

Defensive Return Pool Investment Guidelines

I. Purpose

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

- To accept the minimum level of risk required to achieve the Defensive Return Pool's return objective as stated below.
- To minimize the likelihood of experiencing negative returns over ten-year periods.
- To use diversification, where possible, to minimize exposure to company and industry specific risks in the aggregate investment portfolio.

b. Return Objectives

- To achieve the highest reasonably prudent annual income.
- 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, typically 20 years or more, 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 it will generally have minimal exposure to 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 work with the investment advisor to specify a long-term target allocation for each broad 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 (Appendix B).

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/or making 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 Defensive Return Pool 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

- a. Title 51, Chapter 8, Uniform Prudent Management of Institutional Funds Act (UPMIFA).
- b. Utah System of Higher Education, Management and Reporting of Institutional Investments Policy (R541)

APPENDIX A

PERMISSIBLE ASSET CLASSES

Asset Class	Broad Asset Class
Preferred Stock	Global Equity
Global Equities	Global Equity
Bonds and Notes	Fixed Income
TIPS	Inv. Grade Fixed Income
Cash/Short Duration Bonds	Inv. Grade Fixed Income
Private Equity	Alternative Asset
Real Estate	Alternative Asset
Natural Resources	Alternative Asset
Infrastructure	Alternative Asset
Hedge Funds	Alternative Asset

APPENDIX B

ASSET ALLOCATION TARGETS

Broad Asset Class	Target	Range
Fixed Income (Including CMIP)	65%	50-100%
Fixed Income <i>like</i> (Preferred Stocks)	10%	0-25%
Alternatives	15%	0-25%
Global Equity	10%	0-20%
PTIF / Cash	0%	0-20%