

EXHIBIT B

GRAND VALLEY STATE UNIVERSITY

STATEMENT OF INVESTMENT GUIDELINES AND OBJECTIVES

Revised October 2018

INTRODUCTION

This statement of investment guidelines and objectives, in combination with the University's Board Policies section on the Endowment, governs the investment management of Grand Valley State University's Endowment Fund (the "Endowment") and will be effective until modified as conditions warrant by Finance and Administration Staff. Both management and investment advisors are expected to propose revisions in the guidelines whenever the existing guidelines would impede meeting the Endowment's investment objectives. The guidelines and objectives provided below apply to the pooled endowment funds; specific guidelines for individual accounts managed by investment advisors may be attached as appendices.

1. ROLES AND RESPONSIBILITIES

Finance Committee:

Reviews reporting from the Finance and Administration Staff and the Investment Advisory Committee on the asset allocation and performance of the Endowment, as well as any other substantive matters.

Finance and Administration Staff:

Establishes the investment guidelines and oversees the compliance with these policies.

Oversees the day-to-day activities of the Endowment and implements any changes approved by the appropriate Board Committee.

Retains and dismisses outside professionals (investment managers and consultants).

Annually reports to the Board of Trustees.

Investment Advisory Committee:

Advises Finance Committee and Staff on investment issues.

Reports to the Finance Committee on asset allocation, endowment performance and other substantive matters.

The composition of the Investment Advisory Committee is set out in Appendix A.

Investment Consultant:

Periodically reviews investment guidelines and objectives.

Measures and evaluates Endowment and investment manager performance.

Monitors investment managers currently employed.

At the Staff or Advisory Committee's request suggests new managers.

Reports issues and developments that may have a material impact on the performance of the Endowment including periodic risk analysis.

Investment Managers:

Select specific portfolio holdings in accordance with the manager-specific guidelines.

Notify the University Management immediately of:

- any guideline that impairs or prevents the achievement of performance objectives
- new developments or circumstances that warrant a change in the guideline
- any disciplinary action by any regulatory authority or loss / non-compliance with any AIMR, SEC or other professional standards
- any significant change in investment strategy and/or portfolio structure
- material change in portfolio managers, analysts, or ownership control of the manager

Make a best effort to outperform their relevant benchmarks.

2. INVESTMENT OBJECTIVES

The overall financial objectives of the Endowment are (1) to support the current and future operations of Grand Valley State University and (2) to preserve and enhance the purchasing power of the University's Endowment.

In support of these goals, the investment objective of the Endowment is to attain an average annual real total return (net of investment management fees and after inflation) in excess of the spending rate over the long term (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.

Over a five- to ten-year market cycle, the return earned by the Endowment's managers should exceed the rate of return of the appropriate index. Individual manager returns will be compared with an appropriate market index. The University may choose also to compare returns to appropriate style benchmarks and/or the returns of a universe of comparable managers. The Endowment seeks to outperform the median endowment within a universe of other similar sized endowments.

3. CORE BELIEFS

The University has adopted a diversified approach to investment that balances its goals of maximizing return and preserving the Endowment's purchasing power. By diversifying among asset classes and rebalancing toward policy target allocations, the University expects to enhance the real market value and provide an adequate funding source for the University's spending requirements.

The Endowment will be diversified both by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and size). The purpose of diversification is to enhance returns and reduce the risk of significant declines in the market value of the Endowment.

Diversification can be achieved in efficiently priced securities markets at a low cost through the use of passive investment vehicles. For each asset class in the policy portfolio, active investment managers should be employed only when the University expects the manager to add value versus an appropriate benchmark (net of fees and transaction costs) over a reasonable measurement period.

Risk and return are related entities and, as such, risk should be considered along with any evaluation of returns, be it on the portfolio, the asset class or the manager level to ensure that risk, in its various forms, is monitored, evaluated and discussed on a regular basis.

