

# TEMPLE UNIVERSITY

## POLICIES AND PROCEDURES MANUAL

**Title:** Investment Policies

**Policy Number:** 05.50.01

**Issuing Authority:** Board of Trustees

**Responsible Officer:** Vice President, CFO& Treasurer

**Date Created:** September 24, 2003

**Date Last Amended/Reviewed:** March 2018

**Date Scheduled for Review:** March 2021

**Reviewing Office:** Office of the Treasurer

### **Scope of Policy & Rationale:**

This policy is issued by the investment committee and is for the guidance of University officials and employees, and external investment managers, in the investment and reinvestment of the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, the Retirement Funds and any other University investment portfolios described in this policy, including its appendices. Under the University By-Laws, the Investment Committee (the “Committee”) is the standing committee of the University’s Board of Trustees with authority to determine policies for, and oversee the management of, the University’s investment of the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, the Retirement Funds and any other University investment portfolios described in this policy including its appendices.

This policy is subject to (a) resolutions and policies of the University’s Board of Trustees relating to investment practices (b) third-party restrictions imposed by applicable bond indentures, funding agencies and donors, and (c) compliance with applicable federal, state and local laws, rules and regulations. Nothing in this policy should be interpreted or construed to authorize violation of those restrictions.

### **Definitions**

See Pages 7-10

### **Policy Statement**

This policy describes the parameters to be followed when investing University funds. It specifically addresses the respective asset allocations, permitted investments and benchmarks for the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, Retirement Funds and any other University investment portfolios described in this policy including its appendices. This document contains three appendices which specify rules and procedures that are specific to staff-managed assets, including the University Account, Bank

Cash, Operating and Auxiliary Reserve Fund and other University investment portfolios, and the Endowment Pool and the Retirement Funds, which are managed by an Outsourced CIO. The document also contains direction on the frequency of portfolio rebalancing, how managers should be monitored, proxy voting and transaction execution. This statement will be reviewed by the Committee no less than every 3 years, to ensure that its content remains appropriate as a governing document for the University's assets. Any modification to this statement shall be subject to an approving recommendation to the University's Board of Trustees by the Investment Committee, and to approval of such recommendation by the University's Board of Trustees.

### **Roles and Responsibilities:**

***Board of Trustees.*** The University's Board of Trustees (the "Board") has designated the Committee to perform the functions specified below, including oversight of the Outsourced Chief Investment Officer ("OCIO"). The Board is responsible for approving any changes made to the IPS.

***Investment Committee.*** The Committee has general oversight of the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, the Retirement Funds and any other University investment portfolios described in this policy including its appendices, as well as oversight of the OCIO. In fulfilling its responsibilities described herein, the Committee shall act in accordance with applicable federal, state and local laws, rules and regulations.

Specific responsibilities of the Committee include:

- Establishing policies designed to position the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, the Retirement Funds and any other University investment portfolios described in this policy including its appendices, to achieve their objectives within a prudent level of risk (in consultation with the OCIO in the case of the Endowment Pool and Retirement Funds).
- Delegating the authority to make investment decisions with respect to the Endowment Pool and Retirement Funds to the OCIO.
- Collaborating with the OCIO to develop investment guidelines and objectives for the investment of the Endowment Pool and the Retirement Funds, including permissible investments, asset allocation target exposures, permissible ranges (i.e., minimum and maximum allocations to each asset class), and the benchmarks against which the performance of each asset class and the portfolio as a whole will be evaluated;
- Reviewing the performance of the Endowment Pool, Retirement Funds, University Account, Bank Cash and other major University investment portfolios relative to stated investment objectives on a quarterly basis;
- Monitoring the OCIO to ensure the provider continues to be an appropriate discretionary manager of these assets; and

- Reviewing a regular summary of the portfolio and investment returns relative to stated investment objectives.

***University Chief Financial Officer and Treasurer and Staff.*** The Chief Financial Officer and Treasurer of the University is the administrative officer responsible to the Committee for the day-to-day management of the University Account, Bank Cash, Operating and Auxiliary Reserve Fund, Endowment Pool, Retirement Funds and other University investment portfolios described in this policy including its appendices. The Staff is responsible for overseeing the operations of all University assets. Specific staff responsibilities include:

- Providing administration, reporting, accounting, investment performance monitoring and audit support for ongoing operations;
- Serving as the day-to-day contact with the OCIO, including communicating planned contributions and withdrawals;
- Managing constituent relationships;
- Monitoring third-party service providers (e.g., auditors, custodian, actuaries, and consultants); and
- Rebalancing the University Account and Bank Cash to achieve desired target market exposures

***Outsourced Chief Investment Officer.*** The OCIO is charged with managing the Endowment Pool and Retirement Funds in accordance with the investment guidelines and objectives established by, and subject to the supervision of, the Committee. Specific responsibilities include:

- Advising the Committee with respect to development of the investment guidelines and objectives;
- Conducting periodic reviews of the investment guidelines and objectives as agreed with the Committee, and recommending modifications as it deems appropriate;
- Overseeing the implementation of the investment program including the selection and monitoring of sub-advisers to manage separately managed sub-accounts of the Endowment Pool and Retirement Funds (“Sub-Managers”), the selection and monitoring of Commingled Funds, and the direct investment management of assets not allocated to Sub-Managers or Commingled Funds;
- Rebalancing portfolios to achieve desired target market exposures;
- Monitoring and maintaining adequate liquidity levels across portfolios;
- Collaborating with custodian and the Staff to make cash available for ongoing operational needs and benefits payments;
- Assisting the Staff in meeting its reporting and administrative requirements; and
- Providing reporting and performance monitoring as necessary for the Committee to perform its oversight responsibilities.

