

THE UNIVERSITY OF GUAM UNIBETSEDÁT GUAHAN

Investment Policy Statement



Adopted: February 1989

Amended: 1990, 1991, 1992, 1995, 1997, 2003, 2008, 2011 and 2014

TABLE OF CONTENTS

| <u>Section</u> | <u>Page</u> |
|--|-------------|
| Executive Summary | 2 |
| I. Statement of Purpose | 2 |
| II. Background | 3 |
| III. Statement of Objectives | 4 |
| IV. Spending Policy..... | 4 |
| V. Brokerage Policy | 5 |
| VI. Social Responsibility Policy..... | 5 |
| VII. Guidelines and Investment Policy | |
| Time Horizon..... | 6 |
| Risk Tolerances | 6 |
| Performance Expectations..... | 6 |
| Asset Allocation Constraints | 7 |
| Custodial Credit Risk | 7 |
| Ethics Guidelines | 7 |
| VIII. Securities Guidelines..... | 8 |
| IX. Selection of Investment Managers | 12 |
| X. Selection of Registered Investment Advisor..... | 13 |
| XI. Selection of Securities Custodian..... | 14 |
| XII. Control Procedures | 14 |
| Appendices | |
| A. Asset Allocation Review and Optimization Analysis | 18 |
| B. Investment Manager Performance Objectives | 19 |
| C. Acknowledgement of Investment Policy Statement | 20 |

EXECUTIVE SUMMARY

Name of Fund: University of Guam Investment Fund
Current Market Value: \$18.9 Million (as of September 30, 2013)
Planning Time Horizon: Greater than 20 years
Expected Return: Nominal rate of 8.70%
Risk Tolerance: Losses not to exceed 11.1% per year, based on a statistical confidence level of 95%
Asset Allocation:

| | <u>Lower Limit</u> | <u>Strategic Allocation</u> | <u>Upper Limit</u> |
|--------------------------|------------------------|--|------------------------|
| <u>U.S. Equities</u> | 20% | 30% | 40% |
| <u>Non-U.S. Equities</u> | 10% | 20% | 30% |
| <u>Fixed Income</u> | 15% | 25% | 35% |
| <u>Alternatives</u> | 15% | 25% | 35% |

I. STATEMENT OF PURPOSE

The purpose of this Investment Policy Statement (“IPS”) is to assist the University of Guam Board of Regents (“Regents”) and its Investment Committee (“Committee”), in effectively supervising, monitoring and evaluating the investment of the University of Guam Investment Fund (“Fund”) assets. The Fund’s investment program is defined in the various sections of the IPS by:

- Stating in a written document the Regents’ attitudes, expectations, objectives, and guidelines in the investment of all Fund assets
- Setting forth an investment structure for managing all Fund assets. This structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for each investment portfolio that controls the level of overall risk and liquidity assumed in that portfolio so that all Fund assets are managed in accordance with stated objectives
- Encouraging effective communications between the Regents, the Committee, the registered investment advisor (“RIA”), and the investment managers (“Investment Managers”)
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Managers on a regular basis
- Complying with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize.

This IPS has been arrived at upon consideration by the Regents of the financial implications of a wide range of policies, and describes the prudent investment process that the Regents deem appropriate.

II. BACKGROUND

The Fund consists of a number of sub-funds, with the largest being the UOG Land Grant Endowment Fund. The University of Guam Land Grant Endowment Fund was established by a payment from the United States Federal Government with the sum of \$3 million (i.e., the corpus). This payment was given in lieu of a donation of public land or land scrip for the endowment and maintenance of colleges for the benefit of agriculture & mechanical arts normally provided in similar situations. The Fund consists of the following sub-funds as of September 30, 2013:

