



*University Community (faculty, staff and students)*

SUBJECT (R*)	EFFECTIVE DATE (R*)	POLICY NUMBER (O*)
INVESTMENT POLICY	June 29, 2005	1160.010

**POLICY STATEMENT (R\*)**

It is the policy of Florida International University (the “University”) that:

The investment of the University’s operating funds investment pool (the “Portfolio”) shall be based on an analysis that will, at a minimum, consider:

- The financial condition of the University
- The expected long term capital market outlook
- The 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 Portfolio.

**I. GENERAL INVESTMENT GOALS AND OBJECTIVES**

The general investment goals established herein are designed to broadly take into account the purpose of the Portfolio and articulate the philosophy and parameters by which the University will manage the Portfolio’s assets.

The overall goal of the Portfolio 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 Portfolio shall be managed with the following objectives:

- i. Maintain the safety of the principal;
- ii. Maintain the necessary liquidity to ensure funds are available to support operational needs;
- iii. Obtain a reasonable return for a prudent level of risk.

The 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 the 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.

## **II. GOVERNANCE**

### **A. BOT Finance and Audit Committee**

The Florida International University Board of Trustees (“BOT”) is responsible for the oversight and approval of this Policy (and any amendments thereto) and oversight of the University's implementation of the Policy.

This Policy addresses specifics relating to:

- Investment goals and objectives
- Asset allocation policy targets specifying minimum and maximum ranges
- Rebalancing policy
- Selection of investment managers
- Authorized investments

### **B. Investment Committee**

The BOT’s Investment Committee recognizes that matters concerning the investment of the operating fund assets owned by the University merit serious attention and frequent consideration. The Investment Committee, at a minimum, will consist of:

- An individual designated by the BOT,
- The Chief Financial Officer of the University,
- The Treasurer of the University and
- A representative from University academics.

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

The Investment Committee, with the guidance and recommendations of the investment consultant hired by the University, is responsible for:

- Directing all of its efforts toward the investment objectives stated herein
- Performing at least annually a review of the investment objectives stated herein
- Ensuring that the objectives stated in this Policy are practical and reflect the mission of the University
- Hiring an investment consultant, consistent with University procurement requirements
- 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 the BOT with regular performance reports on the investment portfolios
- Completing annually eight (8) hours of continuing education in subjects or courses of study related to investment practices and procedures, or the Chief Financial officer shall complete this requirement.

### **C. 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 of decisions made by the Investment Committee and the BOT. The staff is responsible for:

- Administering the investments of the Portfolio 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

### **III. INVESTMENT GUIDELINES**

The investment guidelines set forth herein establish parameters for the Portfolio and for the University's investment managers to follow in implementing their respective investment strategies. These guidelines address asset allocation, restricted transactions, diversification, quality and turnover.

#### **A. Investment Pools\***

##### 1. TOTAL COMBINED POOL

This pool is the overall combined investments of the Portfolio. In its entirety, it is intended to satisfy the overall objectives and constraints set forth in this Policy. 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.

##### 2. WORKING CAPITAL POOL

This pool is intended to provide for the immediate normal operating requirements of the University (funds awaiting clearance), and other short-term investments of the University. This pool includes funds that must be invested in a restricted manner in accordance with federal and/or state law.

##### 3. STRATEGIC CAPITAL POOL

This pool is intended to be invested over the medium-term, as the cash needs of this pool are intermediate and long-term in nature.

##### 4. RESERVE POOL

This pool encompasses a state-mandated unencumbered reserve. This pool is intended to be invested over the medium-longer term.

\*University and affiliated-organization bond proceeds are outside the purview of this Policy and will be invested in compliance with all relevant federal and state laws.

#### **B. Asset Class/Category Characteristics**

##### 1. 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.

##### 2. FIXED INCOME

Investment Grade

This asset class is intended to be representative of the overall U.S. investment grade bond market. The purpose of the fixed income asset class 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.

#### Credit Fixed Income

This asset class is intended to be representative of the overall U.S. corporate credit bond market. The purpose of this asset class is to provide a high level of current income, total return enhancement, and diversification benefits. An active investment manager with strong credit research capabilities will be used to implement this exposure.

#### 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 asset class is to provide a higher level of current income to compensate for the additional level of credit risk employed. The purpose of this asset class is to provide some return enhancement and diversification benefit in order for the Portfolio to realize long-term growth above inflation.