**Third Party Advisor:** The “Advisor” offers an independent perspective in providing additional guidance to the Committee regarding the investment policies and procedures across the portfolios. The Advisor shall at all times be independent from the OCIO and have no conflicts with either the University or the OCIO which may impair its ability to undertake its responsibilities.

**Special Situations**

None.

**Exclusions**

This policy excludes funds invested under the University’s planned giving program.

**Communications and Training**

The Committee meets on a regular basis for ongoing communication and training purposes regarding all portfolios. New Committee members can receive introductory training regarding the Endowment Pool and Retirement Funds from the OCIO provider as needed. All current Committee members receive access to a secure, online portal containing detailed information related to the Endowment Pool and Retirement Funds, as well as broad information related to educational investment concepts. Such information may constitute material, non-public information regarding the University, and must be treated accordingly by Committee members.

**Procedures (if applicable)**

N/A

**Notes**

**1. Dates of official enactment and amendments:**

Enacted: October 2003

Amended June 14, 2007, April 1, 2009, December 8, 2009, June 17, 2010, November 18, 2010, February 17, 2011, May 10, 2011, October 11, 2011, March 12, 2012, June 21, 2012, June 20, 2013, October 8, 2013, March 27, 2014, May 13, 2014, July 17, 2014, October 14, 2014, March 11, 2015, October 13, 2015, December 8, 2015, April 21, 2016, July 12, 2016, November 15, 2016, January 17, 2017, April 20, 2017, October 10, 2017, November 14, 2017, January 16, 2018, March 13, 2018

**2. History:**

**Supersedes:**

Statement of Investment Policy for Temple University Retirement Plans - approved October 24, 1996 and revised September 24, 1998 (reference number is not known)  
University Investment Policy - approved September 14, 1989 and periodically amended. (reference number is not known)

**Reviewed By:**

Vice President, CFO& Treasurer

University Counsel

Third Party Investment Advisor

Investment Committee of the Board of Trustees

**3. Cross References/Appendix:**

There is no cross reference. There are three appendices included with the policy.

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## **I. DEFINITIONS**

- A. Endowment Pool** – Funds that are to be invested on a long-term basis. Such funds shall include funds accounted for as endowments and funds designated by the Board of Trustees to be treated as endowment (“quasi-endowments”). For the most part the investment horizon is unlimited in that true endowments are to be invested in perpetuity.
- B. Investment Committee** – (the “Committee”) The Committee is responsible for oversight of the investment policies and investment activities of the university.
- C. Bank Cash** - Cash in University bank accounts and money funds. Bank Cash is managed by the Chief Financial Officer and Treasurer subject to permitted investments as established by the Committee. The sources of Bank Cash can be tuition, student loan receipts, grants, Commonwealth of Pennsylvania funding, gifts, loan proceeds, auxiliary revenue, and asset sales. What defines Bank Cash is locus, not source or use.
- D. University Account** –The portfolios of cash, short-term and medium-term notes and bonds invested in actively-managed bond and index funds, the assets of which are held to meet committed and planned capital spending, tuition-funded physical plant maintenance, accumulated budget surpluses due schools and programs, and reserve funds controlled by the Board.
- E. Operating and Auxiliary Reserve Fund** – A fund established in 1989 to provide level debt amortization, based on the effective bond interest rate and asset life, to the University operating budget and auxiliary operations.
- F. Retirement Funds** – Assets held for the benefit of the participants and beneficiaries in the defined benefit pension plans and the post-retirement benefits trust.
- G. Commingled Funds** - shall include, without limitation, hedge funds, limited partnerships, SEC-registered mutual funds, and other forms of commingled investment vehicles and special purpose vehicles, both organized in the United States and in other countries.
- H. Cash** –
- i.** Dollar denominated demand deposit accounts or certificates of deposit maturing in 360 days or less with domestic or foreign financial institutions with a minimum asset size of \$25 billion and a minimum rating of Aa (Moody’s) or AA (Standard & Poor’s). Funds invested in any one institution shall not exceed \$5 million. Certificates of deposit in other financial institutions are permissible to the extent that deposits do not exceed the federally insured limit.

- ii. Bank or broker repurchase agreements with dealers on the Federal Reserve Primary Government Securities Dealer List or with financial institutions rated “A” or better by Moody’s or Standard & Poor’s. Repurchase agreements must be collateralized by direct US government Treasury and Agency obligations at 103%, be for a period of not more than 30 days and allow for a perfected lien on the collateral. Collateral must be marked to market daily by the custodian or other third party custodian. Repurchase agreements require a signed SIFMA Master Repurchase Agreement or tri-party Repurchase Agreement signed by the counterparty.
- iii. Eligible bank acceptances rated at least A1 and P1 by Standard & Poor’s and Moody’s, maturing 180 days or less and endorsed by the bank’s acceptance stamp.

**I. Money Market Instruments -**

- i. Money market funds with a minimum of \$500 million in assets, rated AAA or Aaa by Standard & Poor’s or Moody’s, respectively. Comingled funds that follow 2a-7 policies with a minimum of \$500 million in assets and with underlying assets having an average credit rating in the highest credit quality ratings according to Standard & Poor’s and Moody’s.
- ii. Commercial paper rated A1 and P1 by Standard & Poor’s and Moody’s, maturing in 270 days or less.
- iii. State and Municipal obligations rated MIG-1 and SP-1 by Moody’s and Standard & Poor’s maturing in 270 days or less.
- iv. Direct obligations of the United States government with maturities or remaining maturities of one year or less.
- v. Obligations of agencies of the United States government with maturities or remaining maturities of one year or less. 35% maximum exposure to any single agency.
- vi. Obligations guaranteed by the U.S. Government with maturities or remaining maturities of one year or less.

