

THE OPERATING FUNDS INVESTMENT POOL

OF

FLORIDA INTERNATIONAL UNIVERSITY

INVESTMENT POLICY STATEMENT

GOALS, POLICIES AND PROCEDURES

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Purpose and scope

This document will provide the framework for the investment management of Florida International University's operating funds investment pool (the "Fund"). Specifically, it will address:

- the general goals of the investment program
- the policies and procedures for the management of the Funds' assets
- investment guidelines (asset allocation)
- performance objectives

The philosophy incorporated herein is to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, yet set forth reasonable parameters to ensure prudence and care in the execution of the investment program.

I. General Investment Goals and Objectives

The general investment goals are broad in nature to encompass the purpose of the Fund and its investments. They articulate the philosophy by which Florida International University Board of Trustees will manage the Fund's assets.

1. The overall goal of the Fund is to provide funds through a carefully planned and executed investment program necessary for regular expenses, capital expenditures and overall liquidity needs. There are both short term liquidity needs and longer term needs that allow for some incremental longer term growth of these assets. Specifically, the Fund's shall be managed with the following objectives:
 - a) Maintain the safety of the principal;
 - b) Maintain the necessary liquidity to ensure funds are available to support operational needs;
 - c) Obtain a reasonable return for a prudent level of risk
2. Florida International University seeks to produce a return on investment which is based on levels of operating liquidity needs and investment risk that are prudent and reasonable, given prevailing capital market conditions. While Florida International University recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns.

Policies and Procedures

Webster's Dictionary defines "policy" as a "plan or principle" and "procedure" as the "method" by which a task is accomplished. Together, the policies and procedures of the investment program guide its implementation and outline the specific responsibilities of the Board of Trustees (the "BOT"), the Investment Committee, and the internal staff for the Fund.

Therefore, it is the policy of Florida International University, that:

The investment of the assets of the Fund shall be based on a financial plan that will consider:

- the financial condition of Florida International University
- the expected long term capital market outlook
- Florida International University's risk tolerance
- future planned capital expenditures and cash requirements
- debt service requirements
- current and projected expenses
- inflation

The financial plan measures the potential impact of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected cash flows of the Fund.

I. Governance

Board of Trustees (Audit and Finance Committee)

The Florida International University Board of Trustees is responsible for the oversight and approval of the overall investment policy of the operating portfolio. This oversight responsibility will include the final approval and any modifications to the Investment Policy of the University as written in the Investment Policy Statement (the "IPS"). This policy addresses specifics relating to:

- investment goals and objectives
- policies and procedures
- asset allocation policy targets specifying minimum and maximum ranges
- rebalancing policy
- selection of investment managers
- authorized investments

Investment Committee

The Investment Committee recognizes that matters concerning the investment of the operating fund assets owned by the University merit serious attention and frequent consideration.

1. The Investment committee, at a minimum, will consist of: an individual designated by the Board of Trustees; the Chief Financial Officer of the University; the Treasurer of the University; and a representative from University

academics. In addition, up to two business community and other representatives with specific expertise in investment and portfolio management may be added to strengthen the Committee's capabilities. The need for adding members will be determined by the Chair of the Board of Trustees in consultation with the Chair of the Finance and Audit Committee.

The Investment Committee, with the guidance and recommendations of the consultant, is responsible for:

- directing all of its efforts toward the investment objectives stated in the IPS
- performing at least annually a review of the investment objectives stated in the IPS
- ensuring that the objectives stated in the IPS are practical and reflect the mission of the University
- hiring an investment consultant, subject to the approval of the Board of Trustees
- implementing and monitoring the asset allocation policy
- conducting an annual formal review of the investment structure
- developing an updated financial projection a minimum of every three years
- selecting and monitoring of qualified, competent Investment Managers
- terminating investment managers failing to maintain acceptable quantitative (e.g. risk/return profile) and/or qualitative (e.g. organizational changes) standards
- developing and reviewing the objectives and guidelines given to each specific investment manager
- meeting at least quarterly to review the results of the investment portfolios
- determining whether the investment objectives set forth herein are being met and whether the investment guidelines are being followed
- providing regular performance reports to the Board of Trustees