| <u>Sub-Fund</u> | <u>Approximate Percent</u> | <u>Sub-Fund</u> | <u>Percent</u> |
|----------------------------|----------------------------|---------------------|----------------|
| True Endowment: | | | |
| Land Grant Endowment | 58% | Scholarship Trust: | |
| Planetarium | 3% | Siu Lin Tan | 3% |
| Current Account: | | Maman Ling/ Taitano | 2% |
| SBPA | 5% | Nursing | <1% |
| UOG Common | 7% | Deleon | <1% |
| Quasi Endowment: | | Chinn Ho | <1% |
| Faculty/ Staff Development | 12% | Gov. Bill Daniel | <1% |
| Campus Maintenance | 6% | J.Guthertz | <1% |
| Dorm Renewal/ Replacement | 3% | | |
| Self-insurance | <1% | | |

Key Information:

Name: University of Guam Investment Fund

Sponsor: University of Guam

Oversight: The President has delegated administrative responsibility for the University’s investments to the Vice President for Administration and Finance (“VPAF”). The Investment Committee of the Budget, Finance, Investments and Audit Committee (“BFIA Committee”), Board of Regents, University of Guam has oversight. The Investment Committee is chaired by the Chair of the BFIA Committee and includes: the Board of Regents Chair, the Regent members of the BFIA Committee and the University President, VPAF, and Comptroller. The University administration and the Committee are advised by a Registered Investment Advisor (“RIA”) in the performance of their duties, as established herein.

III. STATEMENT OF OBJECTIVES

The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

- To attain an 8.70% annual rate of return or a rate of return at least four percent over the rate of inflation over a market cycle, whichever is greater. It is expected that this objective will be met within the levels of economic risk that a prudent man would take under various economic conditions. This objective may be modified periodically in light of changing rates of inflation.
- It is acknowledged that the rate of return outlined above may not be achieved each and every year. It is the goal of the Fund to meet this objective over a complete market cycle.
- To control costs of administering the Fund and managing the investments.

IV. SPENDING POLICY

University of Guam has the following funds available for investment:

A. Land-Grant Endowment Fund (\$3,000,000 corpus)

Public Law 19-40 established this Fund, requiring that the value of the original \$3 million corpus remain unimpaired and preserved. This is a permanent endowment. Given this, the Regents direct that the value of the corpus be adjusted annually for inflation using the U.S. Consumer Price Index-Urban ("Inflation-Adjusted Value") as follows (the Committee is directed to make this calculation at the beginning of each fiscal year):

$$\text{Corpus} \times \frac{\text{Current CPI-U (i.e., Consumer Price Index-Urban)}}{1974 \text{ CPI-U}}$$

The Regents only authorize spending from this fund when the current value of the Fund is sufficiently greater than the Inflation-Adjusted Value. At that point the following spending policy will be in effect:

It is the policy of the Regents and Committee to spend up to 4% of the moving average of the market value of the Fund for the trailing three years, ending each September 30. To the extent that the total of this annual calculation is not withdrawn and expended, such excess shall be added to the corpus of the Fund.

As unanticipated additional funding requirements for the Fund may arise suddenly, the Fund will be invested in such a way that adequate funds can be made available within a short period of time should the need arise.

The Board must approve the expenditure budgets from this Fund. Spending cannot be for any building-related expenditure.

B. Planetarium Fund

Based upon Public Law 20-221 the University established a revolving fund for the Planetarium instrument. The University is authorized to spend from this Fund for the purposes of maintenance and parts for the Planetarium instrument. The Board must approve the expenditure budgets from this Fund.

C. Current Account

The Current Account Unrestricted advances monies to scholarship and other funds for the purposes of these funds. As the Current Account is utilized to reinvest monies drawn to pay the advances, the University is authorized to spend from this Fund, provided that the Board must approve the expenditure budgets.

D. Faculty and Staff Development Fund

Per Board of Regents Resolution 93-17, the University is authorized to spend \$30,000 per year for faculty development and \$13,000 per year for staff development. Any amount over that shall be reinvested.

