s portfolio shall not be lower than single A.

– The exposure of each manager’s portfolio to the securities of any one issuer should be limited to not more than 5% of the manager’s portion of the IUOF portfolio measured at market value. Securities backed by the full faith and credit of the United States Government, any of its instrumentalities, or OECD Foreign Government Obligations shall not be subject to exposure limitations.

– Sec. 144A private placements are limited to 20% of the market value of the portfolio.

– Each investment manager shall be responsible for the daily monitoring of portfolio activity to minimize the uninvested cash balances.
– The average duration of a core plus fixed income investment manager may not vary by more than 20% from the average duration of that manager's benchmark index. The benchmark is listed in Appendix A.

– The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager.

– Up to 25% of the portfolio may be invested in non-USD via a foreign currency transaction and unhedged foreign currency denominated bonds.

– In aggregate, the portfolio shall have a maximum allocation to securities in each sector as a percentage of the portfolio’s total value as follows:

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Maximum Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>100%</td>
</tr>
<tr>
<td>U.S. Government Agency or Instrumentality</td>
<td>100%</td>
</tr>
<tr>
<td>Mortgage-backed (residential agency)</td>
<td>65%</td>
</tr>
<tr>
<td>Mortgage-backed (residential non-agency)</td>
<td>15%</td>
</tr>
<tr>
<td>Mortgage-backed (commercial)</td>
<td>15%</td>
</tr>
<tr>
<td>Asset-backed</td>
<td>50%</td>
</tr>
<tr>
<td>Taxable Municipal Bonds</td>
<td>20%</td>
</tr>
<tr>
<td>Non-benefit responsive GIC’s</td>
<td>10%</td>
</tr>
<tr>
<td>Money Market Instruments and Funds</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate Investment Grade</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate High Yield</td>
<td>25%</td>
</tr>
<tr>
<td>Non-US Dollar Denominated Debt</td>
<td>25%</td>
</tr>
<tr>
<td>Combined Plus Exposure</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Unconstrained Fixed Income Managers (Tier IV)**

– Unconstrained/Absolute Return fixed income managers are free to seek global opportunities and to allocate risk where they have the most conviction, within the fixed income universe. Further, they can employ a wide variety of investment strategies, across the fixed income quality spectrum, curve structure, countries and currency to improve risk-adjusted results.

– By their nature, unconstrained managers have more flexible investment guidelines. Given the potential for vastly different strategies between unconstrained managers, each unconstrained investment manager chosen for the IUOF shall abide by their specific investment guidelines, as negotiated and agreed upon by the University and Investment Consultant.

**Equity Styles (Tier V)**

– The role of equity investments is to provide capital appreciation, income and diversification to the IUOF.
– Equity investments may be domestic and/or international, including both developed and emerging countries. More detail on the specific strategies utilized may be found in Appendix A.
– Equity securities may take the form of domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertibles stocks traded on major world stock exchanges, such as the NASDAQ.

– In the case of actively managed strategies, decisions as to individual security selection and number of holdings is at the discretion of the manager, subject to standards of fiduciary prudence.
• No single major industry shall represent more than 20% of the Fund’s total market value and individual security limits are set forth previously in this document.

• Investment managers may be subject to more or less flexible guidelines in their individual contracts and exhibits.

– Passive strategies (commingled funds, exchange-traded funds or separately-managed accounts) are expected to reflect the underlying index being replicated, such as the S&P 500, Russell 3000, CRSP US Total Market Index, MSCI ACWI Ex-US or FTSE Global All Cap ex US Index. More specific details on passive styles utilized is denoted in Appendix A.

XI. Reporting and Communication Requirements of the IUOF

Each investment manager is required to provide the University and the Investment Consultant with monthly investment reports. Such reports, at a minimum, shall contain the following information: time-weighted rates of return for the current month, asset listings that contain descriptions of all securities held in the portfolio, and a reconciliation report detailing that the account reconciles with the market value furnished by the custodian(s). The investment return should be reported both gross and net of fees. Each investment manager is expected to provide the monthly investment reports within 20 days of the end of the month.

