

**WEST VIRGINIA UNIVERSITY  
BOARD OF GOVERNORS  
POLICY 43**

**INVESTMENT POLICY  
(Senate Bill 603)  
West Virginia University**

**Section 1      General**

- 1.1. Scope: Policy regarding investment of West Virginia University funds with the West Virginia University Foundation
- 1.2. Authority: WV Code §12-1-12d
- 1.3. Effective Date: June 2, 2006

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## **I. PURPOSE, PHILOSOPHY AND DEFINITION OF TERMS**

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### **A. Purpose**

1. As per West Virginia Code §12-1-12d, the West Virginia University (the “University” or “WVU”) Board of Governors (the “Board”) may invest certain funds with the West Virginia University Foundation, Incorporated (“WVU Foundation”, “ its nonprofit foundation” or “Investment Agent”). The University has therefore set up the Unrestricted Dollars Investment Pool (“Unrestricted Investment Pool” or (“Senate Bill 603 Funds”) comprised of the moneys of the University that are collected under an act of the Legislature for specific purposes. The moneys authorized for investment in the Unrestricted Investment Pool may not at any time be more than the greater of \$25 million or sixty-five percent of WVU’s unrestricted net assets as presented in the statement of net assets for the fiscal year end audited financial reports. The Board is charged with the responsibility of establishing an Investment Policy in accordance with the Uniform Prudent Investor Act for those moneys invested in the Unrestricted Investment Pool. The Unrestricted Investment Pool was created to facilitate prudent asset management in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-, chapter forty-four of the West Virginia Code. In light of this, due regard should be given to the importance of preservation of capital; diversification; risk tolerance; rate of return; and liquidity within the Investment Pool. The provisions, terms and conditions of this Investment Policy govern the WVU Unrestricted Investment Pool.
2. The Board has delegated to the Vice President for Administration and Finance responsibility for the administration, investment, and general oversight of the Investment Pool, assisted by an Unrestricted Investment Pool Investment Committee. In addition, pursuant to West Virginia Code § 12-1-12d(f), the Board must report the performance of the funds managed by its nonprofit foundation annually by the thirty-first day of December, to the Governor and to the Joint Committee on Government and Finance.
3. This document provides the framework for the investment, maintenance, and enhancement of the Unrestricted Investment Pool. The WVU Foundation and the Pool’s investment managers will also use this document as the basis for the measurement and evaluation of investment performance.
4. It is expected that the guidelines, policies, and other specifications delineated herein will be reviewed annually and updated or modified as necessary to reflect changes in the needs of WVU as it relates to the Unrestricted Investment Pool.

## **B. Investment Philosophy**

The Board believes that its Unrestricted Investment Pool should be managed in a manner that is consistent with the philosophy of the Board and in accordance with the cited WV Code. The Board recognizes that in any economy, over an appreciable time period, unsupervised assets will be subjected to an inflationary loss of purchasing power as well as market risk. The Board also recognizes that over the long term, the risk of owning equity, and equity-equivalent, investments has been, and may continue to be, rewarded with a somewhat greater return than that available from fixed income investments. The role of fixed income, and fixed income-equivalent, investments is to reduce risk in the overall Unrestricted Investment Pool.

## **C. Definition of Selected Terms**

The following definitions are provided to clarify language used in the Statement of Investment Policy for the WVU Unrestricted Investment Pool.

**Asset-Backed Securities.** Bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit.

**Blended Benchmark.** The Blended Benchmark combines relevant indices in weighted proportion to the asset mix of the portfolio in order to show comparable returns of the market versus performance of the Unrestricted Investment Pool.

**Collateralized Mortgage Obligation (CMO).** A mortgage-backed bond that separates mortgage pools into different maturity classes, called "tranches." Tranches pay different rates of interest and can mature in a few months or as long as 20 years. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government-guaranteed or other top-grade mortgages and have AAA ratings.

**Investment Agent.** An entity responsible for the day-to-day oversight and direction of investment assets either directly or through contract with third-party investment managers or partnership agreements. According to West Virginia Code §12-1-12d, the nonprofit foundation of WVU is The West Virginia University Foundation, Inc. which is acting as Investment Agent for the University.

**Mortgage-Backed Security.** A security backed by a pool of mortgages. The Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) issue these securities. The Government National Mortgage Association (Ginnie Mae) guarantees others. Investors receive payments out of the interest and principal on the underlying mortgages.

**Policy Portfolio.** A policy portfolio is an institution’s long-term asset allocation policy. It takes the form of a portfolio with target allocations to those asset classes to which the institution desires a long-term commitment.

