

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 14

DATE:

April 22, 2021

RECOMMENDATION
UNIVERSITY INVESTMENT POLICY

ACTION REQUESTED

It is recommended that the Board of Regents amend the University Investment Policy 11.1.2 in accordance with the attached document.

STAFF SUMMARY

The University's Investment Adviser, NEPC, has recommended to the University's Investment Committee the following changes to the Investment Policy:

1. An update to the Asset Allocation Policy to provide for broader investment groupings within the Equity asset class (i.e., total equity rather than individual equity sub-classes). The change will allow for greater flexibility within the asset class portfolio and provide the ability for the University's advisor to balance the University's fiscal needs while maintaining adherence to the policy;
2. An update to the permissible range for the Fixed Income asset class. This will provide the portfolio the opportunity to act defensively in the event that equities and alternative asset classes exceed risk tolerances;
3. An update to Fixed Income asset categories to include High Quality and Return Seeking, while removing others. The two asset categories will provide the University's advisor to more easily balance the University's fiscal needs while maintaining adherence to the policy;
4. An update to reallocate the Global Asset Allocation/Risk Parity asset class to a category within the Alternatives asset class;
5. An update to the benchmark for Global Asset Allocation/Risk Parity asset category allowing for manager specific benchmarks, rather than a single benchmark for the entire category.

The policy amendment was drafted alongside the University's Investment Advisor, NEPC.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.


University Executive Officer

April 22, 2021
Date



Investment Policy Statement

March 2021

Revision Dates of Previous Investment Policy:
March 2019

INVESTMENT POLICY

Eastern Michigan University Board of Regents

PURPOSE

Eastern Michigan University's investment objective shall be to preserve investment principal while deriving a reasonable return consistent with the prevailing market and economic conditions. Investment decisions shall be based on specific guidelines which incorporate quality, safety, diversity and liquidity of funds.

SCOPE

The short-term investment pool guidelines are intended to cover the investment of University funds that are required for daily liquidity and expenditures of one year or less. The intermediate-term investment pool guidelines are intended to cover funds that are earmarked for use in the next one to three years. The remaining portion of the portfolio determined to be in excess of operational needs and not expected to be needed as working capital funds may be designated long-term in nature and allocated to the long-term investment pool.

GENERAL OBJECTIVES

1. The **primary investment objective** for the **short-term investment pool accounts** will be to provide for preservation of capital with a secondary emphasis upon maximization of investment income with prudent exposure to risk. *Funds needed for expenditures in less than one year will be considered short-term.*
2. The **primary investment objectives** for the **intermediate-term investment pool accounts** will be preservation of capital and maximization of income with prudent exposure to risk within the parameters specified in this investment policy statement. *Funds needed for expenditures within one to three years will be considered intermediate-term.*
3. The **primary investment objectives** for the **long-term investment pool accounts** will be to provide for long-term growth of principal and income with prudent exposure to risk. *Funds not needed for expenditures within three years will be considered long-term.*
4. Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that the **performance objectives** will be achieved over a rolling five-year period net of investment management fees and transaction costs. Nevertheless, the University reserves the right to evaluate and make any necessary changes regarding the investment managers/funds over a shorter-term using the criteria established in the "Evaluation of Investment Managers" section of this statement.

ASSET ALLOCATION

(Short-Term Investment Pool)

The short-term investment pool shall be managed by one or more short-term investment managers, each maintaining a portfolio with an average weighted maturity between one day and one year.

(Intermediate-Term Investment Pool)

The intermediate-term investment pool shall be managed by one or more investment managers with the goal of preserving capital and liquidity while providing a moderate return.

(Long-Term Investment Pool)

The overall long-term investment pool targets and permissible ranges for asset classes are detailed in Appendix A. It is anticipated that the long-term investment pool will invest primarily in “commingled funds” (mutual funds, limited partnerships, limited liability companies, etc.), rather than separately managed accounts, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, separately managed investment account and the lower costs which can be associated with these funds). The Investment Committee recognize that they will not be permitted to give specific policy directives to a fund whose policies are already established; therefore, the Investment Committee are relying on the Investment Advisor to assess and monitor the investment policies of such funds to ascertain whether they are appropriate.