**J. Equity Securities –**

- i. **U.S. Equity** – readily marketable securities of corporations headquartered within the United States that are actively traded on the NYSE, AMEX or NASDAQ exchanges. Readily marketable securities of corporations headquartered outside of the United States that are actively traded on the NYSE, AMEX or NASDAQ exchanges (including ADRs).
- ii. **International Equity** – Liquid marketable securities of corporations headquartered outside of the United States that are included in the MSCI All Country World ex.-U.S. Index. Also referred to herein as “non-U.S. equities”, international “developed” includes countries listed in the MSCI EAFE Index. International “emerging” includes countries listed in the MSCI Emerging Markets Index or the S&P/IFC Global Index.
- iii. **Emerging Markets Equity** – Marketable securities of companies in emerging countries, those with low-to-middle per capita income. Emerging markets



includes countries listed in the MSCI Emerging Markets Index or the S&P/IFC Global Index.

**K. Alternative Investments –**

- i. Hedge Funds-** Investments in funds that are allowed to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds may make equity, credit/fixed income, rate, and currency investments. Strategies employed may include long/short, event-driven, arbitrage, and macro.
- ii. Real Assets –** Investments in partnerships, funds, special purpose vehicles or separately managed accounts that invest in multiple underlying asset classes such as commodities, commodity futures, agricultural, timber, and natural resource equities. These can be U.S. or non-U.S. investments and are sometimes referred to as “hard assets” or “diversified inflation strategies.” Additionally, U.S Treasury Inflation-Protected Securities (TIPS), and energy master limited partnerships (MLPs) may be included. Investments may be public or private investment vehicles.
- iii. Real Estate -** Investments in public or private partnerships, funds and/or special purpose vehicles that make private real estate investments located within or outside the United States. Major sectors within this space include apartments, office properties, hotels, regional malls, shopping centers, self-storage, industrial properties, and health care. Investments may include equity, debt, or both and may encompass “core”, “value-added”, or “opportunistic” opportunities. Investments are generally made in private investment vehicles or open-end funds.
- iv. Private Equity –** Investments in private partnerships, funds and/or other special purpose vehicles that invest in a range of strategies including, venture capital, leveraged buyouts, credit-oriented opportunities, mezzanine and distressed debt, and special situations. Investments may fund “new” companies or the buyout of existing companies or divisions within a company. Funding for these transactions typically includes a combination of debt and equity. Investments may be domestic or international and may encompass private and public securities. These partnerships may or may not incur indebtedness at the fund level. Terms for these partnerships typically require capital lock-ups of 10 years or more, though the fund will distribute gains during the life of the partnership.

**L. Fixed Income Investments –**

- i.** Direct obligations of the United States government
- ii.** Obligations of agencies of the United States government. 35% maximum exposure to any single agency.
- iii.** Obligations guaranteed by the U.S. Government
- iv.** Sovereign, Supranational, Foreign Agency, and Foreign Local Government securities, issued by foreign governments, agencies, and corporations. Such investment is limited to a maximum of 10% of fixed income assets within select investment funds and pools (University Account, Operating and Auxiliary Reserve Fund).

- v. Guaranteed Investment Contracts with insurance companies rated at least A in A.M. Best's Report
- vi. Corporate Bonds, including convertible bonds. Minimum debt ratings are outlined within the subsections where relevant.
- vii. Mortgage pass-through, asset back securities and collateralized debt obligations
- viii. State and Municipal obligations rated "A" or better by Standard & Poor's or "A2" by Moody's.
- ix. High Yield Bonds; fixed income securities that are rated below investment grade by either Standard & Poor's (less than BBB) or Moody's (less than Baa).

**M. Portable Alpha** – By combining low-beta hedge funds with equity or fixed income futures contracts, portable alpha provides an alternative to active management in highly efficient sectors of the capital markets. Portable alpha strategies are employed to increase the expected excess returns in efficient asset classes, diversify the sources of alpha in the portfolio, and seek alpha from both long and short positions across multiple markets, thereby expanding the opportunity set for skilled active managers.

**N. Futures** - financial contracts obligating the buyer to purchase an asset or the seller to sell an asset, such as a physical commodity or a financial instrument, at a predetermined future date and price.

## **II. ASSET CLASS ROLES**

The Endowment and Retirement Funds will be invested across several major asset classes, each playing a central role in the pursuit of the long-term investment objectives of the portfolios:

- A. Public Equities** – key return engine, but volatile. Equity risk will tend to dominate many portfolios, making diversification with other asset classes critical.
- B. Private Equities** – high expected return, but illiquid. Private equities are also volatile, but are not marked-to-market as frequently as public equities, helping to smooth reported returns.
- C. Hedge Funds** – primary diversifier to traditional assets and fertile opportunity set for value added with low net market exposure.
- D. Real Assets** – protect against unexpected inflation and help to diversify the portfolio.
- E. Fixed Income** – counterbalance to equity volatility and source of liquidity. Can also be a source of value added in less efficient segments

## **III. GUIDELINES FOR TRANSACTIONS**

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution.

#### **IV. CUSTODY OF SECURITIES**

All securities must be held in custody accounts at major financial institution(s) or with prime brokers or futures commission merchants. Custodians must have a minimum rating of A by Standard & Poor's or A1 by Moody's and have provided custody services for at least 10 years. The Committee selects custodians.

#### **V. PROXY VOTING**

All proxies are to be voted with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in conduct of an enterprise of a like character. Proxies should be voted in a manner reasonably believed to be in the best interests of the relevant account.