Staff

The staff is an integral part of the day to day requirements of the operating portfolio. The staff has the responsibility of administering and coordinating the implementation decisions made by the Investment Committee and the Board of Trustees. The staff is responsible for:

- administering the investments of the Fund at the lowest possible cost, being careful to avoid sacrificing quality
- administering the rebalancing policy
- day-to-day interaction with the consultants and investment managers

Investment Guidelines

Investment guidelines establish parameters for the Total Fund and for each investment manager to follow while implementing their respective investment strategies. Guidelines address asset allocation, restricted transactions, diversification, quality and turnover.

I. Asset Class/Category Characteristics

Cash Equivalents

The purpose of the cash equivalents portfolio is to provide liquidity to fund operational expenses, debt service and other short term cash needs.

Fixed Income

This asset class is intended to be representative of the overall U.S. investment grade bond market. The purpose of the fixed income portfolio is to provide a high level of current income to provide liquidity for intermediate cash flow needs and to provide diversification benefits during periods of a stock market decline.

TIPS

Treasury Inflation Protected Securities are fixed income investments in which the principal is adjusted periodically based on changes in CPI. The purpose of the TIPS portfolio is to provide fixed income like returns with the additional diversification benefits of inflation protection.

Absolute Return

This asset class is intended to be representative of a broadly diversified hedge fund strategy intended to provide an “absolute return” in any market environment with low – intermediate level of risk. This strategy is intended to provide modest return enhancement to that of fixed income with diversification benefits derived from its low correlation to other asset classes.

High Yield

This asset class is intended to be representative of the non-investment grade U.S. bond market (bonds rated BB or lower). The purpose of this fixed income portfolio is to provide a higher level of current income to compensate for the additional level of credit risk employed. The purpose of this portfolio is to provide some return enhancement and diversification benefit in order for the Fund to realize long-term growth above inflation.

REITS

This asset class is intended to be representative of the Real Estate Investment Trust market. The purpose of the REIT portfolio is to provide a higher level of current income and capital appreciation than fixed income with diversification benefits from its low correlation to both stocks and bonds.

U.S. Equity

This asset class is intended to be representative of the overall U.S. stock market. The purpose of the equity portfolio is to provide a high level of capital appreciation in order for the Fund to realize long-term growth above inflation.

International Equities

The purpose of the international equity portfolio is to provide exposure to equity in international developed equity markets. Exposure to international equities enhances returns of the combined equity portfolio while reducing return volatility.

II. Investment Pools

Total Combined Pool - This pool is the overall combined portfolio of the Operating Funds Investment Pool. In its entirety it is intended to satisfy the overall objectives and constraints set forth in the Investment Policy Statement herein.

The Total Combined Pool is divided into three distinct pools; each pool has a different investment time horizon, investment objective, and minimum and maximum asset class allocations.

Working Capital Pool – This pool is short-term in nature, and is intended to provide for the immediate normal operating requirements of Florida International University. This pool may include certain restricted funds and therefore, will comply with any state and /or federal regulations. It is expected that this fund in its entirety will be invested in The Florida State Treasury Investment Pool or a similar investment vehicle.

Reserve Pool – This pool encompasses a state mandated unencumbered reserve. This pool is intended to be invested over the medium-longer term, and will provide a stable and growing uncommitted resource.

Strategic Capital Pool – The cash needs of this portfolio are intermediate and long term in nature. Therefore, this pool is intended to be invested over the medium-term, and will provide returns commensurate with an intermediate term investment time horizon.

* Revenue Bonds will be outside of the purview of these investment pools and will be invested in compliance with all relevant federal and state laws.

III. Authorized Investments

Investment guidelines establish parameters for each investment manager to follow while implementing their respective investment strategies. The following information addresses authorized investments and restrictions at the overall asset class policy level. Each underlying manager will have a specific set of guidelines that may be more restrictive than those at the overall policy level.