In some instances (likely long-only equity or fixed income mandates), a separately managed account may be deemed the optimal vehicle for the long-term investment pool. In those cases, the individual manager guidelines are specified in each approved investment manager agreement (IMA) and will be evaluated and negotiated by the Investment Advisor.

The Investment Committee also realizes that certain types of derivatives are commonplace and acceptable investment securities for various types of strategies. Some of the investment managers will use derivatives to hedge, gain market exposure, gain/reduce currency exposure, etc. The Investment Advisor will evaluate each manager’s derivatives policy and determine if it is acceptable before making a recommendation.

REBALANCING ASSET ALLOCATION

The University representatives will monitor the asset allocation structure of the long-term investment pool and will attempt to stay within the ranges allowed for each asset class. If an asset class falls outside the permissible range for that asset class, the University representatives will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

PERFORMANCE OBJECTIVES

1. Market Benchmark

- a. The total return for the **short-term investment pool** and for each **short-term investment manager** shall exceed the rate of return on 3-month U.S. Treasury Bills.
- b. The total return for the **intermediate-term investment pool** shall exceed the Merrill Lynch 1-3 Year Government Bond Index. Each investment manager is expected to outperform their designated benchmark index.
- c. The total return for the **long-term investment pool** shall exceed the designated Policy Index

Policy Index: Calculated by taking the target asset class weights times the return of the respective passive benchmark (calculated monthly). This measures the effectiveness of fund asset allocation structure.

3. Peer Group Ranking

- a. The total return for each **intermediate-term investment manager** shall rank in the top half of the appropriate universe.
- b. The total return for each **long-term investment manager** shall rank in the top half of the appropriate universe (*Domestic Equity, International Equity, Core Fixed Income, etc.*).

EVALUATION OF INVESTMENT MANAGERS

The investment managers will be reviewed on an ongoing basis and evaluated based upon the following additional criteria:

1. Ability to exceed the performance objectives stated in this Investment Policy Statement.
2. Adherence to the philosophy and style which were articulated to the University at, or subsequent to, the time the investment manager was retained.
3. Continuity of personnel and practices at the firm.

Each investment manager shall immediately notify the University representatives and the Investment Advisor in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

INVESTMENT MANAGER REQUIREMENTS

1. In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for these investments.
2. Although there are no strict guidelines that will be utilized in selecting investment managers, the Investment Committee will consider the length of time the firm has been in existence, its track record, assets under management, investment philosophy, overall "fit" within the existing investment portfolio, and the amount of assets the University already has invested with the firm.
3. The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the University. Although the University cannot dictate policy to pooled/mutual fund investment managers, the University's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.
 - a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.

- b. Each investment manager shall have full investment discretion with regard to market timing and security selection, consistent with this Investment Policy Statement.
- c. The investment managers shall be evaluated on a quarterly basis and should be prepared to meet with the Investment Committee at least annually.
- d. Short-term investment managers must invest at least 50% of the portfolio in U.S. Government Securities and/or U.S. Government Agency issues.
- e. No more than 10% of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. Government Securities.
- f. The weighted average credit quality is to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the **short-term investment pool accounts**.
- g. Portfolio holdings will be sufficiently liquid to ensure that 10% of the portfolio can be sold on a day's notice with no material impact on market value.
- h. Commercial paper must be, at the time of purchase, rated within the highest classification established by not less than two national rating services.
- i. The average weighted maturity for each **short-term investment manager** shall be between one day and one year.
- j. Bank Certificates of Deposit and Bankers' Acceptances are to be rated within the top two rating classifications by any one national rating service. Foreign bank issues are capped at 10% of the total investment in this category.
- k. There shall be no investments in non-marketable securities.
- l. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 10% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies.
- m. The investment managers shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the University and consistent with the investment objectives contained herein.
- n. The equity and fixed income investment managers shall not effect a purchase, which would cause a position in the portfolio to exceed 5% of the issue outstanding at market value.