Regarding the University Account, Bank Cash, Operating and Auxiliary Reserve Fund and other University investment portfolios: unless the Committee provides information on how to vote a proxy, the investment managers shall vote the proxies according to their best judgment as to how best to meet this policy.

With respect to the Endowment Pool and Retirement Funds, unless the Committee provides explicit instructions as to how to vote a specific proxy, the OCIO and/or Sub-Managers shall vote the proxies in accordance with their proxy voting policies.

#### **VI. CONFLICT OF INTEREST**

Members of the Committee are charged with the responsibility for recommendations and decisions that, in their judgment, best serve the long-term interests and objectives of the relevant portfolio. The members of the Committee are subject to the University's By-Laws and conflict of interest policy approved from time to time by the Board of Trustees.

#### **VII. SUB - MANAGERS**

The OCIO is responsible for the selection of Sub-Managers for the Endowment Pool and Retirement Funds. Sub-Managers are generally expected to comply with the applicable procedures and limitations set forth in this policy, provided that the Committee or the OCIO, to the extent consistent with the investment management agreement between the University and the OCIO, may approve exceptions that will be captured in the investment manager guidelines, offering memorandums or prospectuses. The OCIO will report to the Committee quarterly on the investment performance of Sub-Managers and investment vehicles held within the Endowment Pools and Retirement Funds.

## **VIII. MONITORING OF OBJECTIVES AND RESULTS**

All objectives and policies are in effect until modified by the Committee. If, at any time, the OCIO, the Chief Financial Officer and Treasurer, or the Committee believes that any guideline inhibits its investment performance, it is the respective party's responsibility to clearly communicate this view to the Committee.

The investments in the Endowment Pool and Retirement Plans will be monitored by the OCIO on a frequent basis for consistency of each Sub-Manager's investment philosophy, return relative to objectives, and expected investment risk. The investments in the University Account, Bank Cash, Operating and Auxiliary Reserve Fund and other major University investments will be monitored by the Chief Financial Officer and Treasurer and Staff on a frequent basis for consistency of each investment manager's investment philosophy, return relative to objectives and expected investment risk. Investment results will be reviewed quarterly by the Committee; however, results will be formally evaluated over rolling 3-to-5 year periods. The OCIO will regularly review Sub-Managers in order to confirm that the factors underlying performance expectations remain in place.

**A. Pooled Vehicles** -- For separately managed accounts of the Endowment Pool, Retirement Plans, University Account and other major University investments, individual manager guidelines governing permissible securities and dictating other expectations apply. Where investments are made in Commingled Funds, the permissible investments are governed by the appropriate fund prospectus or offering memorandum.

The restrictions for individual stocks and fixed income securities shall not apply to similar investment instruments held in Commingled Funds. Reasonable effort shall be made, to the extent practicable, prudent and appropriate, to utilize Commingled Funds that have investment objectives and policies that are consistent with the preceding policies. However, given the nature of these investments, it is recognized that there may be deviations between these policies and the objectives of the pooled vehicles. In addition, the net asset value of any pooled vehicle must be periodically available to investors, be based on U.S. Generally Accepted Accounting Principles, International Financial Reporting Standards, or other commonly accepted method of recording and reporting accounting information, and audited by an independent auditor.

If an investment manager of a Commingled Fund held within the Endowment Pool or Retirement Funds is under investigation or indicted for criminal or civil charges, it shall be reviewed immediately by the OCIO provider. If an investment manager of a Commingled Fund held within the University Account, Bank Cash, Operating and Auxiliary Reserve Fund or other major University investments is under investigation or indicted for criminal or civil charges it shall be reviewed

immediately by the University's Chief Financial Officer and Treasurer and the Committee.

## **IX. PORTFOLIO REBALANCING**

Rebalancing asset allocations to policy targets is essential for maintaining the risk profile adopted by the Committee. Asset allocations will be monitored regularly relative to established policy targets and ranges. Unless otherwise directed by the Committee, Treasury staff is authorized to rebalance the University Account, Bank Cash, and Operating and Auxiliary Reserve Fund portfolios without prior Committee discussion or approval. With respect to the Endowment Pool and Retirement Funds, the OCIO will manage the asset mix on a discretionary basis (within the permissible ranges outlined in this document), determining the portion that will be allocated to each asset class, as well as the structure and strategy allocations within each asset class.

## **X. RISK MANAGEMENT**

Long-term investment portfolios, such as the Endowment Pool and Retirement Funds, will be broadly diversified across and within asset classes in order to seek to minimize the impact of unexpected asset class and security-specific adverse results, and avoid excessive portfolio volatility. Meeting the long-term return objectives of the these portfolios requires the OCIO to regularly monitor and manage market risks associated with the overall portfolio, individual asset classes, and specific investments.

Furthermore, these portfolios will seek to maintain sufficient liquidity, at all times, to meet the ongoing distribution needs of each respective pool of assets. The source of monies for such withdrawals will be based on rebalancing and cost considerations.

## **APPENDIX I STAFF-MANAGED ACCOUNTS**

### **BANK CASH**

#### **Statement of Objectives**

The primary objective of Bank Cash is to preserve capital and maintain liquidity in order to provide adequate cash resources for the operations of the University.

#### **Authorized Investments**

Authorized Bank Cash investments are limited to Cash and Money Market Instruments as defined in sections I.H. and I.I. above.

#### **Liquidity Minimum**

The Treasurer will ensure that the University has at all times cash, or access to cash, in the amount of not less than \$50 million. Access to cash means committed credit lines, letters of credit, or other bank-guaranteed funding resources which provide same-day good funds available to be deposited directly into the University's operating accounts in a timely fashion sufficient to meet Federal Reserve Bank Fedwire® cutoff times as established from time to time by the Federal Reserve Bank.

