I. Purpose

The purpose of this document is to set forth the objectives and guidelines of the Utah State University Defensive Return Pool for the implementation of investment strategy.

II. Definitions

a. Institutional Fund

- Means a fund that is primarily for appreciation or the production of income, and intended to be held in perpetuity.
- Institutional Funds do not include: program-related assets which are assets held to accomplish the purpose of the institution and not primarily for appreciation or the production of income.

b. Internally Designated Funds Functioning as Endowments

- Funds, regardless of source, whose corpus is intended to be held in perpetuity by internal designation.

III. Investment Objectives

The primary investment strategy of the Defensive Return Pool is designed to provide stable current income regardless of interest rate fluctuations.

a. Risk Considerations

i. To accept the minimum level of risk required to achieve the Defensive Return Pool’s return objective as stated below.
ii. To minimize the likelihood of experiencing lower than expected returns.
iii. To remain defensive by avoiding the risk of common equity markets.
iv. To use diversification, where possible, to minimize exposure to company and industry specific risks in the aggregate investment portfolio.

b. Return Objectives

i. To achieve the highest reasonably prudent annual income.
ii. Over a ten-year period, out-perform the average annual return of the CMIP by a minimum of 2%.
IV. Investment Constraints

a. Legal and Regulatory
The Defensive Return Pool Investment Advisory Committee intends to manage the assets of the Defensive Return Pool in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

b. Time Horizon
The assets of the Defensive Return Pool will be invested with a long-term time horizon consistent with the long-term mission of Utah State University.

c. Liquidity
Given Utah State University’s long-term horizon, liquidity for the purpose of spending will be a moderate concern. The Investment Advisory Committee will regularly monitor liquidity needs, spending projections, and the impact of changes in regulations or other circumstances.

d. Tax Considerations
Utah State University is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

V. Risk and Return Considerations

The Defensive Return Pool Investment Advisory Committee recognizes the risks associated with investing in common public equity markets and will avoid investing in such markets. Since the majority of the portfolio will be invested in fixed income or fixed income-like investments, senior debt selected for investment at the time of purchase will have an upper medium grade rating or better. Subordinated debt, hybrid bonds, and preferred equity will have an investment grade rating. All ratings must be from a Nationally Recognized Statistical Rating Organization. If two or more credit ratings are available, then at least two ratings must be as stated above. If a security is downgraded below the minimum threshold after the time of purchase, the Defensive Return Pool Investment Advisory Committee shall retain discretion to either hold or sell the investment prior to maturity.

VI. Diversification

The Defensive Return Pool Investment Advisory Committee recognizes that an important element of risk control is diversification. Therefore, investments will be allocated across multiple companies and industries and across many individual holdings.
VII. Asset Allocation

The Defensive Return Pool Investment Advisory Committee recognizes that the allocation of monies to certain asset classes will be the major determinant of the Defensive Return Pool’s return and risk experience over time. Therefore, the Defensive Return Pool Investment Advisory Committee will allocate investments across certain asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the Defensive Return Pool’s investment objectives.

a. Permissible Asset Classes

Assets in the Defensive Return Pool will be invested primarily in fixed income, fixed income-like, and alternative investments. Because investment in any particular asset class may or may not be consistent with the investment objectives of the Defensive Return Pool, the Defensive Return Pool Investment Advisory Committee has specifically indicated in Appendix A those asset classes that may be utilized when investing Defensive Return Pool assets.

b. Long-Term Target Allocations

Based on the investment objectives and constraints of the Defensive Return Pool, and on the expected behavior of the permissible asset classes, the Defensive Return Pool Investment Advisory Committee will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Defensive Return Pool’s overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall Defensive Return Pool’s asset allocation to deviate from the long-term target, as would likely occur during asset class restructurings, and other temporary changes in the Defensive Return Pool.

c. Rebalancing

The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals.

VIII. Review of Investment Policy, Asset Allocation, and Performance

The Investment Policy will be reviewed at least annually by the Defensive Return Pool Investment Advisory Committee to ensure that the objectives and constraints remain relevant. However, the Defensive Return Pool Investment Advisory Committee recognizes the need for a stable long-term policy for the Defensive Return
Pool, and major changes to this policy will be made only when significant developments occur.

The Investment Advisory Committee will specifically evaluate the performance of the Defensive Return Pool relative to its objectives and to the returns available from the capital markets during the period under review.

IX. Investment Costs

The Investment Advisory Committee intends to monitor and control investment costs.

X. References


b. Utah State Board of Regents Management and Reporting of Institutional Investments Policy (R541)
## APPENDIX A

**PERMISSIBLE ASSET CLASSES**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Broad Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Stock</td>
<td>Global Equity</td>
</tr>
<tr>
<td>Bonds and Notes</td>
<td>Fixed Income</td>
</tr>
<tr>
<td>TIPS</td>
<td>Inv. Grade Fixed Income</td>
</tr>
<tr>
<td>Cash/Short Duration Bonds</td>
<td>Inv. Grade Fixed Income</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Alternative Asset</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Alternative Asset</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>Alternative Asset</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Alternative Asset</td>
</tr>
<tr>
<td>Commodities</td>
<td>Alternative Asset</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>Alternative Asset</td>
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</tbody>
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