Investment in alternative assets will often entail illiquidity. While such investments can be a natural part of a well-diversified portfolio, it is imperative to consider the overall liquidity needs of the University and keep the illiquid investments at a level where illiquidity does not endanger regular spending, including in situations of negative portfolio returns. The overall liquidity profile of the portfolio and its managers shall be reviewed at least annually.

4. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

- A. To achieve its investment objective, the Endowment shall be divided into three parts: an “Equity Fund,” a “Diversifying Assets Fund” and a “Fixed Income Fund.” Over the long run, the allocation between the three main portfolio Funds is expected to be the single most important determinant of the Endowment’s investment performance.
- B. The purpose of the Equity Fund (common stocks and private equity) is to provide a total return that will provide for growth in principal sufficient to support spending requirements, while at the same time, preserving and enhancing the purchasing power of the Endowment’s assets over the long term. It is recognized that the Equity Fund entails the assumption of greater market variability and risk than the Diversifying Assets Fund and the Fixed Income Fund.
- C. The purpose of the Diversifying Assets Fund is a) to provide additional diversification through investments in assets and/or investment strategies with attractive expected returns combined with low expected correlations with the traditional equity and fixed income holdings of the portfolio and b) to support the overall portfolio through periods of unexpected high inflation through investment in assets and asset classes which are expected to perform well during inflation. This may include real estate, inflation-protected fixed income securities, commodities, and energy-related stocks.
- D. The primary purpose of the Fixed Income Fund (bonds and residual cash equivalents) is to serve as a partial hedge against periods of prolonged economic contraction, and to decrease the probability that the Endowment will be forced to liquidate equity securities at depressed prices to meet spending requirements. Additional allocations to fixed income assets may serve the secondary purposes of contributing to overall return or helping reduce the overall volatility of returns.
- E. The long-term asset allocation set out in Appendix 2 will be considered the “Policy Portfolio.”
- F. In October 2017, the GVSU Investment Advisory Committee approved a 30% target to private investments (25% private equity / venture capital, 5% private real assets). Given that it will take 6-7 years to build GVSU’s private investment exposure to the long-term policy target, an interim

policy target will be utilized. The interim policy targets will begin at the existing policy targets the GVSU portfolio has been managed to. Each year at the October meeting, the Investment Advisory Committee will re-visit the interim policy targets annually, and updates will be made periodically as GVSU builds towards the 30% target to private investments. Appendix 2 contains the interim and long-term policy targets.

- G. At the discretion of the Vice President for Finance and Administration, a sub-committee may be formed in order to make timely decisions needed to execute on approved long-term targets. The subcommittee will meet as needed between meetings, and will report back to the full GVSU Investment Advisory Committee at least twice annually. Investment subcommittee members will be selected by the Vice President for Finance and Administration and will consist of members of the full Investment Advisory Committee.

5. SPENDING

Each year the Board of Trustees will determine the spending rate for the coming fiscal year. In setting the spending rate, the Board of Trustees will attempt to adhere to the following spending formula:

- o Endowment spending is established by the Grand Valley State University Board of Trustees and is assumed to be in the range of 4%-5% of the Endowment value, calculated as the average market value of the 12 quarters preceding the time of the spending decision.

The purpose of the spending formula is to set spending at an adequate but not excessive level that should allow the portfolio to grow in real terms net of spending and investment fees, thereby striking a balance between the current needs of the University and the interest of future generations of Grand Valley University Students.

6. REBALANCING

Rebalancing asset allocations to policy targets is essential for maintaining the risk profile adopted by the University. The Endowment's actual asset allocation will be monitored regularly relative to established policy targets and ranges. Adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but efforts will be made to rebalance as appropriate. Cash flow in or out of the Endowment may create an opportunity to shift the allocation. The rebalancing process will be reviewed at least annually or when actual asset allocations exceed the asset policy ranges.

7. INVESTMENT GUIDELINES

New guidelines will be created, as necessary, when and if new managers are added to the portfolios.

No single active investment manager will exceed 20% of the Endowment, unless approval is provided by the Investment Advisory Committee.