### 3. EQUITIES

#### U.S. Equity

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

#### International Equity

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

#### Private Equity

The purpose of the private equity asset class is to provide a global exposure to private equity markets that is diversified by geography, investment type (venture capital, growth equity, buyout, mezzanine, distressed and special situations) and vintage year. Exposure to the private equity market is expected to provide access to outsized returns as compared to the public equity market.

### 4. REAL ASSETS

#### Treasury Inflation Protected Securities (TIPS)

This asset class is intended to be representative of the fixed income investments in which the principal is adjusted periodically based on changes in CPI. The purpose of the TIPS asset class is to provide fixed income returns with the additional diversification benefits of inflation protection.

#### Real Estate Investment Trusts (REITS)

This asset class is intended to be representative of the Real Estate Investment Trust market. The purpose of the REIT asset class 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.

#### Commodities

This asset class is intended to be a passively managed representation of a direct investment in a diversified commodities strategy. A direct investment is either through the purchase of the physical commodity (e.g., crude oil, metals) or the purchase of derivatives (e.g., futures). The principal roles for commodities in the Portfolio are as a risk diversifier, and an inflation hedge, providing an expected offset to assets such as fixed rate instruments, which typically lose value during periods of unexpected inflation.

Master Limited Partnerships (MLPs)

This asset class is intended to be representative of an actively managed investment in energy Master Limited Partnerships. The investment will provide exposure to businesses that primarily engage in in the midstream portion of the energy chain – i.e pipelines, storage terminals, gathering and processing. The principal roles for MLPs in the Portfolio are for income generation, high growth potential, portfolio diversification, and a hedge against inflation.

5. 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 to 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.

C. **Authorized Investments and Restrictions**

The following authorized investments and restrictions establish the parameters the University’s investment managers must follow in implementing their respective investment strategies. Each underlying manager will have a specific set of guidelines that may be more restrictive than those set forth herein.

<b>Investment Guidelines - Investment Grade Fixed Income</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Fixed Income securities issued in the U.S. investment grade bond market	Authorized
Rule 144A securities	Authorized
Non dollar securities and securities of issuers outside the U.S.	Authorized
U.S. Treasury, Agency, Eurodollar, and Swap financials 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
<b>Restrictions:</b>	<b>Guideline</b>
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 any two of S&P / Moody's / Fitch (except US government and agency securities)	Required
Must be rated BB- / Ba3 or better at time of purchase	Required
Weighted average credit quality must average at a minimum BBB / Baa	Required
Convertible securities and preferred stocks	Prohibited
Maximum position in securities not rated or rated BB+ /Bal 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
Explicit leverage at the vehicle level	Prohibited

<b>Investment Guidelines - Credit Fixed Income</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Fixed Income securities issued in the U.S. investment grade bond market	Authorized
Rule 144A securities	Authorized
Non dollar securities and securities of issuers outside the U.S.	Authorized
U.S. Treasury, Agency, Eurodollar, and Swap financials 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
<b>Restrictions:</b>	<b>Guideline</b>
Maximum invested in non US dollar-denominated assets	10% of account market value
Maximum invested in High Yield (as rated by S&P, Moody's, And Fitch)	20% of account market value
Maximum invested in Mortgage, Commercial Mortgage, and ABS	10% of account market value
Rated by any two of S&P / Moody's / Fitch (except US government and agency securities)	Required
Must be rated BB- / Ba3 or better at time of purchase	Required
Weighted average credit quality must average at a minimum BBB / Baa	Required
Convertible securities and preferred stocks	Prohibited
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
Explicit Leverage at the vehicle level	Prohibited

<b>Investment Guidelines - High Yield Fixed Income</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Registered high yield and Rule 144A, with registration rights, fixed income securities and debt obligations issued by public, corporate, and sovereign entities	Authorized
Securities issue 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
<b>Restrictions:</b>	<b>Guideline</b>
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+/Ball 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 reasonable 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

<b>Investment Guidelines - US Equity</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Equity denominated in US dollars and traded on recognized US exchanges include NASDAQ  Common and preferred stock, securities convertible into common and preferred stock, rights and warrants, depository receipts	Authorized
Cash vehicle available through the trustee	Authorized
<b>Restrictions</b>	<b>Guideline</b>
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
Short 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