E. Campus Maintenance Fund (\$952,984 corpus)

It is the policy of the Regents and Committee to spend up to 4% of the moving average of the market value of the Fund for the trailing three years, ending each September 30 for the purposes of renovation and maintenance projects and replacement of major components for all campus buildings to sustain the highest levels of student learning and academic quality. The Board must approve the expenditure budgets from this Fund. To the extent that the total of this annual calculation is not withdrawn and expended, such excess shall be added to the corpus of the Fund.

As unanticipated additional funding requirements for the Fund may arise suddenly, the Fund will be invested in such a way that adequate funds can be made available within a short period of time should the need arise.

F. Dorm Renewal and Replacement Fund

The Fund and spending authority were originally established to comply with the covenants of the Dorm Student Union Bond. As the bond is now fully paid, the bond covenants are no longer in force. From FY2009 forward, the University is authorized to spend from this Fund for the purposes of renovation and maintenance projects and replacement of major components for all dorms. The Board must approve the expenditure budgets from this Fund.

G. Self-Insurance Fund

Per Board Resolution 96-29, the University is authorized to spend from this fund for damages and loss prevention measures, as approved by the BFIA Committee.

H. Scholarship Funds (Siu Lin Tan, Maman Ling-R.Taitano, Nursing, DeLeon, Chinn Ho, J. Guthertz, Gov. Bill Daniel)

The University is authorized to spend from these funds for the specific purposes and in the manner established in each gift.

V. BROKERAGE POLICY

It is the policy of the Regents to instruct the Investment Managers to direct transaction orders to designated broker-dealers. The direction of such trading shall be “subject to the best price execution” as it relates to all transactions effected for the Fund.

The Regents have entered into an asset based fee arrangement, where it may instruct the Investment Managers to direct securities transactions to designated broker/dealers. For transactions that occur under this arrangement, executions will be done by designated broker/dealers without commission expense, finder's fees or other forms of compensation that may have been paid for asset placement. The Investment Managers, exercising their full discretion, must attempt to obtain "best available price and best execution" with respect to all transactions effected for the Fund.

VI. SOCIAL RESPONSIBILITY POLICY

The Fund demonstrates its concern for preservation of the environment and other social causes through its programs and activities. However, no specific constraint in regards to social causes is to be placed on its investment portfolio at this time. Constraints can be added in the future as deemed advisable by the Regents.

VII. GUIDELINES AND INVESTMENT POLICY

Time Horizon

Investment guidelines are based upon an investment horizon of greater than twenty years, so that interim fluctuations should be viewed with appropriate perspective. Similarly, the Fund's strategic asset allocation is based on this long-term perspective.

Risk Tolerances

The Regents recognize the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Regents also recognize that some risk must be assumed to achieve the Fund's long-term investment objectives. However, it is the intent to monitor the risk being assumed by each individual Investment Manager and by the Fund as a whole. To that end, risk will be evaluated by:

- Over a market cycle, risk associated with any Investment Managers portfolio, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Investment Manager's respective performance benchmark, without a commensurate increase in return.
- Over a market cycle, risk associated with the total Fund, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the blend of indices representing the strategic asset allocation of the Fund, without a commensurate increase in return.
- During market cycles the risk measures, as indicated herein, will be reviewed periodically by the Committee.

Performance Expectations

The investment objective is a long-term nominal rate of return on assets that is at least equal to 8.70%. This target rate of return for the Fund has been modeled by the RIA based upon the assumption that future real returns will approximate the long-run rates of return experienced for each asset class in the IPS.

The investment objective of the Fund is to strive for positive real rates of return (note: the U.S. Consumer Price Index - Urban (CPI) will be used when determining

the real rate of return). It is acknowledged that the target rate of return may not be achievable each and every year. The Fund's objective is to meet the target rate of return over a complete market cycle.

The Committee realizes that market performance varies and that an 8.70% nominal rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the Investment Managers are set forth in Appendix B.