Each investment manager shall prepare a quarterly report to be delivered to the University and Investment Consultant including: time-weighted rates of return for the current month, last three months, year-to-date, three years, five years, and since inception. Additionally, the report may incorporate additional items as requested by the University and/or the Investment Consultant, in the format requested by the University and/or the Investment Consultant. These reports should cover any changes to the firm’s structure, professional team or product offerings, an analysis of the major changes which have occurred in the capital markets and the portfolio since the previously issued report, a summary of the key portfolio characteristics and other matters as requested. The University and/or the Investment Consultant will provide the investment managers with a format for these reports while accepting recommendations from the investment manager.

The investment manager shall immediately report all instances of material events that would affect the investment performance of the portfolio (e.g. default, missed interest payment, business restructuring, etc.) to the University and the Investment Consultant, and provide recommendations regarding options for addressing the issues in writing.

Each investment manager also is required to provide the University and the Investment Consultant with information relating to any changes in the investment manager’s investment philosophy, ownership structure, financial condition, professional staff, loss of significant client relationship, or any other event which could be judged to or deemed to adversely impact the investment manager’s performance. The University and the Investment Consultant expect to be notified in writing within 30 days of any such changes or events in writing.

The University will hold a due diligence meeting with each investment manager annually. Covered topics will include, but will not be limited to, the following:

• The investment manager’s compliance with the Investment Policy.
• The portfolio’s investment performance and risk levels.
• The investment manager’s current and proposed investment strategies.
• The investment manager’s views concerning the economy and the securities markets, with focus on the likely impact on the investment manager’s strategies and the portfolio’s performance.
• The effects of any changes to the investment manager’s organization, investment philosophy, financial condition, or professional staff.
• Proposed modifications to this Investment Policy.
• Disaster recovery systems and process.

Copies of all required documents per the Investment Policy, including the SEC ADV Form Section II, proof of fiduciary liability insurance and fidelity bonds will be requested.
XII. 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. Also, if the assets are invested in a mutual fund or other commingled product, the investment vehicle must be organized as a business trust and the underlying securities in the portfolio must be permissible investments under Indiana Statute. In addition, when selecting investment managers, the University will:

• Develop an investment manager candidate profile outlining the specific characteristics sought in the investment manager. Such criteria may include, but is not limited to:
  – Investment manager strategy and approach
  – Organizational structure
  – Minimum and maximum assets under management
  – Client servicing capabilities
  – Performance criteria relative to an appropriate index and peer group

• Analyze the investment manager candidates in terms of:
  – Qualitative Characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  – Quantitative Characteristics, such as CFA Institute-compliant composite return data, investment performance over multiple time periods, performance volatility, risk-adjusted rates of return (e.g., Information Ratio), and certain portfolio characteristics.
  – Organizational Factors, such as assets under management, ownership structure, client servicing capabilities, and fees.

The selection process shall conform to the requirements of the University. The University may utilize investment consultants or other professionals not responsible for the specific selection to assist in the development of the requirements, screening criteria, and analysis of the investment manager responses during the investment manager selection process. This process will support the University’s minority- and women-owned (MWO) and “Buy Indiana” initiatives.

XIII. Monitoring of the IUOF Investment Managers

Indiana University is aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process. Monitoring these managers will include, but may not be limited to, the process outlined below:

• Step 1 – On-Going Monitoring

The University and the Investment Consultant will perform a constant and on-going analysis of all engaged investment managers. In addition to reviewing quarterly investment performance, the University and the Investment Consultant will continually evaluate:

– Investment manager's adherence to the Investment Policy guidelines
– Material changes in the investment manager's organization, investment philosophy and/or personnel
– The volatility of the investment rates of return of the manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix A)
– Comparisons of the investment manager's results to appropriate indices and peer groups (as listed in Appendix A).
– 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.
Step 2 – Formal Watchlist

If the University and the Investment Consultant determine that any of the above factors, 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”. Factors examined during the watchlist period may include, but will not be limited to, the following:

Extraordinary Events (Organizational Issues)

Extraordinary events that may lead to an investment manager termination include such things as:

- Change in ownership (e.g., key people “cash out”)
- Change in professionals
- Changes to a manager’s philosophy or the process it uses to implement the agreed upon strategy
- Material litigation or fraud involving the investment manager
- Client-servicing problems
- Significant account losses or significant account growth
- Change in cost
- A data or security breech
- Determination of an inadequate business continuity plan
- Extreme performance volatility

Long-Term Performance in Relation to Appropriate Market Index

Long-term performance standards measure an active investment manager’s performance over rolling five-year returns or since inception in relation to the appropriate market index. The expectation is for the active manager’s performance to exceed the appropriate market index. Passive managers are expected to replicate the target index (minimize tracking error).

Shorter-Term Performance in Relation to Appropriate “Style Group”

Shorter-term performance standards incorporate a time period of at least three years. Each active investment manager is expected to perform consistently in the top 50th percentile versus an appropriate peer group of investment managers with similar investment styles. Additionally, each active investment manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. Risk-adjusted performance measures will vary, but may include: Information Ratio and Excess Return Ratio. Passive managers are expected to replicate the target index (minimize tracking error).

Step 3 – Replace or Retain

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.

As a result of the watchlisting examination of the investment manager, a recommendation to either replace or retain the manager will be made.

It is at the discretion of the University to take corrective action by replacing a manager/mutual fund, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing manager. The aforementioned events, or any other events of concern identified by the University, may prompt the immediate removal of a manager without its first having been watchlisted.

XIV. Securities Lending

To enhance investment income, securities may be made available to 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 he or she deems appropriate.

XV. Investment Policy Review Requirements

By acknowledging in writing the receipt of this Investment Policy, each investment manager agrees to its terms and conditions. In the event an investment manager believes at any time that changes, additions, or deletions to this Investment Policy are advisable, the investment manager will communicate such recommendations to Indiana University and the Investment Consultant in writing. It is clearly understood that Indiana University, and not the investment manager, is responsible for the establishment of this Investment Policy. The spirit of this paragraph is to encourage investment managers to bring important matters to the attention of Indiana University so that the Indiana University can conduct its reviews of its policies and objectives in an informed manner. Indiana University shall formally review this Investment Policy Statement periodically. Any modifications shall be reviewed and discussed with the investment managers prior to implementation.

XVI. Roles and Responsibilities

• Board of Trustees

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

– Approve the investment objectives and guidelines of the IUOF.
– Approve an appropriate asset allocation strategy and manager structure of the IUOF.
– Approve written investment policies consistent with investment objectives of the IUOF.
– 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.
– 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.

• University Investment Committee (the “UIC”)

The purpose of the UIC is to provide tactical oversight of the investment management program and to assure that the policies established by the Board are implemented and adhered to. 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:

– Office of the Treasurer
– University Budget Office
– University Counsel

The 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.

• 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:

– Ongoing communication with the Board, UIC, investment managers, custodian, Investment Consultant, 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.
– Delivering a quarterly review of the performance of all funds for the UIC and the Finance & Audit Committee.
– For the IUOF, IUCF and IUMF, gathering all data through a Request for Information (RFI) process and make recommendations to the UIC and/or the Board with respect to the selection of new investment managers, custodial banks, passive investment funds and consultants.

– Meeting with investment managers of the IUOF annually. Meetings may be conducted at an Indiana University location or at the offices of the investment managers. 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.

– Maintaining 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.

– 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.

• Investment Manager

– Manage assets under its care, custody, and/or control in accordance with the guidelines and objectives contained in this IPS.

– Exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this IPS.

– Communicate with Indiana University and the Investment Consultant in writing regarding all significant and/or material changes pertaining to the portfolio it manages or the firm itself. Changes in ownership, organizational structure, financial condition, professional staff, recommendation for changes to guidelines, or commencement of material litigation are examples of changes to the firm in which Indiana University is interested.

– 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 the State of Indiana.

– Acknowledge and agree in writing as to fiduciary responsibility for full compliance with the entire IPS set forth herein, and as modified in the future.