### **UNIVERSITY ACCOUNT**

#### **Statement of Objectives**

The objectives of the University Account are to preserve capital and maintain liquidity while earning a rate of return consistent with investing in short-intermediate bonds.

#### **Asset Allocation Targets and Ranges**

Asset allocation should reflect the proper balance of the University Account's need for liquidity and preservation of capital with attention to the anticipated timing of requirements for University Account funds.

#### **Authorized Investments**

For separately managed accounts, individual manager guidelines which govern permissible securities and dictate other expectations, apply. Where investments are made in Commingled Funds, the permissible investments are governed by the appropriate fund prospectus or offering memorandum. University Account funds may be invested as follows, provided such securities mature prior to the anticipated utilization of such funds:

- Cash as defined in Section I.H.
- Money Market Instruments as defined in Section I.I.
- Fixed Income as defined in Section I.L., limited to investment grade securities with a maturity of five years or less, except for unauthorized investments listed below. For purposes of this Policy, the maturity date of any fixed income security subject to a mandatory put shall be the date of the put, which must be within five years of the date on which the security is, or was, acquired. A maximum of 10% of the fixed income assets may be in securities rated “BBB” (BBB+, BBB, BBB-) by Standard & Poor’s or “Baa” (Baa1, Baa2, Baa3) by Moody’s, provided however, that the overall quality rating of fixed income assets will be at least “AA” as rated by Standard and Poor’s or “Aa2” as rated by Moody’s. Limited to Investment Grade Sovereign, Supranational, Foreign Agency, and Foreign Local Government securities that are SEC-registered, issued in the U.S. in U.S. dollars by foreign governments, agencies and corporations as described in Section I. is limited to a maximum of 10% of the fixed income assets.
- University Account funds expected to be available for investment periods greater than five years may be invested in longer -term securities when authorized by the Committee and the treasurer. Investments in corporate debt securities with maturities greater than ten years cannot exceed 20% of the total investment in corporate debt.

The following reflects the maximum investment permitted as a percentage of the total University Account portfolio.

U.S. Treasury Obligations	100%
Non Mortgage-backed Federal Agency Obligations	100%
Mortgage-backed Federal Agency Obligations	30%
State and Municipal Obligations	10%
Repurchase Agreements	50%
Commercial Paper	50%
Banker’s Acceptances	30%
Corporate Securities	50%
Certificates of Deposit	30%
Money Market Mutual Fund Shares	100%
Bond Mutual Funds	70%
Sovereign Obligations	10%

**Unauthorized Investments and Transactions**

- Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at the time of purchase (excludes U.S. Treasury or other Federal Agencies).
- Holdings of any individual bond issue shall not exceed 5% of the value of the total issue or total debt outstanding of the issuer (excludes U.S. Treasury or other Federal Agencies).
- Mortgage pass-through not issued by U.S. government agencies, Collateralized Debt Obligations, real estate asset backed securities and GICs are prohibited.

## **OPERATING AND AUXILIARY RESERVE FUND**

### **Statement of Objectives**

The primary objectives of the Operating and Auxiliary Reserve Fund are to preserve capital and provide level debt amortization, based on the effective bond interest rate and asset life, to the University operating budget and auxiliary operations.

### **Asset Allocation Targets and Ranges**

Asset allocation should reflect the proper balance of the need for liquidity, preservation of purchasing power, and risk tolerance in relation to liabilities. The funds are to be invested in cash, money market funds, and fixed income as determined by the liquidity needed for debt payments.

### **Benchmark**

The fund investments will be customized to be available for debt service needs and will not be managed according to any core bond benchmark.

### **Authorized Investments**

For separately managed accounts, individual manager guidelines, which govern permissible securities and dictate other expectations, apply. Where investments are made in Commingled Funds, the appropriate fund offering memorandum or prospectus governs the permissible investments.

As a statement of general policy, permissible investments include the following, provided such securities mature prior to the anticipated utilization of the funds:

- Cash as defined in Section I.H.
- Money Market Instruments as defined in Section I.I.
- Cash and Money Market Instruments shall be restricted to a maximum of 10% of the portfolio, except for brief periods or when building liquidity in anticipation of a debt service withdrawal. Investment Managers shall have discretion to invest up to 10% of assets under management in cash reserves when they deem it appropriate.
- Fixed Income as defined in Section I.L. Investments shall be limited to investment grade securities, and exception shall be made for unauthorized investments listed below, with durations that generally coincide with withdrawals for debt service. For purposes of this Policy, the maturity date of any fixed income security subject to a mandatory put shall be the date of the put, which must be within five years of the date on which the security is, or was, acquired. A maximum of 20% of the fixed income assets may be in securities rated “BBB” (BBB+, BBB, BBB-) by Standard & Poor’s or “Baa” (Baa1, Baa2, Baa3) by Moody’s, provided however,



the overall quality rating of fixed income assets will be at least “A” as rated by Standard and Poor’s or “A2” as rated by Moody’s. Limited to Investment Grade Sovereign, Supranational, Foreign Agency, and Foreign Local Government securities that are SEC registered, issued in the U.S. in U.S. dollars by foreign governments, agencies and corporations as described in Section I are limited to a maximum of 10% of the fixed income assets.

- Cash is limited to 10% of total assets; however, higher cash balances may be kept periodically to meet pending withdrawals for debt service.