The Committee will consider risk-adjusted performance as well. Over market cycles, Investment Managers will be expected to provide returns with a positive Alpha, as measured against their respective benchmark index; as well as have a higher Sharpe Ratio than the index. The Fund as a whole will be measured in the same manner against an index composite in the same allocation as the Funds strategic allocation.

Asset Allocation Constraints

The Committee believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Committee has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards inherent in the marketplace.

Four asset classes have been selected:

1. U.S. Equities
2. Non-U.S. Equities
3. Fixed Income
4. Alternatives

Given the Fund's time horizon, risk tolerances, performance expectations & asset class preferences; an efficient (optimal) portfolio was identified (Appendix A).

Re-balancing of Strategic Allocation

The percentage allocation to each broad-asset class may vary as much as plus or minus 10% of target. The Fund's asset allocation will be reviewed for compliance by the Committee after the end of each fiscal quarter. If, after a fiscal quarter end where any particular broad asset class is either above its maximum limit, or below its minimum limit, and the Committee has not taken any corrective action within sixty (60) days, a member of the Board of Regents Executive Committee will be consulted by the University's Vice President for Administration and Finance in the event that no response was made by the Committee Chair. After such consultation, the Vice President for Administration and Finance may direct the RIA to take action to rebalance within policy compliance (after first sending notification of pending action to the Committee), and they are held harmless for doing so.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. The allocation of the Fund will be reviewed by the Committee quarterly.

When cash flows are insufficient to bring the Fund within the strategic allocation ranges, the Committee shall determine the appropriate course of action to be

taken. The Investment Managers will then be instructed to execute such action required to bring the strategic allocation within the pre-specified ranges.

Custodial Credit Risk

Custodial credit risk will be mitigated by requiring that: 1) All securities held in custody be protected by deposit insurance, bond, or pledged collateral; and 2) Securities held in custody be in the University's name or in the name of the University's custodian for the benefit of the University.

Ethics Guidelines

The Regents, Committee and University employees are subject to the standards found in the University's Procurement Regulations, Chapter 11, Ethics in Public Contracting, in the performance of their duties under the Investment Policy Statement.

The Regents, Committee, University employees and RIA must avoid conflicts of interest and should be sensitive to even the appearance of a conflict. A conflict of interest occurs when outside activities or personal interests interfere, or appear to interfere, with the ability to objectively perform a job or act in the best interests of the University.

All financial, business and other activities must be lawful and free of conflicts or even the appearance of a conflict with the responsibilities to the University. If there are potential conflicts of interest or even if there is a possibility that a conflict may exist or appear to exist, it should be disclosed to the Committee in writing. All fiduciaries will annually acknowledge the University's ethics policies and agree to disclose any potential conflicts of interest accordingly.

VIII. SECURITIES GUIDELINES

Every Investment Manager selected to manage Fund assets must adhere to the following guidelines.

General:

- Any pertinent restrictions existing under the laws of Guam with respect to the Fund, that may exist now or in the future, will be the governing restriction.
- U.S. and non-U.S.: equities; ADRs (American Depositary Receipts); convertible bonds; preferred stocks; fixed-income securities; mutual funds; and other asset classes deemed prudent by the Regents, are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the Total Fund or 10% (at cost) of any Investment Manager's portfolio.
- No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual Investment Manager's portfolio, without prior Committee approval.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- Investments in a registered mutual fund managed by any Investment Manager is subject to the prior approval of the Committee.

- The following securities and transactions are not authorized without prior written Committee approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.
- As some of following investments may be in equities or mutual funds, the RIA will determine the appropriate asset class for reporting purposes, updating the Committee whenever a change in reporting occurs.

Core Fixed Income:

- Except for high yield fixed income funds, all other fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than broad investment grade "BBB" or it's equivalent. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Committee.
- Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

High Yield Fixed Income

- Investments are authorized in High yield fixed income funds to include US and non-US-dollar-denominated securities carrying a below investment grade quality rating. High yield bonds carry a Moody's/Standard & Poor's credit quality rating of Ba1/BB+ or lower.