To the extent that the University invests in mutual funds and/or commingled vehicles, the guidelines are contained in the offering documents. Since, in these cases, the University cannot impose its own

guidelines, the Staff and Advisory Board will, assisted by the Consultant, determine beforehand whether the guidelines set by the offering document are acceptable and suitable for the given mandate.

Common for the manager guidelines and standards for mutual/commingled fund prospects are the following basic principles:

A. Manager Autonomy

Decisions as to individual security selection, security size and quality, number of industries and holdings, current income level, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence.

B. Leverage and Derivatives

Unless explicitly authorized by the Investment Committee, the use of leverage or speculative use of derivatives is prohibited unless as part of an alternative asset program or as a means for real asset or bond managers to hedge investment risk or replicate investment positions at a lower cost than would otherwise be created in a cash market. Only managers with foreign currency exposure may occasionally use currency hedging to offset a given currency risk stemming from a portfolio position.

Managers using derivatives must have systems in place to rigorously analyze and monitor duration, liquidity and counterparty credit risk in order to minimize the risk associated with the use of derivatives.

C. Diversification

A manager has an obligation to diversify holdings so that the portfolio is not exposed unduly to any single security issuer or sector. Holding limits are contained in the individual manager guidelines and/or prospects.

D. Duty to Inform

A manager is expected to propose revisions to the guidelines at any time the existing guidelines would impede meeting the investment objectives established for the manager.

E. Best Execution

Transactions should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price.

8. MONITORING OF OBJECTIVES AND RESULTS

Both the Endowment and the individually managed portfolios will be monitored on a periodic basis for consistency in each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Finance Staff will review portfolio results on a quarterly basis, but results will be evaluated over rolling three- to five-year periods.

In evaluating portfolio and manager returns, certain benchmarks will be employed both on a total portfolio level, an asset class level and on the individual manager level. The composition of the various benchmarks is set out in **Appendix 3**.

Each investment manager will report the following information quarterly:

- Total return net of all commissions and fees, returns
- For the equity and fixed income portions of the account, additions and withdrawals from the account
- Current holdings at cost and at market value
- Purchases and sales for the quarter
- Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform Grand Valley State University of any significant change in firm ownership, organizational structure, professional personnel, account structure (e.g., number, asset size and account minimums), or fundamental investment philosophy. In addition, the University requires reporting on all of the above information as of the end of its fiscal year.
- Periodically, each manager will provide to Cambridge Associates, on behalf of Grand Valley State University, a copy of its form ADV Part I and Part II.

9. MANAGER HIRING AND FIRING

Though active managers are hired to outperform their respective benchmarks, it is a commonly accepted fact that even strong managers may have periods of relative underperformance. Firing a manager due to short-term performance issues will often have a negative impact on a portfolio since manager performance tends to be cyclical, so that managers who underperform in one cycle often will outperform in the next and vice versa. The Finance Staff and Advisory Board plans to evaluate manager returns over three- to five- year periods and aims to have stable, long-term manager relationships. When hiring and especially when firing managers, the Finance Staff and Advisory Board will strive to consider other factors besides performance such as organizational stability, consistency of strategy and integrity of the manager.

10. CONFLICT OF INTEREST POLICY

All individuals who may be involved in the decision making, advising or oversight of the endowment shall disclose any relevant facts that might give rise to a conflict of interest with respect to such matters. All members will be required to annually sign the Grand Valley State University conflict of interest policy (Appendix 4) as evidence of compliance.

Individuals so affected shall withdraw from the meeting and shall abstain from discussions of, and any decision relating to, any such matters. Abstentions shall be recorded in the minutes of the meeting.

Under normal circumstances, individuals involved in the Endowment Fund may not be employed by firms managing investments of the University.

11. CHANGES TO THE INVESTMENT GUIDELINES

All policies, guidelines, goals and objectives in this Statement shall be in force until modified in writing by the Finance and Administration Staff and approved by the Treasurer of the Board of Trustees. The Staff and the Advisory Board will review the Statement at least annually to ensure continued appropriateness, but may propose revisions to the Statement at any time it sees fit. Changes to the guidelines will be communicated to the Board of Trustees.