### **Unauthorized Investments and Transactions**

- Not more than 5% of the market value of the fixed income portfolio shall be invested in securities issued by one company at time of purchase. If fund assets fall due to debt payments, the security can continue to be held up to a maximum 10% position assuming the security maintains its credit rating.
- No more than 5% of any single outstanding issue shall be held at time of purchase.
- No more than 50% of the market value of the portfolio shall be invested in corporate bonds.
- Guaranteed Investment Contracts as described in Section I.L. are prohibited.
- Convertible bonds as described in Section I.L. are prohibited.
- Mortgage pass-through, asset backed securities, and collateralized debt obligations as described in Section I.L. are prohibited.
- State and Municipal obligations as described in Section I.L. are prohibited.
- Borrowing for investment purposes is prohibited.

## APPENDIX II

### OCIO-MANAGED ACCOUNTS

#### ENDOWMENT POOL

##### **Statement of Objectives**

The **financial objectives** of the Endowment Pool are (1) to support the current and future operations of the University and (2) to preserve and enhance the purchasing power of the University's Endowment. To accomplish these goals, the Endowment Pool must generate real returns from investments equal to, and preferably greater than, its spending rate over the long term.

##### **Asset Allocation Targets and Ranges**

The Endowment Pool is to be invested on a total return basis in order to maintain the purchasing power of endowment gifts and funds functioning as endowments. The **investment objective** of the Endowment Pool is to attain an average annual real total return (net of investment management fees) in excess of the spending rate over the long term (rolling five-year periods). A 5% real, total return adequately supports the University's 4.5% spending rule, and allows for Endowment Pool growth over time. It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods. The Committee has adopted asset allocation targets and ranges, set forth in Exhibit 1, that are designed to meet this long-term objective provided that markets deliver returns consistent with normal economic conditions.

##### **Spending Rule**

The percentage of the value of the Endowment Pool assets which shall be available for spending is 4.5%. The value of the assets is defined as the fair market value of the assets held by the University, determined at the end of each fiscal quarter and averaged over the most recent preceding twelve quarters.

**Exhibit 1**  
**TEMPLE UNIVERSITY ENDOWMENT POOL**  
**Investment Policy Targets and Ranges**

Asset Class <sup>(1)</sup>	Policy Target Allocation / Benchmark Weight	Policy Ranges		Benchmark Index
		Min	Max	
<b>Equities<sup>(2)</sup></b>	<b>45%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Equities <sup>(2)</sup>	22%	-10%	+10%	Russell 3000 Index
Developed Non-U.S. Equities	16%	-10%	+10%	MSCI World ex-U.S. Investible Market Index <sup>(3)</sup>
Emerging Markets Equities	7%	-7%	+10%	MSCI Emerging Markets Index <sup>(3)</sup>
<b>Alternatives (Net)<sup>(2),(4) (5)</sup></b>	<b>30%</b>	<b>-15%</b>	<b>+10%</b>	
Private Equities <sup>(2)</sup>	15%	-15%	+5%	Custom Private Equity Index <sup>(6)</sup>
Hedge Funds (Net Exposure) <sup>(5)</sup>	15%	-15%	+10%	HFRX Equal Weighted Strategies Index
<i>Hedge Funds (Gross Exposure)</i>	25%	-25%	+5%	
<i>Portable Alpha Overlay</i>	(10)%	--	--	
<b>Real Assets<sup>(2)</sup></b>	<b>8%</b>	<b>-8%</b>	<b>+10%</b>	
Real Estate <sup>(2)</sup>	4%	-4%	+5%	NCREIF Fund Index – Open End Diversified Core Equity
Commodities	2%	-2%	+6%	S&P GSCI Total Return Index
TIPS <sup>(2)</sup>	2%	-2%	+6%	Barclays Capital 1-10 Year U.S. TIPS Index
<b>Fixed Income<sup>(2),(7)</sup></b>	<b>17%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Investment Grade Fixed Income <sup>(2),(8)</sup>	15%	-15%	+10%	Barclays Capital U.S. Aggregate Index
U.S. High Yield	2%	-2%	+10%	BofA Merrill Lynch High Yield Cash Pay Index
Non-U.S. Fixed Income	0%	0%	+10%	
<b>Opportunistic</b>	<b>0%</b>	<b>0%</b>	<b>+5%</b>	
<b>Cash</b>	<b>0%</b>	<b>0%</b>	<b>+20%</b>	
<b>TOTAL</b>	<b>100%</b>			

(1) Synthetic exposure to an asset class through portable alpha strategies will be reported under the relevant asset class.

(2) Policy Target Allocation for U.S. Equities, Private Equities, Real Estate, TIPS and U.S. Fixed Income will float. Policy Target Allocations for Equities, Alternatives, Real Assets and Fixed Income will float as necessary to accommodate the float of any of their constituent subcategories.

(3) Indices are net of dividend withholding tax.

(4) Policy Target Allocation and Policy Range for total Alternatives is based on “Net” Hedge Fund allocation. The maximum total allocation to hedge funds (net) and private equity combined is 40%.

(5) “Net” indicates that allocations are net of portable alpha strategies. The maximum gross allocation to hedge funds, including those overlaid in portable alpha strategies, is 30%.

(6) A custom benchmark that is the weighted average of the Vintage Year Weighted - Thomson Reuters Cambridge Private Equity, Venture Capital, and Distressed Benchmarks where the weights are based on the market values of the underlying private equity funds in the portfolio and are rebalanced quarterly. Underlying funds are assigned to the specific vintage year benchmark based on the year of inception in the Account.

(7) For purposes of assessing compliance with the minimum of the policy range, Fixed Income will be deemed to include the allocation to cash.