Equities:

Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.

- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
- The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

Cash/Cash Equivalents:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep

Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

- In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$250,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- No single issue shall have a maturity of greater than two (2) years.
- Custodial Sweep Account portfolios must have an average maturity of less than one (1) year.

Master Limited Partnerships (MLPS):

- Limited partnerships that are publicly trade on a securities exchange are authorized for the investment portfolio. They invest in the cash flow generating assets of qualifying commercial enterprises, commonly energy infrastructure (e.g. pipelines). MLP's pass through the vast majority of its earnings to investors as dividend distributions.
- The actively managed U.S. master limited partnership portfolio will consist primarily of: U.S. master limited partnerships, publicly traded limited liability companies, midstream energy corporations, natural resource transportation and operating company securities associated with MLP's or with MLP-able assets, and cash equivalents.
- Holdings in any one issuer should not exceed more than 10%, at cost, of the market value of the portfolio.
- The manager has the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the manager will be evaluated against its peers on the performance of the total funds under their direct management.
- The manager is permitted to purchase U.S. master limited partnership units issued in PIPE (private investment in public equity) transactions. Investments in stocks obtained through PIPE transactions that are not yet registered are limited to 20% of the portfolio at market value. Investments in stocks obtained through PIPE transactions that are registered are permissible without limitation.
- To achieve the quality and liquidity levels desirable, at least 80% of the U.S. equity securities owned in the portfolio must be listed on the New York, American, and/or NASDAQ Stock Exchanges. Convertible securities will be considered an equity security for this purpose.
- Positions in letter stock, private placements (excluding 144A securities), physical real estate, physical commodities, and any other positions unable to be liquidated promptly without severe market impact are prohibited.

Real Estate Investment Trusts (REITS):

- Investments in REITS are authorized that represent ownership interests in commercial real estate properties, including office buildings, apartment buildings, hotels, and shopping centers. They may also include publicly traded

companies engaged in the ownership, development, and/or management of real estate.

Commodities:

- Investments in commodities are authorized to include precious metals, base metals, agriculture, and energy.

Non-Traditional/Alternative Investments:

- **Definition:** Non-Traditional/Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.
- **Objective:** Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.
- **Transparency and Liquidity:** It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.
- **Allowable Strategies:** Since alternative investments generally seek to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments, investments strategies may include, but are not limited to, the following:
 - Statistical Arbitrage
 - Distress Securities
 - Bayesian Modeling
 - Merger Arbitrage
 - Momentum Trading
 - Fixed Income Arbitrage
 - Debt/Equity Financing
 - Equity Long/Short
 - Leveraged Buyouts
 - Global macro
 - Venture Capital
 - Short Selling
 - Mezzanine Debt
 - Commodities and Futures
 - Equity Market Neutral
 - Structured Credit Products
 - Convertible Arbitrage
 - Special Situations
 - Real Estate (Public & Private)
 - Master Limited Partnerships

The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as hedge funds, funds of hedge funds, private equity (i.e. LBO, Venture, Mezzanine Debt, etc.) funds and funds of funds, real estate funds and funds of funds, commodity pools, and structured credit products such as equity CDOs.

- **Allowable Investments:** The above referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and

preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

- Risk Acknowledgement: The Regents and the Committee acknowledge that: (1) alternative investments can be highly illiquid and may engage in leveraging and other speculative investment practices, which may involve volatility of returns and significant risk of loss, including the potential for loss of the principal invested; (2) that there is no secondary market currently available for interests in most alternative investments and that there may be restrictions imposed by the fund on transferring such interests as stated in the fund's private placement memorandum or prospectus; (3) that investing in alternative investments is only suitable for experienced and sophisticated investors who are willing to bear the high economic risks of the investment and that this organization qualifies as such an investor; (4) that it will carefully review and consider all potential risks before investing including the following specific risks:
 - loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
 - lack of liquidity as there may be no secondary market for the investments;
 - volatility of returns;
 - restrictions on transferring interests in the investments;
 - potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
 - absence of information regarding valuations and pricing;
 - complex tax structures and delays in tax reporting;
 - less regulation and higher fees than mutual funds; and,
 - investment advisor risk.