– Report to Indiana University and the Investment Consultant monthly regarding the status of the portfolio and its performance for various time periods. Meet with Indiana University and the Investment Consultant periodically to report on their performance and compliance with goals and objectives.

– Register and retain that registration under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC.

• Investment Consultants

– Provide independent and unbiased information.

– Assist in the development of appropriate asset allocation and manager structure strategies.

– Assist in the development of IPS.

– Assist in the monitoring and compliance with IPS.

– Conduct investment manager searches when needed for policy implementation.

– Assist in development of performance measurement standards.

– Monitor and evaluate manager performance on an ongoing basis and conduct due diligence when a manager fails to meet a standard.
– Make recommendations with respect to manager retention or termination.
– Assist in the control of investment expenses, including helping to negotiate investment manager and custodian fees.

• Custodian

A custodian may be authorized to:

– Hold securities and other investments in the name of the Invested Assets, in the name of a nominee of the custodian, or in bearer form.
– Collect and receive income and other receipts from the securities and other investments and deposit or reinvest them subject to the direction of Indiana University or one of its authorized representatives.
– Maintain accounting records and prepare reports which are required by Board, UIC, Treasurer, investment managers, and Investment Consultant as are customary.
– Provide for prompt investment of any cash into the chosen sweep vehicle to avoid uninvested amounts.
– Report to Indiana University and the Investment Consultant situations where security pricing is either not possible or subject to considerable uncertainty.
– As requested by Indiana University, provide performance measurement information consistent with the CFA Institute standards. At a minimum, the performance measurement information shall contain time-weighted returns for the current month, last three months, year-to-date, last three years, last five years, and performance since inception data. The performance information should be reported both gross and net fees.
– At the direction of Indiana University, transfer into and out of specified accounts.
– Perform other services for Indiana University as are customary and appropriate for custodian.
– When directed by Indiana University, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the Invested Assets, and report fully on all aspects of its operation and returns.

APPENDIX A

Asset Allocation and Investment Structure

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

<table>
<thead>
<tr>
<th>Liquidity Tiers</th>
<th>I</th>
<th>Cash, Active Cash</th>
<th>$350 million</th>
<th>$500 million</th>
<th>$750 million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>II</td>
<td>Defensive Fixed Income</td>
<td>$150 million</td>
<td>$250 million</td>
<td>$350 million</td>
</tr>
</tbody>
</table>

For the total return tiers (Tiers III, IV and V), minimum and maximum dollar amounts are listed, where applicable, as well as target percentages. 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. Accordingly, Tiers III, IV and V will follow more established rebalancing procedures (per the target percentages); while operating within minimum and maximum dollar amount bounds to provide the flexibility necessary within an operating funds structure:

| Total Return Tiers | III* | Core Plus Fixed Income | $250 million | N/A | 37.5% | +/- 3% |
### IV* Unconstrained Fixed Income
- Minimum: $250 million
- Maximum: N/A
- Target: 37.5%
- Variance: +/- 3%

### V** Passive Equity
- Minimum: $0 million
- Maximum: $500 million
- Target: 25.0%
- Variance: +/- 3%

* The minimum for Tiers III and IV ensures acceptable mandate sizes are maintained, providing for implementation across a diversified group of fixed income styles and managers. Additionally, the University has decided that a minimum level of fixed income within Tiers III and IV must be in place in order to accommodate an allocation to equity. Since growth in the overall IUOF naturally results in higher balances in the total return tiers, there is no maximum level for the fixed income component of these tiers.

** The University has deemed the available assets for equity investment to be in excess of $1 billion; however, the University is imposing a maximum balance far below this in the spirit of conservatism. The minimum balance is $0, providing additional flexibility. The maximum allowable allocation to equity is $500 million, which was determined in September of 2017 and will be revisited annually given balances, liquidity needs, risk tolerance and unique University preferences. Given the asset values as of September 2017, this results in the target percentages listed above. The University will maintain flexibility with regards to the timing of the initial implementation of equity.

### Further Detail on Rebalancing Methodologies:

- **Primary Rebalancing Methodology: Rebalancing Between Tiers:**
  
  The goal of rebalancing is to adjust the balances on a periodic basis to ensure the designated Tier structure (as denoted above) is reflected.
  