Appendix 1

Investment Advisory Committee – Composition

Composition of the Investment Advisory Committee

Up to four community members and/or Grand Valley Foundation Directors serving at least three-year rolling terms. The Vice President of Finance and Administration will seek input from the Vice President for University Development in the selection of new members of the committee.

The Chair of the Finance and Audit Committee will select two members from the Grand Valley State University Board of Trustees.

Grand Valley State University Vice President of Finance – who serves as the chair of this committee
Other staff of Grand Valley State University as designated by the Vice President of Finance

Appendix 2
ASSET CLASS TARGETS AND RANGES

	Interim Target (%)	Long-Term Target (%)	Interim Range (%)
Equity Fund			
Public Global Equity	50	42	40-60
Private Equity / Venture Capital	8	25	5-30
Diversifying Assets Fund			
Hedge Funds	20	15	10-25
Public Real Assets	8	3	2-8
Private Real Assets	2	5	2-8
Fixed Income Fund			
Fixed Income & Cash	12	10	5-20

In October 2017, the GVSU Investment Advisory Committee approved a 30% target to private investments (25% private equity / venture capital, 5% private real assets). Given that it will take 6-7 years to build GVSU's private investment exposure to the long-term policy target, an interim policy target will be utilized given that it will take 6-7 years to reach target. The interim policy targets will begin at the existing October 2017 policy targets the GVSU portfolio has been managed to. Each year at the October meeting, the Investment Advisory Committee will re-visit the interim policy targets annually, and updates will be made periodically as GVSU builds towards the 30% target to private investments.

Appendix 3
ASSET CLASS PERFORMANCE BENCHMARKS

	<u>Policy Targets</u>	<u>Benchmarks</u>
Public Global Equity	42%	MSCI ACWI Index
Private Equity / Venture Capital	25%	MSCI ACWI Index (Lagged ¹)
Hedge Funds	15%	HFRI Fund of Funds Composite Index
Public Real Assets	3%	Equal-Weighted Blend: MSCI World Natural Resources Index Bloomberg Commodity Total Return Index FTSE NAREIT All Equity REITs Index Barclays U.S. TIPS Index
Private Real Assets	5%	Public Real Asset Benchmark (Lagged ¹)
Fixed Income & Cash	10%	Bloomberg Barclays Aggregate Bond Index
Total Endowment	100%	

¹ Because private investments report on a one quarter lag, the private investments portion of the Endowment and policy benchmark will be held at a zero percent return for the most recent period, until the private investments have reported.

Appendix 4

GRAND VALLEY STATE UNIVERSITY

Conflict of Interest Policy:

The members of the Grand Valley State University Endowment Investment Advisory Committee participate in making decisions, which in their judgment best serve the long-range goals and objectives of the investment management of the University's Endowment Fund. From time to time, the Investment Advisory Committee may consider investments in which members of the Investment Advisory Committee have a direct or indirect financial interest. In order to resolve any questions of conflict of interest, whether real or apparent, the Investment Advisory Committee shall adopt the following procedures:

- Members of the Investment Advisory Committee shall disclose any relevant facts or circumstances that might give rise to a conflict of interest, or perception of a conflict of interest, with respect to investment matters that come before the Investment Advisory Committee. Such facts and circumstances include, but are not limited to, instances where the Investment Advisory Committee member and /or his, or her, immediate family (i) serves as director of, is employed by, or is an equity investor or partner in, a firm managing the assets of the University's Endowment Fund, or (ii) has invested personal or family assets with a firm managing the assets of the University's Endowment Fund.
- Members so affected shall abstain from the Investment Advisory Committee discussions of, and any decisions relating to, any such matters. Abstentions shall be recorded in the minutes of the Investment Advisory Committee meeting.
- Under normal circumstances members of the Investment Advisory Committee may not be a director of or be employed by firms managing investments of the University's Endowment Fund.

I have read and understand this policy

Signature: _____

Date: _____