IX. SELECTION OF INVESTMENT MANAGERS

The Committee, with the assistance of the RIA, will select appropriate investment managers to manage Fund assets. Investment Managers selected will execute written contracts with the University or the RIA, particularly where the RIA has a master contract with Investment Managers, whereby they can be retained by the University at preferential fees and at substantially reduced minimums. The University may subcontract with them through its contract with the RIA. Investment Managers must meet the following minimum criteria:

- Be a bank, insurance company, investment management company, or investment adviser as defined by the Investment Advisers Act of 1940.
- Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment.

- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
- Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- Must have been continuously engaged as an investment manager for five (5) or more years.
- Must have at least two hundred million (\$200,000,000) dollars under management.
- Assets that are to be placed in an investment management organization shall not exceed 20% of the organization's total asset under management.
- Selected firms shall have no outstanding legal judgments or past judgments, which may reflect negatively upon the firm.

The University's relationship with the Investments Managers will be subject to ongoing periodic review, benchmarked against the criteria set forth in the IPS. The term of the relationships will be at the discretion of the Committee, as they deem necessary. It is noted that having fixed or arbitrary time frames may lead to Investment Manager behavior that is not necessarily driven by the best interests of the University.

X. SELECTION OF REGISTERED INVESTMENT ADVISOR

The Committee will select an appropriate, registered investment management consulting firm as a Registered Investment Advisor ("RIA") to assist in the prudent investment and monitoring of the Fund. The RIA selected will execute a written contract with the University. The RIA must meet the following minimum criteria:

- The RIA must be a Registered Investment Advisor (RIA) registered with the Securities Exchange Commission.
- Consultants must be recognized as expert in Investment Management Consulting, with an emphasis in institutional/endowment funds and must be able to provide unbiased fiduciary and financial advice.
- Consultants must demonstrate experience in the breadth and depth of their professional staff. The specific individual providing advice to the Fund must provide evidence of specialized training in the field of Investment Management Consulting, such as the Certified Investment Management Analyst (CIMA) designation, or its equivalent.
- The specific individual providing advice to the Fund shall not have any awards or judgments against him or her either by the Securities Exchange Commission (SEC) or National Association of Securities Dealers (NASD).
- RIA must maintain its own independent investment manager database and have its own investment manager due diligence capabilities, as well as its own investment performance monitoring system to ensure quality and accuracy of data and which tasks should not have to be either subcontracted out or purchased from third party vendors.

The University's relationship with the RIA will be subject to ongoing and annual review, benchmarked against the criteria set forth in the IPS. The term of the relationship will be at the discretion of the Committee, as they deem necessary. It is noted that having fixed or arbitrary time frames may lead to RIA behavior that is not necessarily driven by the best interests of the University.

XI. SELECTION OF SECURITIES CUSTODIAN

The Committee with RIA advice will select an appropriate securities custodian ("Custodian") to safe keep Fund assets and to provide timely reporting of assets and activity. The Custodian must meet the following minimum criteria:

- Must be a U.S financial institution regulated by the Federal Reserve, a state banking authority, the Comptroller of the Currency or the appropriate equivalent, depending upon the nature of the given institution.
- Must have a minimum net worth in excess of \$100 million.
- Must have direct access to the Depository Trust Company I.D. System.
- Must have at least 10 years experience as a custodian of similar funds.
- Must have at least \$1 billion in custodial assets.
- Must offer electronic access to account information, to include statements.