(8) U.S. Investment Grade Fixed Income includes physical holdings of Treasuries, corporates, and synthetic fixed income achieved through portable alpha strategies.

## **Benchmark**

A benchmark index has been assigned to each asset class, as set forth in Exhibit 1. For the total Endowment Pool, the benchmark against which the portfolio's overall performance will be measured ("Custom Benchmark Index") shall be a total return index comprising these benchmark indices weighted by the Policy Target Allocation for the relevant asset class, as shown in Exhibit 1. The Custom Benchmark Index will be rebalanced quarterly, and will be reported both gross and net of assumed passive management fees and rebalancing costs.

In addition, individual Sub-Manager benchmarks can be found in monthly performance reports.

The Endowment Pool seeks to achieve performance (net of management fees) that exceeds the performance of the Custom Benchmark Index (net of assumed passive management fees and rebalancing costs) by 1.0% per annum over rolling five-year periods. In addition, the Endowment Pool seeks to exceed the performance of the relevant peer group (as determined jointly by the Committee and the OCIO) over rolling five-year periods.

## **Authorized Investments**

Permissible investments include without limitation, long and short positions in U.S. and non-U.S. equities (including preferred and common stock), private equities, hedge funds, real estate, U.S. and non-U.S. fixed income investments (which may be rated or unrated, and which may include convertible securities, bank loans, and other public or private debt instruments), futures, swaps, options, forward contracts, other derivative instruments, cash and cash-equivalent instruments, and such other investments that the OCIO deems appropriate in its reasonable discretion and consistent with its fiduciary duties to the Endowment Pool. In addition, the Endowment Pool may be invested in Commingled Funds.

## **Exceptions to Investment Limitations**

The University may continue to hold any gift-in-kind when it is prudent to do so, without regard to the foregoing list of authorized investments.

## **RETIREMENT FUNDS**

### **Statement of Objectives**

The financial objectives of the Retirement Funds are to (1) provide a source of retirement income and other retiree benefits for its participants and beneficiaries (2) achieve and maintain full funding of the Actuarial Accrued Pension Liability and (3) reduce contributions to the Funds as a percent of payroll over time.

### **Asset Allocation Targets and Ranges**

Asset allocation should reflect the proper balance of the need for liquidity, preservation of purchasing power, and risk tolerance in relation to liabilities. The investment objective for the Post-Retirement Benefits plan is a long-term nominal rate of return on assets of at least 7% on an annualized basis over time. The investment objective for Defined Benefit Pension plans is to achieve a 6% nominal return. The Committee has adopted asset allocation targets and ranges, set forth in Exhibits 2 and 3, that are designed to meet these long-term objectives, provided that markets deliver returns consistent with normal economic conditions.

**Exhibit 2**  
**TEMPLE UNIVERSITY POST RETIREMENT PLAN**  
**Investment Policy Targets and Ranges**

Asset Class <sup>(1)</sup>	Policy Target Allocation / Benchmark Weight	Policy Ranges		Benchmark Index
		Min	Max	
<b>Equities<sup>(2)</sup></b>	<b>40%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Equities <sup>(2)</sup>	20%	-10%	+10%	Russell 3000 Index
Developed Non-U.S. Equities	14%	-10%	+10%	MSCI World ex-U.S. Investible Market Index <sup>(3)</sup>
Emerging Markets Equities	6%	-6%	+10%	MSCI Emerging Markets Index <sup>(3)</sup>
<b>Alternatives (Net)<sup>(2),(4) (5)</sup></b>	<b>25%</b>	<b>-15%</b>	<b>+10%</b>	
Private Equities <sup>(2)</sup>	10%	-10%	+5%	Custom Private Equity Index <sup>(6)</sup>
Hedge Funds (Net Exposure) <sup>(5)</sup>	15%	-15%	+10%	HFRX Equal Weighted Strategies Index
<i>Hedge Funds (Gross Exposure)</i>	20%	-20%	+5%	
<i>Portable Alpha Overlay</i>	(5)%	--	--	
<b>Real Assets<sup>(2)</sup></b>	<b>10%</b>	<b>-10%</b>	<b>+10%</b>	
Real Estate <sup>(2)</sup>	5%	-5%	+5%	NCREIF Fund Index – Open End Diversified Core Equity
Commodities	2%	-2%	+6%	S&P GSCI Total Return Index
TIPS <sup>(3)</sup>	3%	-3%	+6%	Barclays Capital 1-10 Year U.S. TIPS Index
<b>Fixed Income<sup>(2),(7)</sup></b>	<b>25%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Investment Grade Fixed Income <sup>(2),(8)</sup>	22.5%	-15%	+10%	Barclays Capital U.S. Aggregate Index
U.S. High Yield	2.5%	-2.5%	+12%	BofA Merrill Lynch High Yield Cash Pay Index
Non-U.S. Fixed Income	0%	0%	+10%	
<b>Opportunistic</b>	<b>0%</b>	<b>0%</b>	<b>+5%</b>	
<b>Cash</b>	<b>0%</b>	<b>0%</b>	<b>+20%</b>	
<b>TOTAL</b>	<b>100%</b>			

(1) Synthetic exposure to an asset class through portable alpha strategies will be reported under the relevant asset class.

(2) Policy Target Allocation for U.S. Equities, Private Equities, Real Estate, TIPS and U.S. Fixed Income will float. Policy Target Allocations for Equities, Alternatives, Real Assets and Fixed Income will float as necessary to accommodate the float of any of their constituent subcategories.

(3) Indices are net of dividend withholding tax.

(4) Policy Target Allocation and Policy Range for total Alternatives is based on “Net” Hedge Fund allocation. The maximum total allocation to hedge funds (net) and private equity combined is 35%.