**Standard Deviation.** A statistical measurement of dispersion about an average which depicts how widely returns varied over a certain period of time. Also known as “Risk.”

**Treasury Inflation-Protected Securities (TIPs).** TIPs are Treasury bonds that are contractually linked to the CPI-U (inflation index). The payout structure for these bonds consists of "real" coupon payments made semi-annually, with inflation paid on the principal at maturity. The principal value of the bond is indexed to inflation every month, but the inflation adjustment on the principal is not paid out until maturity.

## **II. RESPONSIBILITIES**

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### **A. General Responsibility of the West Virginia University Board of Governors**

The Board has general responsibility for the management of all WVU Unrestricted Investment Pool funds. These powers can be stated as follows:

*“This Board shall establish appropriate investment policies and objectives for all WVU Unrestricted Investment Pool assets, including both short term and long term, and shall assess and revise or supplement, as deemed necessary, such policies as in its judgment shall help accomplish WVU’s objectives.*

*Specifically the Investment objectives are as follows:*

- *Seek the highest total return available consistent with policy guidelines;*
- *Maximize predictability and consistency of investment returns over a rolling market cycle of 3 to 5 years;*
- *Minimize the risk of loss in any one year and in any rolling market cycle of 3 to 5 years; and*
- *Select managers who have produced above-index returns over a rolling market cycle of 3 to 5 years.*

*Subject to procedures established by the West Virginia State Legislature(the “Legislature”) contained in West Virginia Code §12-1-12d, the WVU Foundation shall have the power to authorize the investment or reinvestment of WVU’s Unrestricted Investment Pool funds; to direct the purchase, sale or exchange of securities; to employ and retain investment agents with discretionary investment powers, consultants, counselors, experts, financial advisors and other special counsel related to the performance of these duties.”*

## **B. Specific Responsibilities of the West Virginia University Foundation**

Specific responsibilities of the WVU Foundation to the oversight of the Unrestricted Investment Pool include:

1. Developing and promulgating a sound and consistent investment policy addressing items such as financial and investment objectives, asset allocation policy, and general maintenance guidelines, e.g. diversification and quality guidelines and obtaining approval of such Investment Policy by the Board;
2. Identifying and engaging the selection of appropriate investment vehicles, qualified investment managers, and qualified policy consultants;
3. Communicating clearly the major duties and responsibilities of those qualified managers accountable for achieving investment results and to whom specific responsibilities have been delegated;
4. Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met;
5. Taking action under appropriate circumstances to discharge or engage an investment manager or advisor for failing to perform in terms of stated expectations or to abide by this Statement of Investment Policy ("Investment Policy");
6. Undertaking such work and studies as may be necessary to keep the Board and/or its designee adequately informed as to the status of the Unrestricted Investment Pool assets; and
7. Communicating with the Board or its designee on at least a quarterly basis regarding investment performance and activity.

## **C. Responsibilities of Investment Agent**

As per West Virginia Code §12-1-12d, the nonprofit foundation of WVU has been named as Investment Agent and is empowered therefore to have day-to-day responsibility for ensuring that the WVU Unrestricted Investment Pool's Investment Policy is followed. Specific responsibilities may include:

1. Overall investment management of the assets in the Unrestricted Investment Pool in accordance with the Investment Policy;
2. Responsibility for hiring, firing and monitoring of third party investment managers;

3. Accounting for and verifying portfolio positions and activity as reported by the investment managers on a monthly, quarterly and annual basis;
4. Preparation of quarterly and annual investment reports and presentation of those reports to the Board and/or its designee;
5. Presenting pertinent issues and concerns, as appropriate, to the Board and/or its designee;
6. Communicating investment policies and procedures to the Board and/or its designee, as needed;
7. Communicating with the appropriate WVU personnel quarterly, or more frequently, as needed;
8. Communicating with individual investment managers on a regular basis; and
9. Keeping up to date with investment opportunities available in the ever-changing global investment market and keeping the Board and/or its designee informed of asset classes that would further enhance the risk-reward characteristics of the total Investment Pool under management.

#### **D. Responsibilities of Custodian**

The custodian has been delegated the following responsibilities:

1. Safekeeping of all assets including securities, cash and cash equivalents;
2. Performing, participating in and exercising such rights, privileges, duties and responsibilities possessed by any owner or holder of securities except for the voting of proxies, which shall be delegated to investment managers; and
3. Receiving instructions from investment managers to purchase and sell various securities and ensure that transactions are settled according to normal industry settlement procedures.