  - Where possible, cash flows to or from the IUOF should be used to rebalance back to the target dollar amounts as much as possible, since this avoids unnecessary transactions. Consideration will also be given to anticipated upcoming cash flows.
  
  # Tier balances will be reviewed during the normal quarter-end reporting cycle, with a more formal review occurring periodically, typically annually, taking into account University cash flow forecasts. Rebalancing will be enacted by the University, with the assistance of the Consultant. The shorter-term liquidity tiers (Tiers I and II) will be evaluated to ensure assets fall within the minimum and maximum balance ranges. Excess assets in Tiers I and II should be rebalanced into Tiers III, IV and V. The University will periodically reassess the total assets available for equity investment. Likewise, Tiers III, IV and V should be used to replenish Tiers I and II should Tier I and/or Tier II asset levels fall below the minimum balances in those Tiers. Since most assets are invested in separately-managed accounts, operational considerations should be taken into account when enacting rebalancing.
  
  # At times, however, rebalancing may be deemed harmful to the portfolio, given prevailing and unusual market conditions, market illiquidity or anticipated cash needs of the University. In these circumstances, the University should strive to rebalance the portfolio to at least meet the minimum required balances in Tiers I and II. Nonetheless, the Committee may choose to delay rebalancing and maintains flexibility to allow the allocations to rise above or dip below designated maximums and minimums if the University determines rebalancing will unduly hinder the IUOF. During these periods, it is expected that more frequent reviews of the allocations and market conditions will be evaluated to assess the appropriateness of rebalancing.

- **Secondary Rebalancing Methodology: Rebalancing Between Tier Components:** From time to time, the underlying components of each tier may deviate from targets due to market conditions and/or cash flows.
  
  - A target and range has been established for each component, where appropriate, to control risk and maximize the effectiveness of the IUOF’s overall investment strategy, while avoiding unnecessary turnover at the strategy and manager level. When an underlying strategy and/or manager is outside of its allowable range, the University will evaluate the feasibility of rebalancing back to the target allocation and may initiate portfolio rebalancing.
  
  - Under extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing may unduly hinder the IUOF, the University may choose to delay rebalancing in order to better reflect the overall goals and objectives of the IUOF. During that period, it is expected that more frequent reviews of the
Construction and market conditions will be evaluated to assess the appropriateness of rebalancing. Targets and ranges for the Tier components are included below and will be updated periodically, as needed:

<table>
<thead>
<tr>
<th>Liquidity Tiers</th>
<th>I</th>
<th>Internal Cash</th>
<th>Various</th>
<th>N/A</th>
<th>N/A</th>
<th>90-Day T-Bill</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Active Cash</td>
<td>Logan Circle</td>
<td>N/A Given Variability</td>
<td>N/A Given Variability</td>
<td>6-Mos T-Bill</td>
<td>Active Cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Payden &amp; Rygel</td>
<td></td>
<td></td>
<td>ML 1-Yr T-Note</td>
<td>Active Cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Smith Graham</td>
<td></td>
<td></td>
<td>90-Day T-Bill</td>
<td>Cash</td>
</tr>
<tr>
<td>II</td>
<td></td>
<td>Defensive Fixed Income</td>
<td>Merganser</td>
<td>60%</td>
<td>+/- 5%</td>
<td>BB 1-3-Yr Gov/Cred Index</td>
<td>Defensive Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Old National</td>
<td>5%</td>
<td>+/- 3%</td>
<td>BB 1-3-Yr Gov/Cred Index</td>
<td>Defensive Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PIMCO</td>
<td>35%</td>
<td>+/- 5%</td>
<td>BB 1-3-Yr Gov/Cred Index</td>
<td>Defensive Fixed</td>
</tr>
<tr>
<td>III</td>
<td></td>
<td>Core Plus Fixed Income</td>
<td>Loomis Sayles</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>BB Aggregate Index</td>
<td>Core Plus Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reams Asset</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>BB Aggregate Index</td>
<td>Core Plus Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Western Asset</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>BB Aggregate Index</td>
<td>Core Plus Fixed</td>
</tr>
<tr>
<td>IV</td>
<td></td>
<td>Unconstrained Fixed Income</td>
<td>Loomis Sayles</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>LIBOR + 2% and BB Aggregate Index</td>
<td>Unconstrained Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reams Asset</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>LIBOR + 2% and BB Aggregate Index</td>
<td>Unconstrained Fixed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Western Asset</td>
<td>33.3%</td>
<td>+/- 5%</td>
<td>LIBOR + 2% and BB Aggregate Index</td>
<td>Unconstrained Fixed</td>
</tr>
<tr>
<td>V</td>
<td></td>
<td>Passive Domestic Equity</td>
<td>TBD</td>
<td>70%</td>
<td>+/- 5%</td>
<td>TBD</td>
<td>Total Domestic Equity</td>
</tr>
</tbody>
</table>
Descriptions of Selected Styles:

**Money Market:** Money Market Funds are regulated by the SEC and required to comply with Rule 2a-7 of the Investment Company Act of 1940 Act, including restrictions around credit quality, maturity and liquidity. Money market funds invest in very short-dated, high quality debt securities such as Treasury bills and commercial paper. These funds provide liquidity and income. The two primary fund types are Government and Prime money market funds. Government money market funds invest at least 99.5% of assets in cash, government securities, and collateralized repurchase agreements. Prime money market funds invest in government securities as well but can also invest in commercial paper of corporations.

**Liquidity Reserves:** Liquidity Reserves may be invested using commingled vehicles and/or separate account vehicles. Liquidity Reserves refers to investments which emphasize preservation of capital, liquidity and total return. These investments exhibit portfolio characteristics between that of money market strategies and defensive strategies with regards to quality and duration.

**Defensive Bond:** Defensive Bond managers construct portfolios that approximate the results of the Barclays1-3 Year Government/Credit Index. The objective is to minimize interest rate risk by investing in predominantly short to intermediate term securities. The average portfolio duration is similar to the duration of the Lehman Brothers 1-3 Year Government/Credit Index.

**Core Plus Bond:** Core Plus Bond managers construct portfolios that deviate significantly from the Barclays Aggregate Bond Index. The objective is to add value by tactically allocating significant portions of the portfolio among non-benchmark sectors while maintaining majority exposure similar to the broad market.

**Unconstrained Bond:** Unconstrained/Absolute Return fixed income products cover a wide range of approaches designed to produce positive absolute total returns across a variety of market environments. They tactically invest in a diverse set of risk factors, sectors and strategies within fixed income with an aim to maximize risk-adjusted total returns within a specific risk budget.

**Passive Domestic Equity:** Passive Domestic Equity managers hold portfolios with characteristics similar to those of the broader market as represented by the CRSP US Total Market Index or other similar broad domestic equity index (such as the Russell 3000 Index).

**Passive International Equity:** Passive International Equity Index managers hold portfolios with characteristics similar to those of the broader market as represented by the FTSE Global All Cap ex-US Index or other similar broad international equity index (such as the MSCI ACWI Ex-US Index).

**IUEF Distribution Policy**

**IUEF held for the benefit of IU**
Endowment funds are managed pursuant to an Investment Agency Agreement between the Trustees of Indiana University ("trustees") and the IU Foundation, which delegates investment management responsibilities to the IU Foundation, and the Amended and Restated Limited Liability Company Agreement for Indiana Future Fund I, LLC, which delegates investment management responsibilities to the fund manager, Alpinvest US Holdings, LLC. Indiana Code 30-2-12, Uniform Management of Institutional Funds, sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets.

**IUEF held for the benefit of Riley Children’s Hospital**
Endowment funds are managed pursuant to the Resolution To Transfer investment Management Of Certain Endowed Funds To The Riley Memorial Association (RMA). Indiana Code 30-2-12, Uniform Management of Institutional Funds, sets forth the provisions governing the investment of endowment assets and the expenditure of endowment fund appreciation. The code requires that the trustees and their agents act in good faith and with
the care a prudent person acting in a like position would use under similar circumstances, with respect to the investment of endowment assets.

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