XII. CONTROL PROCEDURES

Duties and Responsibilities of the Investment Managers

The duties and responsibilities of each Investment Manager retained include:

- Exercising investment discretion over the Fund assets under its care and control in accordance with the IPS objectives and guidelines set forth herein.
- Promptly informing the Committee in writing, all significant or material matters pertaining to the investment of Fund assets, including, but not limited to: investment strategy; portfolio structure; tactical approaches; ownership; organizational structure; financial condition; professional staff; and, any material, legal or regulatory agency proceedings affecting the firm.
- Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein.
- Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like funds with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state and federal entities as it pertains to fiduciary duties and responsibilities.
- Acknowledge, and agree in writing to, their fiduciary responsibility.

Duties and Responsibilities of the Registered Investment Advisor

The duties and responsibilities of the RIA retained by the Committee include, but are not limited to, the following:

- Assist in with the development of investment strategies for Fund's assets
- Analyze existing investments
- Assist with asset allocation
- Select relevant performance benchmarks for each investment management style, updating Appendix B as needed in consultation with the Committee
- Assist in the IPS development/ongoing review
- Recommend replacement of Investment Managers when warranted by qualitative or quantitative factors set forth herein
- Provide investment manager search services
- Monitor the performance of Fund assets and Investment Managers to include reporting against relevant performance benchmarks
- Report on Investment Managers' adherence to the IPS guidelines
- Provide educational forms, as requested
- Provide quarterly on-site reviews
- Assist with special projects.

Duties and Responsibilities of the Securities Custodian

The duties and responsibilities of the Custodian include, but are not limited to, the following:

- Keep safe assets entrusted to the care of the Custodian;
- Collect, and credit, on a timely basis, all income due to the Fund;
- Provide on a timely basis, monthly accounting statements for all Fund accounts;
- Provide web access to all account information, including activity and statements.

Performance Objectives

Investment performance will be reviewed at least quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Monitoring of the Registered Investment Advisor

On a timely basis, but not less than once a year at the end of each fiscal year, the Committee will meet concerning:

- RIA's adherence to the IPS guidelines and applicable laws
- Consultants continuing qualifications per IPS requirements
- Material changes in the RIA's organization and/or personnel
- Timeliness, completeness and accuracy of reporting

- Review of RIA relative to advice given in regards to investment strategy development, asset allocation & Investment Manager selection/replacement.
- Quality of educational programs, quarterly reviews and special projects
- Fees paid.

Monitoring of Investment Managers

On a timely basis, but not less than four times a year, the Committee will meet concerning:

- Investment Manager's adherence to the IPS guidelines and applicable laws
- Material changes in the Investment Managers' organization, investment philosophy and/or personnel
- Review of Investment Manager performance relative to the established performance benchmarks
- Fees paid.

The appropriate performance benchmarks are detailed under each Investment Manager's specific objectives and guidelines as presented in Appendix B.

Performance Measurement Periods

The measurement period for complete evaluation will be cumulative annual periods and complete market cycles. Market cycles will be loosely defined as periods of at least two consecutive quarters of rising stock prices/interest rates or two consecutive quarters of declining stock prices/interest rates.

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on *peer*-performance comparisons with investment managers employing similar styles.

The Committee will utilize the services of the RIA to assist in their evaluation and complete performance measurement duties.

The performance of the Fund's Investment Managers will be monitored on an ongoing basis and it is at the Committee's discretion to take corrective action by replacing an Investment Manager if they deem it appropriate at any time.

Safe Harbor

As the University's investment decisions are committee-directed, five generally recognized "safe harbor" requirements will be followed:

- Investment decisions must be delegated to a "prudent expert(s)" (registered investment adviser [including mutual funds], bank or insurance company).
- The Committee must demonstrate that the prudent expert(s) was selected by following a due diligence process.
- The prudent expert(s) must be given discretion over the assets.

- The prudent expert(s) must acknowledge their co-fiduciary status in writing (mutual funds are exempted from this requirement – the prospectus is deemed to serve as the fund’s fiduciary acknowledgement).
- The Investment Committee must monitor the activities of the prudent expert(s) to ensure that the expert(s) is properly performing the agreed upon tasks using the agreed upon criteria.