- o. The University must explicitly authorize the use of derivative instruments, and shall consider certain criteria including, but not limited to, the following:
 - i. Manager's proven expertise in such category,
 - ii. Value added by engaging in derivatives,
 - iii. Liquidity of instruments,
 - iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers), and
 - v. Managers internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

CONSULTANT'S RESPONSIBILITIES

The Investment Consultant is responsible for assisting the University in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

1. Provide the University with quarterly performance reports within 45 days following the end of the quarter;
2. Meet with the University at least quarterly, or more frequently as needed;
3. Provide the University with an annual review of this Investment Policy Statement, including an assessment of the University's current asset allocation and investment objectives; and
4. Supply the Investment Committee with other reports or information as reasonably requested.

Alternatives	0% - 25%	
Hedge Funds	0% - 20%	HFRI Fund of Funds Composite Index
Real Assets	0% - 15%	Manager Specific
Global Asset Allocation / Risk Parity	0% - 25%	Manager Specific

At each quarterly Investment Committee meeting, NEPC will present a look-through asset allocation. This look-through will break out the underlying exposures of the Multi-Asset Class managers based on their most recent exposure reports. Based on this analysis, if the underlying Equity exposure is greater than 60% of the total Portfolio, the Investment Committee and NEPC will have a discussion to determine if this exposure is appropriate.



Investment Policy Statement

March 202119

Revision Dates of Previous Investment Policy:

March 2019~~October 2014~~

INVESTMENT POLICY

Eastern Michigan University Board of Regents

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Appendix A

Eastern Michigan University Board of Regents *ASSET ALLOCATION POLICY*

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Investment Committee has adopted the asset allocation policy outlined below.

Because asset classes do not move in concert, investment experience will cause the asset allocations to move away from targets. The asset allocation table listed in Appendix A reflects minimum and maximum ranges that are designed to take into account risk, returns, correlation of asset classes, and transaction costs of rebalancing.

<u>ASSET CLASS</u>	<u>PERMISSIBLE RANGE %</u>	<u>TARGET BENCHMARK</u>
<u>Total Equity</u>	20%-60%	MSCI ACWI Index
Domestic All-Cap Equities	5%—40%	
International Equities	0%—30%	
Emerging International Equities	0%—8%	
Global Equity	10%—30%	
Fixed Income	20% - 8060%	Custom Benchmark^(†)
Core Fixed Income <u>High Quality</u>	0% - 8060%	<u>Manager Specific</u>
Absolute Return Fixed Income <u>Return Seeking</u>	0% - 5015%	<u>Manager Specific</u>
Emerging Market Debt	0%—8%	Manager Specific
Global Multi-Sector Fixed Income	0%—10%	
Treasury Inflation Protected Securities (TIPS)	0-15%	

Global Asset Allocation / Risk Parity	0% – 30%	60% MSCI World / 40% Citi WGBI
Alternatives	0% - 25%	
Hedge Funds	0% - 20%	HFRI Fund of Funds Composite Index
Real Assets	0% - 15%	<u>Manager Specific</u> Custom Benchmark⁽²⁾
<u>Global Asset Allocation / Risk Parity</u>	<u>0% - 25%</u>	<u>Manager Specific</u>