US Equity Portfolios

Investment Guidelines - US Equity	
Authorized Investments:	Status
Equity securities denominated in US dollars and traded on recognized US exchanges including NASDAQ	Authorized
Common and preferred Stock	Authorized
Securities convertible into common and preferred stock	Authorized
Rights and warrants	Authorized
Depository receipts	Authorized
Cash vehicle available through the trustee	Authorized
Restrictions:	Guideline
Maximum investment in an individual company	5% of account market value
Maximum ownership of an individual company's outstanding shares	10%
Maximum cash or cash equivalent position	10% of account market value
Maximum position in preferred stocks	5% of account market value
Maximum position in convertible securities	5% of account market value
Maximum position in rights and warrants	10% of account market value
Maximum position in depository receipts	10% of account market value
Margined stocks	Prohibited
Shorts sales	Prohibited
Real or personal property	Prohibited
Commodities or commodity contracts	Prohibited
Swaps, options, or other derivatives	Prohibited
Limited partnerships	Prohibited
Venture capital	Prohibited
Letter stock and other securities restricted as to public resale	Prohibited
Borrowing and/or lending funds or securities	Prohibited
Maximum position in dollar-denominated equity securities issued by non-US domiciled companies but traded on a recognized US exchange	10% of account market value
Investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark at time of purchase	Prohibited
Maximum position in investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark	5% of account market value

Fixed Income – Investment Grade

Investment Guidelines - Investment Grade Fixed Income	
Authorized Investments:	Status
Fixed Income securities issued in the U.S. investment grade bond market	Authorized
Rule 144A securities with registration rights	Authorized
Non dollar securities and securities of issuers outside the U.S.	Authorized
U.S. Treasury, Agency, Eurodollar, and Swap financial futures	Authorized
Interest rate swaps	Authorized
Options on securities otherwise allowable under the guidelines	Authorized
Agency mortgage dollar rolls	Authorized
Cash vehicle through trustee	Authorized
Restrictions:	Guideline
Maximum invested in securities not paying in US dollars	10% of account market value
Maximum invested in issuers domiciled outside the US	10% of account market value
Maximum invested in non US dollar-denominated assets	10% of account market value
Cross-currency hedging	Prohibited
Rated by both S&P and Moody's (except US government and agency securities)	Required
Rated BBB-/Baa3 or higher at time of purchase	Required
Convertible securities and preferred stocks	Prohibited
Maximum position in securities not rated or rated BB+ /Ba1 or lower	5% of account market value
Collateralized securities must have a credit quality rated AAA by S&P and rated Aaa by Moody's	Required
Interest-only (IO) securities	Prohibited
Collateralized Bond Obligations, Collateralized Debt Obligations, and Collateralized Loan Obligations	Prohibited
Credit derivatives	Prohibited
Maximum per any one issuer	5% of account market value
Maximum duration exposure derived from futures, options or swaps	20%
Borrowing and/or lending of funds or securities	Prohibited
Leverage	Prohibited

Fixed Income – High Yield

Investment Guidelines - High Yield Fixed Income	
Authorized Investments:	Status
Registered high yield and Rule 144A, with registration rights, fixed income securities and debt obligations issued by public, corporate, and sovereign entities	Authorized
Securities issued or guaranteed by the US government, its agencies and instrumentalities	Authorized
Forward contracts on "eligible" securities	Authorized
Common stock, preferred stock and options or warrants to purchase common or preferred stock only where included in a unit with, or attached to, fixed income securities or upon conversion of a convertible security or exercise of a warrant or option or received in a reorganization	Authorized
Convertible securities and preferred stocks, if most of their value is attributable to their yield and other fixed income features	Authorized
Cash vehicle through trustee	Authorized
Restrictions:	Guideline
Maximum position in an individual security (excluding Government securities)	5% of account market value
Maximum position in any one issuer (excluding Government securities)	5% of account market value
Maximum position in Rule 144A, with registration rights, securities	5% of account market value
Maximum position in emerging market debt (corporate or sovereign debt of countries with credit rating BB+/Ba1 or lower)	5% of account market value
Purchase of securities on margin	Prohibited
Short sales	Prohibited
Securities lending	Prohibited
Employ leverage	Prohibited
Structured securities (e.g. ABS, CMBS, CDO) except for equipment trust certificates	Prohibited
Maximum position in equipment trust certificates	5% of account market value
Investment in direct real estate or real estate mortgage loans	Prohibited
Debt issued by corporate entities involved in real estate otherwise allowed under these guidelines	Permitted
Investment in commodities or commodity contracts	Prohibited
All securities at the time of purchase must be rated single-B or higher by both S&P and Moody's (securities issued w/o rating are exempt if one can be reasonably expected within one month of issuance)	Required
Maximum invested in securities not rated single-B or higher by both S&P and Moody's and any equity securities received into the account	5% of account market value