Monitoring of Fiduciary Responsibilities and Prudent Practices

On a timely basis, but not less than once a year, the Committee will meet to address:

- Appropriate policies and procedures are in place to address all fiduciary obligations;
- Policies and procedures are effectively implemented and maintained
- The IPS is up-to-date.

The Committee will utilize the services of an AIF certified consultant to assist in their evaluation. The consultant shall not be an employee of a financial services provider to the University.

University of Guam Investment Policy Statement - Appendix A

Asset Allocation Review and Optimization Analysis

Based on formal asset allocation studies conducted in 1994, 1997, 2003, 2008, 2011 and 2014, the Regents and Committee, with the assistance from the Fund's RIA, identified an optimal broad asset class mix based on the Fund's time horizon, risk tolerances, performance expectations, and asset class preferences.

The Committee further augmented the diversification of the Fund by implementing the strategic asset allocation with complementary styles of asset management. The Committee has reviewed the characteristics of various styles of investment management, focusing on balancing the risks and rewards of style behavior. The Committee specifically noted how investment styles go in and out of favor and the Committee understands the prudence of diversifying among several styles of investment management.

The following strategic asset allocation for the Fund was selected:

| | <u>Lower Limit</u> | <u>Strategic Allocation</u> | <u>Upper Limit</u> |
|--------------------------|------------------------|--|------------------------|
| <u>U.S. Equities</u> | 20% | 30% | 40% |
| <u>Non-U.S. Equities</u> | 10% | 20% | 30% |
| <u>Fixed Income</u> | 15% | 25% | 35% |
| <u>Alternatives</u> | 15% | 25% | 35% |

**University of Guam Investment Policy Statement - Appendix B
Investment Manager Performance Objectives**

(Note; RIA updates Performance Benchmarks, when needed in consultation with Committee)

| | |
|------------------------|---|
| Management Style: | Large Cap Core |
| Performance Benchmark: | S&P 500 |
| Management Style: | Large Cap Value |
| Performance Benchmark: | Russell 1000 Value |
| Management Style: | Large Cap Growth |
| Performance Benchmark: | Russell 1000 Growth |
| Management Style: | Mid Cap Core |
| Performance Benchmark: | Russell 3000 |
| Management Style: | Small Cap Core |
| Performance Benchmark: | Russell 2000 |
| Management Style: | ADR Portfolio (Developed International Equity) |
| Performance Benchmark: | MSCI EAFE (Europe Australasia Far East) -Gross Index |
| Management Style: | ADR Portfolio (International Developed and Emerging Equity) |
| Performance Benchmark: | MSCI AC (All Country) World Ex-U.S. |
| Management Style: | U.S. Core Fixed Income |
| Performance Benchmark: | BC U.S. Aggregate Bond Index |
| Management Style: | U.S. High Yield Fixed Income |
| Performance Benchmark: | BC Intermediate High Yield Bond Index |
| Management Style: | Global Fixed Income |
| Performance Benchmark: | Citigroup Non-US. Government Bond Index (Unhedged) |
| Management Style: | Diversified Commodities |
| Performance Benchmark: | Dow UBS Commodity Index |
| Management Style: | Master Limited Partnerships |
| Performance Benchmark: | Alerian MLP Index |
| Management Style: | Real Estate Investment Trusts |
| Performance Benchmark: | FTSE Nareit All Equity REITS Index |
| Management Style: | Hedged Strategies |
| Performance Benchmark: | HFRI Fund Weighted Composite Index |

**University of Guam Investment Policy Statement - Appendix C
Acknowledgment of the Investment Policy Statement**

Receipt of, and agreement with, the University of Guam Investment Policy Statement is hereby attested:

Signature: _____

Name (Print): _____

Position: _____

Firm: _____

Date: _____