#### **E. Responsibilities of Investment Managers**

The designated investment managers are charged with the following responsibilities listed below. Assets managed in a mutual fund format are subject to the guidelines of the

vehicle as documented in the prospectus of each manager. Each investment manager must:

1. Where applicable, be registered as an investment advisor under the Investment Advisor Act of 1940;
2. Adhere to the policy guidelines contained in this Investment Policy, unless granted an exception in writing;
3. Invest only in those asset classes, and adhere to the ranges for allocation among those classes, that the Investment Agent has stated to be appropriate for that manager's portfolio;
4. Exercise complete investment discretion within the boundaries of the restrictions outlined in this Investment Policy or in any written exceptions to this Statement;
5. Strictly comply with all of the provisions of appropriate law as they pertain to the firm's dealings, functions and responsibilities as fiduciaries;
6. Prudently liquidate assets in the portfolio that cease to be in compliance with this Investment Policy or any written exceptions to this Statement. If, in the manager's judgment, it is in WVU's best interest not to liquidate such an asset promptly, the manager will advise the Investment Agent of the circumstances and make a recommendation regarding the liquidation of that asset. The Investment Agent's Vice President for Investments, upon receiving a majority vote of the Investment Agent's Investment Committee (by full meeting or conference call), shall inform the investment manager of the decision;
7. Ensure that brokers will be selected in a prudent manner conducive to the benefit of WVU's portfolio, on a competitive, best execution basis where possible;
8. Invest the specified unrestricted assets of WVU with care, skill, prudence, and diligence under circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims;
9. Vote the proxies for securities held in the accounts over which they have accepted responsibility, at all times in such a manner as they deem to be solely in the best interest of WVU's assets; and
10. Acknowledge in writing the recognition and acceptance of full responsibility as a fiduciary as defined by appropriate federal and state legislation, and the firm's

intention to comply with this Investment Policy as it currently exists or as is modified by joint agreement in the future.

### **III. FUNDS**

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#### **A. Financial Objective**

WVU has established an Unrestricted Investment Pool for the purpose of facilitating prudent asset management to provide a source of investment income, from the unrestricted funds subject to the administrative control of the University that are collected under an act of the Legislature for specific purposes and do not include any funds made available to the University from the state general revenue fund or the funds established in sections eighteen or eighteen-a, article twenty-two, chapter twenty-nine of the West Virginia Code. Implicit in this objective is the financial goal of preserving capital, while enhancing the fund's inflation-adjusted purchasing power through investment performance, measured on a total return basis over a market cycle vis-a-vis a Blended Benchmark.

#### **B. Investment Objective**

In meeting the financial objective of the Investment Pool, the Board seeks to achieve a high level of total investment return consistent with a prudent level of portfolio risk. As such, the investment objective of the Investment Pool is to attain an average annual real total return (net of investment management fees) of at least 4.0% as measured over rolling five-year periods. It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods. This objective should be attainable within risk levels defined by this policy.

#### **C. Policy Portfolio**

In order to achieve this goal and at least preserve the spending power of the Unrestricted Investment Pool as a whole, an appropriate asset structure has been devised, and is presented in the following sections.

1. The asset allocation of the Unrestricted Investment Pool should reflect a proper balance of WVU's needs for liquidity, preservation and enhancement of purchasing power, and risk tolerance.

2. The Unrestricted Investment Pool shall be divided between two major sub-components: an Equity and equity surrogate Component (the “Equity Component”) and a Fixed Income and fixed income surrogate Component (the “Fixed Income Component”). The purpose of dividing the Investment Pool in this manner is to ensure that the overall asset allocation between these two major components remains under the regular scrutiny of the Investment Agent and is not allowed to become the residual of separate manager decisions.
3. Over the long run, the allocation between the two major sub-Components will be the single most important determinant of the Investment Pool’s investment performance.
4. The purpose of the Equity Component is to generate a total return that will provide for growth in principal through capital appreciation and current income sufficient to support any future spending requirements, while at the same time increasing the purchasing power of the Unrestricted Investment Pool’s assets. The Board recognizes that the pursuit of these goals entails the assumption of greater variability of the total portfolio’s investment returns (risk) in comparison to more conservative asset allocations, which have lower levels of expected risk and return.
5. The Equity Component should represent approximately 30% of the total Investment Pool assets at market value. Although the actual percentage weighting in the Equity Component will vary with market conditions, it should be closely monitored whenever levels approach 35% or fall near 25%. Should the allocation move outside these ranges, additional funds will be transferred as needed (the amount and timing to be determined by the Investment Agent) to bring the overall asset mix back within policy range.
6. The purpose of the Fixed Income Component is to contribute to overall return, to reduce the overall volatility of Fund returns, and to provide a reasonable hedge against the effects of a prolonged economic contraction. The Fixed Income Component should represent approximately 70% of the total fund assets at market value. Although the actual percentage will fluctuate with market conditions, levels below 65% and above 75% will be closely monitored by the Investment Agent and may require rebalancing to targeted allocations.
7. Not only will the Unrestricted Investment Pool be diversified by major asset classes (e.g., equities and fixed income) but within these asset classes as well. The purpose of such diversification is to provide reasonable assurance that no single asset class of securities or specific investment style will have a disproportionate impact of the Unrestricted Investment Pool’s aggregate results.
8. The target asset mix, consistent with the achievement of the long-term objective of the WVU Unrestricted Investment Pool, approved by the Board on [DATE], is as follows:

Asset Class	Long-Term Strategic Target (%)	Range
<b><u>EQUITY COMPONENT</u></b>		
<b>U.S. Equities</b>		
Large/Mid/Small Cap	25%	20-30%
<b>International Equities</b>		
Developed Markets	05%	03-07%
<b>TOTAL EQUITY COMPONENT</b>	<b>30%</b>	25-35%
<b><u>FIXED INCOME AND F.I. SURROGATE COMPONENT</u></b>		
<b>Public Fixed Income</b>		
U.S. Bonds	50%	45-55%
Global Bonds	03%	02-05%
TIPS	03%	02-05%
High Yield/Leveraged Loans	02%	00-04%
<b>Fixed Income Surrogate Investments</b>		
Real Assets	04%	02-06%
Marketable Strategies (Absolute Return Hedge Funds)	04%	00-06%
<b>Cash and Equivalents</b>	04%	00-05%
<b>TOTAL FIXED INCOME COMPONENT</b>	<b>70%</b>	65-75%

9. The target asset mix, as shown above, shall at all times provide for the liquidity needs of the Unrestricted Investment Pool. Therefore, at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 10% of the portfolio.
10. In the aggregate, the Equity Component will be broadly diversified according to economic sector, industry, number of holdings, and other investment characteristics. Diversification will be achieved at the Equity Component level and not necessarily at the individual manager level. To enhance overall diversification, the Investment Agent may select equity managers that employ different equity management philosophies that together achieve the desired degree of diversification.

11. Decisions as to individual security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence and applicable guidelines.
12. In general, the Fixed Income Component will be diversified among different sectors of the fixed income market. Investment in obligations of the U.S. Government, U.S. agencies, or any U.S. corporate entity is permitted. The use of international debt obligations is permissible provided they adhere to quality restrictions. Agency and non-agency CMO, whole loan, Mortgage and Asset-Backed Securities may be held.
13. Each public debt instrument selected for investment shall be subject to proper credit analysis prior to inclusion into the portfolio. The average quality rating of each of the public managers' overall fixed income portfolio will be a minimum of AA/Aa-1. At a minimum, at least 90% of the portfolio must be rated investment grade (BBB-) or better.
14. Except for debt obligation(s) issued or guaranteed by a government or its agencies and instrumentalities, no more than 5% of any fixed income portfolio valued at market shall be invested in securities of any one issuer.
15. Specific guidelines for individual managers of both the equity and fixed income will be outlined in the final Investment Policy.
16. The Policy Portfolio allocation provides a reasonable expectation that the Unrestricted Investment Pool's objective can be achieved based on historic relationships of asset class performance. It represents the Investment Agent's assessment of the optimal asset allocation and expected return. It should not be regarded as a rigid set of rules regarding asset allocation or required rates of return. The Investment Agent will review the structure annually and make adjustments as may be appropriate in light of changing market conditions.
17. The Investment Agent is charged with the responsibility of monitoring the overall allocation within the parameters described above. They will do so by monitoring the asset classifications actually held by managers and rebalancing the portfolio on a quarterly basis, as needed. It is understood that deviations from the targets and tactical ranges may occur from time to time as a result of market impact or from short-term timing decisions implemented by the Investment Agent or, with prior approval, by the investment managers.

## **D. General Peer Manager Performance Standards**

### **1. Public Equity Managers**

Over rolling five-year periods, the performance of the public equity portion of the Investment Pool should outperform 50% of the managers in a universe of similarly styled public equity funds, as defined by the Investment Agent.

### **2. Public Fixed Income Managers**

Over rolling five-year periods, the performance of the fixed income portion of the Unrestricted Investment Pool should outperform 50% of the managers in a universe of similarly styled fixed income funds, as defined by the Investment Agent.