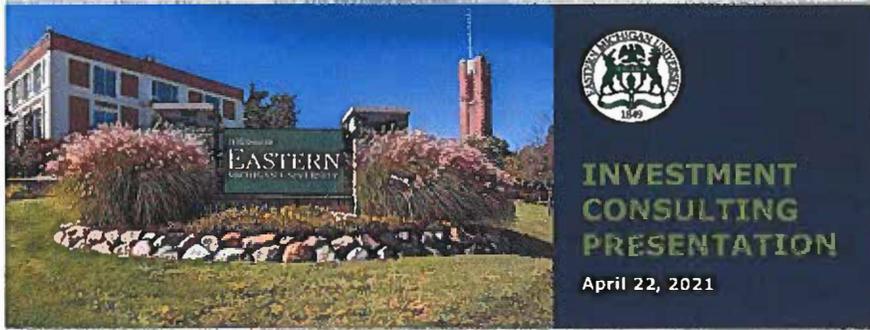
At each quarterly Investment Committee meeting, NEPC will present a look-through asset allocation. This look-through will break out the underlying exposures of the Multi-Asset Class managers based on their most recent exposure reports. Based on this analysis, if the underlying Equity exposure is greater than 60% of the total Portfolio, the Investment Committee and NEPC will have a discussion to determine if this exposure is appropriate.

~~* Non Core Bonds represents fixed income managers that are NOT benchmarked to the Barclay's Capital Aggregate Index. Depending on the non core bond manager's specific mandate, investable asset classes may include: high yield corporate, developed global, and emerging market bonds.~~

~~** Each Multi Asset Class manager will also have specific manager benchmarks~~

~~(+) Custom benchmark based on the underlying manager benchmarks and weights.~~

~~(2) Currently 40% BC Aggregate / 30% TIPS / 10% S&P 500 / 10% High Yield / 10% JPM EMBI+~~



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

ABOUT NEPC

Our success as a firm is fueled by our love for this business. We remain independent to prioritize client interests. We invest heavily in research and people.

328 Employees

8 Regional Offices

Employee-owned

47 Partners
did not apply for or accept any PPP loans in 2020

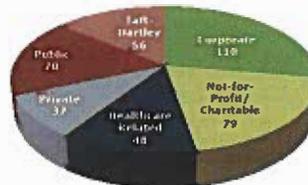
100% of Revenue
advisory consulting and discretionary investment services

7 Practice Groups
deliver expertise by client type

400 Clients

\$1.3 trillion
assets under advisement

Total Clients



YOUR NEPC TEAM



GARY WYNIEMKO, CFA

PARTNER

Detroit based consultant with significant experience working with not-for-profit operating cash portfolios



JAMES REICHERT, CFA

PARTNER

Co-Chair of Asset Allocation Committee and Partner with extensive non-profit experience



VARUN RAMAN

SENIOR ANALYST

Broad experience creating asset allocations for not-for-profit organizations



EMU BOARD OF REGENTS AND NEPC

- NEPC was hired in an advisory capacity by EMU Board of Regents in early 2014 and reaffirmed in 2019
- Services provided include:

Category	Fiduciary Practice	Frequency
Investments	Detailed review of performance & outlook	Quarterly
	Performance Reporting	Monthly
	Review asset allocation	At Least Annually
	Manager and custodian searches	As Needed
Fees and Expenses	Evaluate investment expenses / program expenses	Annually
Governance	Review Investment Policy(s)	As Needed
	Ongoing monitoring & manager due diligence	Ongoing



THE NEPC DIFFERENCE

EXPERIENCE

Senior team committed to your success – the team here today will service your account

Sharing of best practices in governance and peer group

Wide array of clients with different goals and objectives

RETURN FOCUS

Strategic Asset Mix drives long-term results, with ongoing monitoring and testing

Collaboration with Research generates best ideas

Research team a direct resource for all clients



5

IDENTIFYING THE RIGHT SOLUTION FOR YOU

- Understand optimal end goal
- Align enterprise goals with risk tolerance
- Ensure investment strategy meets goals & aligns with risk tolerance
- Implement efficiently and opportunistically
- Use tools to monitor & evaluate portfolio



5

RESEARCH TEAM: CLIENT-FOCUSED



59 dedicated research employees generate client output



As of 3/31/2021

TRADITIONAL ASSET DILIGENCE

Fully integrated research process customized for every client



CUSTOMIZED IDEAS FOR CUSTOMIZED OUTCOMES



EXECUTIVE SUMMARY

- **Eastern Michigan University Board of Regents (BoR) continues to be a *long-term investor*, investing through a variety of market environments**
- **We believe a diversified portfolio is the most appropriate asset allocation**
 - BoR's current investment profile allows for growth, inclusive of spending needs
 - A measured, institutional approach, as opposed to chasing returns, should benefit the portfolio to perpetuity