<b>Investment Guidelines - International Equity</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Countries represented in the MSCI ACWI ex-US (net) benchmark	Authorized
Equity securities of companies domiciled in countries represented in the MSCI ACWI ex-US (net) benchmark  Common and preferred Stock, securities convertible into common and preferred stock, rights and warrants, depository receipts, 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
<b>Restrictions:</b>	<b>Guideline</b>
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

<b>Investment Guidelines - Private Equity</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Private equity investments should be invested in institutionally-oriented, globally diversified fund-of-funds vehicles	Authorized
Buyout	Authorized
Venture Capital	Authorized
Special Situations	Authorized
Primary partnerships	Authorized
Secondary partnerships	Authorized
Direct / Co-investments	Authorized
<b>Restrictions:</b>	<b>Guideline</b>
Investment Vehicle	Fund of funds only
Allowable range for Total Private Equity investments:	
Buyout	40% - 60%
Venture Capital	0% - 30%
Special Situations	10% - 40%
Primary Partnerships	Up to 100%
Secondary Partnerships	Up to 40%
Direct / Co-investments	Up to 20%
Allowable geographic diversification for Total Private Equity investments:	
United States	40% - 70%
Europe	25% - 50%
Latin America	Up to 25%
Asia / Pacific	Up to 40%
Vintage year diversification must be achieved within each fund of funds structure	Minimum of three years
General Partners must demonstrate acceptance through retention of other institutionally-oriented clients	Required
General Partners must have capital committed in the private partnership	Required
General Partner must have a track record demonstrating investment capabilities with previous funds of funds and sizable assets	Required

### Guidelines for Commodities

This asset class is intended to be representative of a passively managed commodities portfolio. It requires staying current at all times with the objectives of the manager's investment policy for discretionary commodity portfolios and the requirements of these guidelines.

The manager may buy or sell futures, forwards, options and swaps on both individual commodities as well as the derivatives on commodity indices. Although this account is intended to be passively managed, should the account migrate to an active management strategy, a short duration fixed income portfolio will be maintained as collateral. The guidelines for investment grade fixed income portfolios contained herein must be followed.

A portion of this investment may hold cash and cash instruments, including short-term investment vehicles. Although certain investments may exhibit characteristics of leveraged transactions, the overall commodities investments will be managed to produce an unleveraged return. The investment will not borrow money or use derivatives in a manner that has the purpose of creating investment leverage.

The firm responsible for managing these investments 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.

<b>Investment Guidelines - Commodities</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Securities represented in the DJ - UBS Commodity Index	Authorized
Commodity Groups Currently Included in the Dow Jones-UBS Commodity Index Energy, Agriculture, Industrial Metals, Precious Metals, Livestock	Authorized
Commodities Currently Included in the Dow Jones-UBS Commodity Index Aluminum, Coffee, Copper, Corn, Cotton, Crude Oil, Gold, Heating Oil, Lean Hogs, Live Cattle, Natural Gas, Nickel, Silver, Soybeans, Soybean Oil, Sugar, Unleaded Gasoline, Wheat and Zinc	Authorized
Futures, Forwards, Options and Total Return Swaps	Authorized
Commodity or Commodity Contracts	Authorized
<b>Restrictions:</b>	<b>Guideline</b>
Maximum weight to any commodity group	33% of account market value
Minimum weight to any single commodity	2% of account market value

<b>Investment Guidelines - MLPs</b>	
<b>Authorized Investments:</b>	<b>Status</b>
Companies must be master limited partnerships or C-corporations principally engaged in the energy industry	Authorized
A company is considered to be “principally engaged in the energy industry” if the company owns or operates midstream energy assets or is engaged in the transportation, processing, or storage of natural resources, including, but not limited to, natural gas, crude oil, and refined petroleum products	Authorized
Companies’ publicly traded securities must have a minimum market capitalization of \$100 million	Authorized
<b>Restrictions:</b>	<b>Guideline</b>
Long-only mandate	No leverage
Diversification	Account should have at least 20 securities
Maximum exposure to single security	20% of account market value
Maximum exposure to private investments (i.e. PIPEs)	10% of account market value
Maximum weight to cash and cash equivalents	10% of account market value

#### Guidelines for Hedge Funds

The Absolute Return asset class shall be implemented through a fund-of-funds investment vehicle. The organization managing the fund-of-funds 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.