International Equity

Investment Guidelines - International Equity	
Authorized Investments :	Status
Countries represented in the MSCI EAFE benchmark	Authorized
Equity securities of companies domiciled in countries represented in the MSCI EAFE benchmark	Authorized
Common and Preferred Stock	Authorized
Securities convertible into common and preferred stock	Authorized
Rights and warrants	Authorized
Depository receipts	Authorized
Rule 144A securities	Authorized
Foreign currency and currency forwards of countries allowable under the guidelines	Authorized
International index futures contracts used solely for hedging purposes	Authorized
Cash vehicle available through the trustee	Authorized
Restrictions:	Guideline
Maximum investment in an individual company	5% of account market value
Maximum ownership of an individual company's outstanding shares	10%
Maximum cash or cash equivalent position	10% of account market value
Maximum position in preferred stocks	5% of account market value
Maximum position in convertible securities	5% of account market value
Maximum position in rights and warrants	10% of account market value
Maximum position in private placement securities eligible for resale pursuant to Rule 144A	10% of account market value
Private placements outside of Rule 144A	Prohibited
Maximum position in depository receipts	10% of account market value
Margined stocks	Prohibited
Shorts sales	Prohibited
Real or personal property	Prohibited
Commodities or commodity contracts	Prohibited
Swaps, options, or other derivatives	Prohibited
Limited partnerships	Prohibited
Venture capital	Prohibited
Letter stock and other securities restricted as to public resale	Prohibited
Foreign currency and currency forward contracts for hedging purposes	Permitted
Use of derivatives to expose more than 100% of the net assets of the account to equity securities	Prohibited
Net aggregate holdings of foreign currency exposure in excess of net assets of the account	Prohibited
Borrowing and/or lending of funds or securities	Prohibited

Authorized Investments – Hedge Funds

As this asset class is intended to be representative of a broadly diversified hedge fund strategy intended to provide an “absolute return” in any market environment with low – intermediate level of risk. This strategy is expected to be implemented through a fund-of-funds investment vehicle. The organization managing the fund-of-fund vehicle must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

Commingled Investment Vehicles and/or Mutual Funds

Investment may be made in commingled vehicles and or mutual funds in which a specified set of guidelines developed for a broad number of institutions are already predetermined. It will be expected that these portfolios be managed in a manner consistent with but not specific to the specified restrictions made in this section. These guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

IV. Asset Allocation Guidelines

The long-term allocation guidelines adopted by the BOT shall be expressed in terms of a target and ranges for each asset class to provide sufficient flexibility to take advantage of shorter-term market opportunities as they may occur. The asset allocation shall be sufficiently diversified to maintain risk at a reasonable level without imprudently sacrificing return.

The target allocation to each asset class will differ between the various pools as denoted in a previous section of the IPS. The asset allocation of each of the individual investment pools and the total combined pool are summarized in **Appendix I – Asset Allocation Targets and Rebalancing Policy**.

V. Manager Selection

The Investment Committee, with the guidance and recommendations of the consultant, is responsible for the selection and continued monitoring of qualified, competent investment managers. The manner of procurement will be in compliance with University policy and Florida law.

VI. Performance Measurement & Evaluation

Investment objectives provide quantifiable standards to measure and evaluate the progress of both the investment pools and each individual investment manager. For the purpose of monitoring and evaluating the ongoing investment activity and results, both relative and comparative performance standards and objectives are defined.