9

EXECUTIVE SUMMARY CONTINUED

- **Recent market environment has been challenging for many investors**
 - 2019: Investors predominantly in stocks have done well
 - 2020: one the biggest draw downs and rallies in history
 - S&P 500 as of Q1 2020: **-23.1%**
 - S&P 500 as of Q2, Q3, Q4 2020: +20.5%, +8.9%, +12.1%
 - Markets detached from broader economy
 - S&P 500 finished 2020 +18.4%; US unemployment ~6.7% as of 12/2020
 - 6 stocks (Facebook, Amazon, Apple, Netflix, Google, Microsoft) drove returns for the year
- **Uncertainty continues to persist – a disciplined, balanced approach remains the best course of action**



10

HISTORICAL PERFORMANCE

Calendar Year	2020	2019	2018	2017	2016	2015
BoR Long Term Investment Pool	6.80%	16.00%	-5.50%	14.00%	5.80%	-1.80%



Since January 2015, the BoR Long Term Investment Pool has returned +7.1% on an annualized basis



HISTORICAL PERFORMANCE

Calendar Year	2020	2019	2018	2017	2016	2015
BoR Long Term Investment Pool	6.80%	16.00%	-5.50%	14.00%	5.80%	-1.80%

As of Q4 2018

BoR Long Term Investment Pool -5.5%

Rank vs InvestorForce All E&F < \$50M net **19**

- **The portfolio can protect in sell-offs**
 - The fund protected through heightened volatility in Q4 2018, leading to the Long Term Investment Pool finishing in the top 20% amongst its peers
- **The Long Term Investment Pool finished 2020 +6.8%, a historic turnaround from the Q1 2020 lows**



HOW NEPC THINKS ABOUT DIVERSITY

"I think diversification works and we are working to increase the diversity of our employee base. This diversification of thought and approach helps us be a better firm and helps us come up with better solutions for our clients."
 -Michael P. Manning, Managing Partner



Our Leadership

14 of our 47 Partners are women; 4 are minorities¹

7 of our 17 Consultant and Research Team leaders are women; 3 are minorities¹

3 of our 9 Management Group members are female¹

2 of our 5 Executive Committee members are minorities¹



Our Employees

120 or 37% of our 328 employees are women; 80 or 24% are minorities¹

Our Diversity, Equity, and Inclusion Network engages partners and employees to foster an inclusive culture at NEPC

NEPC's Women's Leadership Forum promotes mentoring, career development, and gender diversity awareness training



Recommended Managers

Our Diverse Managers Committee works in tandem with Research to expand the pool of talented managers for NEPC clients

31 diverse manager investment products are on our Focused Placement Lists ("FPLs")²

NEPC clients have \$34.7 billion invested across 175 strategies managed by MWDBE firms²



¹As of 1/1/2021
²As of 10/31/2020

CLIENT FIRST IN EVERYTHING WE DO

We love this business, this company, and what we do; we hope we've demonstrated that to you

NEPC was designed from the ground up with a "client first" mindset; if it wasn't for you, we wouldn't have a business

We value having you as part of our client family!



Disclaimers and Disclosures

- The opinions presented herein represent the good faith views of NEPC as of the date of this presentation and are subject to change at any time.
- The comments provided herein should be considered a general overview and do not constitute investment advice, are not predictive of any future market performance, are not provided as a sales or advertising communication, and do not represent an offer to sell or a solicitation of an offer to buy any security.
- Information used to prepare this report was obtained directly from various external sources. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within or the completeness of such information.
- NEPC does not generally provide legal, regulatory or tax advice. Please consult your attorney or tax advisor for assistance as needed.
- This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.



INFORMATION DISCLAIMER

- Past performance is no guarantee of future results.
- The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.
- Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
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