### **3. Performance Watch Procedures**

Any and all investment managers will be placed on “Watch” by the Investment Agent by written notice if its two-year performance is in the 3<sup>rd</sup> quartile of its peer universe or style benchmark or if its one year, three year, or five year performance is below the 2<sup>nd</sup> quartile of its peer universe or style benchmark. A manager who has been placed on Watch will undergo a thorough review by the Investment Agent to address the reasons for the manager’s underperformance. The manager will be monitored on a quarterly basis during this Watch period and will be taken off the Watch status once it has returned to its expected performance threshold.

## **IV. INVESTMENT ADMINISTRATION**

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### **A. Documentation**

Investment managers should submit requests for permission to deviate from this Policy Statement whenever their strategy or tactics change significantly as a result of changing market conditions or other factors. In addition, reports are to be supplied monthly and/or quarterly by the investment managers indicating:

1. The portfolio composition (i.e., asset mix at book and at market values) for each major class of security;
2. Position, by individually named securities and/or by appropriately described units of collective fund, at market value; and
3. Performance of the portfolio, compared to the relevant benchmark defined by the Investment Agent.

### **B. Annual Review Meeting**

The investment manager may be required to meet with the Board and/or its designee, but is required to meet with the Investment Agent face-to-face annually. The agenda for these meetings shall include, but not be limited to:

1. A presentation of investment results in light of the stated objectives of this Statement of Investment Policy;
2. A discussion of investment strategies currently being executed by the manager;
3. Communication of material changes in policy, objectives, previously communicated investment strategies, staffing, clients, or business condition of the investment manager; and
4. A discussion of current market conditions and the manager's outlook for the next four quarters.

### **C. Sample Investment Manager Acceptance Agreement**

The undersigned investment manager hereby acknowledges its appointment as a named fiduciary in accordance with the Advisory Agreement between the investment manager

and the Board's Investment Agent and agrees that this Statement of Policy is hereby substituted in lieu of the Statement of Investment Objectives attached to said Advisory Agreement.

If at any time the investment manager feels that the objectives and guidelines contained in this Statement of Investment Policy cannot be met or performed in strict compliance with this Statement, the investment manager agrees to promptly notify the Investment Agent in writing. In consideration of the investment manager's initial engagement by WVU's Investment Agent on behalf of WVU's Unrestricted Investment Pool, and the investment manager's ongoing relationship as an investment advisor for the Investment Agent, the investment manager hereby acknowledges a complete understanding of these objectives and guidelines and agrees to abide by each of said requirements during the course of the investment manager's engagement.

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INVESTMENT MANAGER

DATE

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WEST VIRGINIA UNIVERSITY

BY: WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED  
VICE PRESIDENT FOR INVESTMENTS

DATE

## APPENDIX

### Sample Equity Manager Descriptions

**Manager A (U.S. large cap)** invests in large capitalization companies with a “blue chip” orientation. The manager should outperform the S&P 500 Index over a full market cycle through stock selection and sector allocation.

**Manager B (U.S. SMID cap)** may invest in both small- and mid-capitalization companies, with weightings maintained at levels similar to the S&P 400 Index or Russell 2000 Index.

**Manager C (non-U.S. developed country stocks)** invests primarily in large non-U.S. companies domiciled in developed countries. The manager may invest a small portion of the portfolio (<5%) in equities of companies located within the emerging markets.

### Sample Fixed Income Manager Descriptions

**Manager D (U.S. fixed income)** invests in a diversified portfolio of high-quality bonds in that should provide current income and long-term preservation of capital. Weightings and duration will be similar to the benchmark, the Lehman Aggregate Bond Index.

**Manager E (global bonds)** invests in a diversified portfolio of global fixed income securities. The portfolio is primarily comprised of government and corporate bonds of countries with “A” or better credit ratings.

**Manager F (TIPS)** invests primarily in Treasury inflation-protected securities that are structured to provide protection against inflation. Inflation-indexed securities are fixed income securities that are structured to provide protection against inflation by adjusting the value of the bonds’ principal or the interest on the bond in line with changes in an inflation-linked index.

**Manager G (U.S. high yield/leveraged loans)** invests in leveraged loans (primarily secured bank loans) or corporate bonds of non-investment grade companies (with a credit rating of BB or less).

**Manager H (Real Assets)** invests in a diversified portfolio of real assets, including real estate and commodities (such as energy and timber). Real assets are meant to provide a hedge against inflation and are often non-correlated to the public equity and fixed income markets.

**Manager I (Marketable Strategies)** invests in a group of low volatility hedge funds that seek to preserve capital through the compounding of absolute returns.