#### Guidelines for 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. These investments will be managed in a manner consistent with the authorized investments and restrictions set forth herein. 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 herein are 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 this Policy. 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**

For the Strategic Capital and Reserve Pools, the Investment Committee, with the guidance and recommendations of the consultant, is responsible for the selection and continued monitoring of qualified, competent investment managers in accordance with University policy and Florida law.

For the Working Capital Pool, staff is authorized to invest in the following managers and investments:

- Florida State Treasury
- State Board of Administration
- Qualified Public Depositories as defined by the State of Florida
- U.S. Government and its Agencies
- Money Market and Short Term Fixed Income Funds rated AA or higher by at least two of the following ratings agencies: Moody's Investors Service, Standard & Poor's and Fitch.

## **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.

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 Portfolio'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.

Comparative standards are used to evaluate the returns of both the pool and each of its asset class components.

Investment 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 Portfolio's progress toward meeting the more fundamental primary objectives.

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

### REASON FOR POLICY (O\*)

This document will provide the framework for the investment management of the Portfolio. Specifically, it will address:

- The general goals of the investment Portfolio
- The guidelines and parameters for the management of the Portfolio
- The asset allocation guidelines
- Performance objectives

This Policy is intended 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.

### RELATED INFORMATION (O\*)

#### APPENDIX I – Asset Allocation Targets & Rebalancing Policy

##### Asset Allocation Guidelines

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

	Working Capital Pool	Strategic Capital Pool	Reserve Pool	Total Combined Pool
<b>% of Total Combined Pool</b>	<b>30%</b>	<b>60%</b>	<b>10%</b>	<b>100%</b>
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%	18.60%	18.60%	13.00%
High Yield	0.00%	8.50%	8.50%	6.00%
Credit Fixed Income	0.00%	5.70%	5.70%	4.00%
<b>Total Fixed Income</b>	<b>100.00%</b>	<b>32.80%</b>	<b>32.80%</b>	<b>53.00%</b>
TIPS	0.00%	14.30%	14.30%	10.00%
Commodities	0.00%	9.30%	9.30%	6.50%
REITS	0.00%	4.30%	4.30%	3.00%
MLPs	0.00%	7.10%	7.10%	5.00%
<b>Total Real Assets</b>	<b>0.00%</b>	<b>35.00%</b>	<b>35.00%</b>	<b>24.50%</b>
Domestic Equity	0.00%	4.30%	4.30%	3.00%
International Equity	0.00%	4.30%	4.30%	3.00%
Private Equity	0.00%	9.30%	9.30%	6.50%
<b>Total Equity</b>	<b>0.00%</b>	<b>17.90%</b>	<b>17.90%</b>	<b>12.50%</b>
<b>Absolute Return</b>	<b>0.00%</b>	<b>14.30%</b>	<b>14.30%</b>	<b>10.00%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

##### Asset Allocation Ranges and Rebalancing

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 Portfolio's return requirements as well as the Portfolio's tolerance for return variability (risk) within the context of the expected liabilities of the fund. Asset allocation is widely recognized and accepted as the primary source of return and risk for an investment program. It is

used for setting the parameters for long term risk and return in order to meet the University's long-term financial objectives.

The tables below set forth the asset allocation for the Portfolio, the strategic target weights and the allowable ranges around the target weights:

<b>Total Combined Pool</b>	<b>Target (%)</b>	<b>Minimum (%)</b>	<b>Maximum (%)</b>
Working Capital Pool	30.00%	25.00%	93.00%
Strategic Capital Pool	60.00%	0.00%	70.00%
Reserve Pool	10.00%	7.00%	20.00%

<b>Working Capital Pool</b>	<b>Target (%)</b>	<b>Minimum (%)</b>	<b>Maximum (%)</b>
Cash Equivalents	40.00%	0.00%	100.00%
Short Term Fixed Income	60.00%	0.00%	90.00%