1. **Relative standards** are used to review the return and risk at both the Pool and individual manager level. The relative standards for the pool level will represent a

target policy index that will be constructed from the relative market indices weighted by the Total Fund's target allocation to each asset class. Each individual investment manager will be evaluated relative to an appropriate benchmark. An appropriate benchmark is defined as an identifiable market index or a "normal" portfolio that is constructed to replicate the manager's investment style. Benchmarks for each investment manager are identified in the Individual Manager section of this document.

2. **Comparative standards** are used to evaluate the returns of both the pool and each of its asset class components.
3. **Objectives** are established to measure the long-term (3 to 5 years) results of the Total Pool and each investment manager. The Committee must recognize the limitations of reviewing results over short-term horizons; however, current performance can serve as an early indication of the Fund's progress toward meeting the more fundamental primary objectives.

The Fund' performance objectives can be divided into two components: objectives for the overall fund and objectives for the individual portfolio components. Both levels of objectives will be incorporated into quarterly reviews of the Fund's performance.

The performance objectives for each individual investment pool and the Total Combined Pool are detailed in **Appendix II – Performance Objectives**.

Appendix 1 – Asset Allocation Targets & Rebalancing Policy

Asset Allocation Guidelines

The asset allocation guidelines differ between the various funds, and are summarized as follows:

	Working Capital Pool	Strategic Capital Pool	Reserve Pool	Total Combined Pool
<u>% of Total</u>	30%	60%	10%	100%
Cash Equivalents	40.00	0.00	0.00	12.00
Short -Int. Fixed Income	60.00	0.00	0.00	18.00
Fixed Income (Inv. Grade)	0.00	30.00	30.00	21.00
TIPS	0.00	20.00	20.00	14.00
High Yield	0.00	5.00	5.00	3.50
<u>Total Fixed Income</u>	100.00	55.00	55.00	68.50
<u>Absolute Return</u>	0.00	20.00	20.00	14.00
<u>REITS</u>	0.00	5.00	5.00	3.50
U.S Equity	0.00	12.50	12.50	8.75
International Equity	0.00	7.50	7.50	5.25
<u>Total Equity</u>	0.00	20.00	20.00	14.00

Asset Allocation Ranges and Rebalancing Policy

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as domestic equity, fixed income and cash equivalents. The asset allocation decision reflects the Fund’s return requirements as well as the Fund’s tolerance for return variability (risk) within the context of the expected liabilities of the fund. Asset allocation policy is widely recognized and accepted as the primary source of return and risk for the investment program. It is used for setting the parameters for long term risk and return in order to meet the Plan's long-term financial objectives. The Board of Trustees has adopted an asset allocation policy that identifies the strategic target weights to each of the major asset classes. The tables below highlights the general asset classes approved for investment, the strategic target weights and the allowable ranges around the target weights:

Working Capital Pool - The Florida State Treasury Investment Pool and the State Board of Administration Local Government Investment Pool (“SBA”) are appropriate investment options for this pool and would not be subject to the following rebalancing ranges.

	<u>Target (%)</u>	<u>Minimum (%)</u>	<u>Maximum (%)</u>
Cash Equivalents	40	30	50
Short Term Fixed Income	60	50	70

Reserve Pool

	<u>Target (%)</u>	<u>Minimum (%)</u>	<u>Maximum (%)</u>
Cash Equivalents	0	0	5
Fixed Income	30	25	35
TIPS	20	15	25
Absolute Return	20	15	25
High Yield	5	2	8
REITS	5	2	8
International Equity	7.5	4.5	10.5
Domestic Equity	12.5	9.5	15.5

Strategic Capital Pool

	<u>Target (%)</u>	<u>Minimum (%)</u>	<u>Maximum (%)</u>
Cash Equivalents	0	0	5
Fixed Income	30	25	35
TIPS	20	15	25
Absolute Return	20	15	25
High Yield	5	2	8
REITS	5	2	8
International Equity	7.5	4.5	10.5
Domestic Equity	12.5	9.5	15.5

Total Combined Pool

	<u>Target (%)</u>	<u>Minimum (%)</u>	<u>Maximum (%)</u>
Working Capital Pool	30	25	93
Strategic Capital Pool	60	0	70
Reserve Pool	10	7	20

A **Rebalancing Policy** is designed to provide a disciplined approach to control the risk exposure of the Fund to the investment categories that have deviated from the established target policy weights. Rebalancing parameters are addressed at the asset class level. The rebalancing policy requires a reallocation to be made whenever the quarter-end allocations exceed the minimum or maximum allocations specified above. Naturally occurring cash flows shall be used to the fullest extent possible to minimize transaction costs and rebalance toward policy targets.