<b>Strategic/Reserve Capital Pools</b>	<b>Target (%)</b>	<b>Minimum (%)</b>	<b>Maximum (%)</b>
Fixed Income (Inv. Grade)	18.60%	13.60%	23.60%
High Yield	8.50%	5.00%	12.00%
Credit Fixed Income	5.70%	3.00%	8.00%
TIPS	14.30%	5.00%	19.00%
Commodities	9.30%	6.00%	13.00%
REITS	4.30%	2.50%	8.00%
MLPs	7.10%	4.00%	10.00%
Domestic Equity	4.30%	2.50%	8.00%
International Equity	4.30%	2.50%	8.00%
Private Equity	9.30%	5.00%	13.00%
Absolute Return	14.30%	10.00%	17.00%

Portfolio rebalancing is designed to provide a disciplined approach to control the risk exposure of the Portfolio to the investment categories that have deviated from the established target policy weights. Rebalancing parameters are addressed at the asset class level. Rebalancing 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.

The funding of the private equity asset class occurs over the term of the investment. In order to maintain the Policy's overall target allocation to equity, the Portfolio may maintain an overweight (or underweight) position to public equity no greater than the corresponding underweight (or overweight) target allocation to private equity. The staff and consultants will annually review the rebalancing to take into account the funding of private equity.

## **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 the 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 Portfolio.

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 below:

#### **Five-Year Performance Objectives Methodology**

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 Credit fixed income index  
 Target Portfolio Weight x Absolute return benchmark  
 Target Portfolio Weight x High yield fixed income index  
 Target Portfolio Weight x Global REIT index  
 Target Portfolio Weight x Commodity index  
 Target Portfolio Weight x MLP index  
 Target Portfolio Weight x Broad U.S equity index  
 Target Portfolio Weight x International equity index  
Target Portfolio Weight x Private equity benchmark  
**100% Total Portfolio Benchmark**

#### **Total Combined Pool Objectives** (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

30.00% x 91-Day Treasury Bill rate  
 13.00% x Barclays U.S. Aggregate Bond Index  
 10.00% x Barclays TIPS Index  
 4.00% x Barclays U.S. Credit Index  
 6.00% x ML High Yield Master II Index  
 10.00% x CPI + 3.25% (Absolute Return benchmark)  
 6.50% x Dow Jones - UBS Commodity Index  
 5.00% x Alerian MLP Index  
 3.00% x FTSE EPRA / NAREIT Developed Real Estate  
 3.00% x Wilshire 5000 Index (US Equity broad market)  
 3.00% x MSCI All Country World ex-U.S. Index (int'l equity market)  
6.50% x Wilshire 5000 (1-quarter lag) + 3%  
**100.00% Total Combined Pool Benchmark**

Relative to inflation: Consumer Price Index + 3.5%

#### **Working Capital Pool Objectives** (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

100.00% x 91-Day Treasury Bill rate  
**100.00% Working Capital Pool Benchmark**

**Strategic Capital and Reserve Pool Objectives** (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

- 18.60% x Barclays U.S. Aggregate Bond Index
- 14.30% x Barclays TIPS Index
- 5.70% x Barclays U.S. Credit Index
- 14.30% x CPI + 3.25% (Absolute Return benchmark)
- 8.50% x ML High Yield Master II Index
- 4.30% x FTSE EPRA / NAREIT Developed Real Estate
- 9.30% x Dow Jones – UBS Commodity Index
- 7.10% x Alerian MLP Index
- 4.30% x Wilshire 5000 Index (US Equity broad market)
- 4.30% x MSCI All Country World ex-U.S. Index (int'l equity market)
- 9.30% x Wilshire 5000 (1-quarter lag) + 3%
- 100.00% Strategic Capital or Reserve Pool Benchmark

Relative to capital market assumptions: (Wilshire's Asset Allocation Return and Risk Assumptions, most recent published date, or equivalent publication).

**RESPONSIBILITIES (O\*)****LEGAL AUTHORITY:**

The BOT is authorized to adopt an Investment Policy pursuant to Section 1011.42 and 218.415 of the Florida Statutes

**HISTORY (R\*)**

Effective Date: June 29, 2005; Revision Date(s): September 11, 2007; March 12, 2008; March 30, 2009; June 12, 2009; September 24, 2010, March 14, 2012, September 10, 2013 and January 14, 2015.

**RESPONSIBLE UNIVERSITY DIVISION/DEPARTMENT (R\*)**

Office of the Treasurer  
Finance and Administration

**RESPONSIBLE ADMINISTRATIVE OVERSIGHT (R\*)**

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\*R = Required \*O = Optional