Appendix II – Performance Objectives

The performance objectives for the overall fund are threefold:

1. objective relative to asset allocation targets
2. objective relative to capital market assumptions
3. objective relative to inflation

The first objective results in a comparative index that reflects Florida International University’s unique asset allocation policy (see example in Table 1). Exceeding this objective indicates that the active management of the various portfolio components has added value over a passively-managed fund with a similar asset mix. The second objective, to compare asset class performance to the capital market assumptions, ensures that the asset mix continues to achieve the long-term goals of the Fund. The inflation objective requires that the investment performance provide an adequate real return over the expected rate of inflation, the primary driver of costs.

Individual portfolio components also have performance objectives reflecting the unique investment style of each category. The investment style and performance benchmarks are also shown in Table 1.

**TABLE 1 -
Five-Year Performance Objectives**

Methodology

1. Relative to asset allocation targets, indexes that represent appropriate asset classes

Target Portfolio Weight	x	Representative cash equivalent portfolio
Target Portfolio Weight	x	Investment grade fixed income index
Target Portfolio Weight	x	TIPS index
Target Portfolio Weight	x	Absolute return benchmark
Target Portfolio Weight	x	High yield fixed income index
Target Portfolio Weight	x	REIT Index
Target Portfolio Weight	x	Broad U.S equity index
<u>Target Portfolio Weight</u>	<u>x</u>	<u>International equity index</u>
100%		Total Fund Benchmark

Total Combined Pool -objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

30%	x	Florida State Treasury Investment Pool (91 Day Treasury Bill)
21%	x	Lehman Aggregate Bond Index
14%	x	Lehman TIPS Index
14%	x	CPI + 3.25% (<i>Absolute Return benchmark</i>)
3.5%	x	ML High Yield Master II Index
3.5%	x	Wilshire REIT Index
8.75%	x	Dow Jones Wilshire 5000 Index (US Equity broad market)
<u>5.25%</u>	x	<u>MSCI EAFE (int'l developed markets)</u>
100%		Total Combined Pool Benchmark

Working Capital Pool -objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

<u>100%</u>	x	Florida State Treasury Investment Pool and/or Cash Equivalents
100%		Working Capital Pool Benchmark

Strategic Capital Pool -objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

30%	x	Lehman Aggregate Bond Index
20%	x	Lehman TIPS Index
20%	x	CPI + 3.25% (<i>Absolute Return benchmark</i>)
5%	x	ML High Yield Master II Index
5%	x	Wilshire REIT Index
12.5%	x	Dow Jones Wilshire 5000 Index (US Equity broad market)
<u>7.5%</u>	x	<u>MSCI EAFE (int'l developed markets)</u>
100%		Strategic Capital Pool Benchmark

Reserve Pool -objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

30%	x	Lehman Aggregate Bond Index
20%	x	Lehman TIPS Index
20%	x	CPI + 3.25% (<i>Absolute Return benchmark</i>)
5%	x	ML High Yield Master II Index
5%	x	Wilshire REIT Index
12.5%	x	Dow Jones Wilshire 5000 Index (US Equity broad market)
<u>7.5%</u>	x	<u>MSCI EAFE (int'l developed markets)</u>
100%		Reserve Pool Benchmark

2. Relative to capital market assumptions:

(Wilshire's published assumptions, 2007)

	<u>Expected Return (%)</u> <u>(inflation at 2.25%)</u>
Cash Equivalents	3.00
Fixed Income	5.25
TIPS	5.00
Absolute Return	7.75
High Yield	6.75
REITs	5.75
U.S Equity	8.25
International Equity	8.25

3. Relative to inflation:

Total Combined Pool - 3.5% in excess of Consumer Price Index