(5) “Net” indicates that allocations are net of portable alpha strategies. The maximum gross allocation to hedge funds, including those overlaid in portable alpha strategies, is 25%.

(6) A custom benchmark that is the weighted average of the Vintage Year Weighted - Thomson Reuters Cambridge Private Equity, Venture Capital, and Distressed Benchmarks where the weights are based on the market values of the underlying private equity funds in the portfolio and are rebalanced quarterly. Underlying funds are assigned to the specific vintage year benchmark based on the year of inception in the Account.

(7) For purposes of assessing compliance with the minimum of the policy range, Fixed Income will be deemed to include the allocation to cash.

(8) U.S. Investment Grade Fixed Income includes physical holdings of Treasuries, corporates, and synthetic fixed income achieved through portable alpha strategies.

**Exhibit 3**  
**TEMPLE UNIVERSITY RETIREMENT PLAN**  
**Investment Policy Targets and Ranges**

Asset Class <sup>(1)</sup>	Policy Target Allocation / Benchmark Weight	Policy Ranges		Benchmark Index
		Min	Max	
<b>Equities</b>	<b>15%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Equities	8%	-8%	+10%	Russell 3000 Index
Developed Non-U.S. Equities	4%	-4%	+10%	MSCI World ex-U.S. Investible Market Index <sup>(2)</sup>
Emerging Markets Equities	3%	-3%	+10%	MSCI Emerging Markets Index <sup>(2)</sup>
<b>Alternatives (Net)<sup>(3) (4)</sup></b>	<b>0%</b>	<b>0%</b>	<b>+10%</b>	
Hedge Funds (Net Exposure) <sup>(4)</sup>	0%	0%	+10%	
<i>Hedge Funds (Gross Exposure)</i>	<i>10%</i>	<i>-10%</i>	<i>+10%</i>	
<i>Portable Alpha Overlay</i>	<i>(10)%</i>	<i>--</i>	<i>--</i>	
<b>Fixed Income<sup>(5)</sup></b>	<b>85%</b>	<b>-10%</b>	<b>+10%</b>	
U.S. Investment Grade Fixed Income <sup>(6)</sup>	85%	-15%	+10%	Custom Fixed Income Index <sup>(7)</sup>
<b>Opportunistic</b>	<b>0%</b>	<b>0%</b>	<b>+5%</b>	
<b>Cash</b>	<b>0%</b>	<b>0%</b>	<b>+20%</b>	
<b>TOTAL</b>	<b>100%</b>			

(1) Synthetic exposure to an asset class through portable alpha strategies will be reported under the relevant asset class.

(2) Indices are net of dividend withholding tax.

(3) Policy Range for total Alternatives is based on "Net" Hedge Fund allocation.

(4) "Net" indicates that allocations are net of portable alpha strategies. The maximum gross allocation to hedge funds, including those overlaid in portable alpha strategies, is 20%.

(5) For purposes of assessing compliance with the minimum of the policy range, Fixed Income will be deemed to include the allocation to cash.

(6) U.S. Investment Grade Fixed Income includes physical holdings of Treasuries, corporates, and synthetic fixed income achieved through portable alpha strategies.

(7) A total return index comprising the "Liabilities Index" (67% BofA/Merrill Lynch Zero Coupon STRIP Index and 33% BofA/Merrill Lynch Corporate Index). The BofA/Merrill Lynch Zero Coupon STRIP Index represents 2, 5, 10, 20, and 30 year zero coupon Treasury STRIPS weighted to the yield curve exposures of and having the equivalent duration as the Plan liabilities. The BofA/Merrill Lynch Corporate Index comprises BofA/Merrill Lynch Corporate, A-AAA, 10-15 year and 15+ year subindices, also weighted to have an equivalent duration as the Plan liabilities.

## **Benchmark**

A benchmark index has been assigned to each asset class, as set forth in Exhibits 2 and 3. For each of the Port-Retirement Plan and the Retirement Plan, the benchmark against which the total portfolio's overall performance will be measured ("Custom Benchmark Index") shall be a total return index comprising these benchmark indices weighted by the Policy Target Allocation for the relevant asset class, as shown in Exhibits 2 and 3. The Custom Benchmark Index will be rebalanced quarterly, and will be reported both gross and net of assumed passive management fees and rebalancing costs. In addition, individual Sub-Manager benchmarks can be found in monthly performance reports.

Each of the Post Retirement and Retirement portfolio seeks to achieve performance (net of management fees) that exceeds the performance of its Custom Benchmark Index (net of assumed passive management fees and rebalancing costs) by 1.0% per annum over rolling five-year periods. In addition, the Post Retirement and Retirement Plan portfolios seek to exceed the performance of the relevant peer group (as determined jointly by the Committee and the OCIO) over rolling five-year periods. These objectives are specific to the OCIO-managed assets held in the account only. Any balanced or absolute-return managers, which are selected and monitored separately by the Committee, will be held to a standard deemed appropriate by the Committee.

## **Authorized Investments**

Permissible investments include without limitation, long and short positions in U.S. and non-U.S. equities (including preferred and common stock), private equities, hedge funds, real estate, U.S. and non-U.S. fixed income investments (which may be rated or unrated, and which may include convertible securities, bank loans, and other public or private debt instruments), futures, swaps, options, forward contracts, other derivative instruments, cash and cash-equivalent instruments, and such other investments that the OCIO deems appropriate in its reasonable discretion and consistent with its fiduciary duties to the Retirement Funds. In addition, the Retirement Funds may be invested in Commingled Funds.

## **Separately Managed Retirement Pools**

The Separately Managed Retirement Pools are intended to provide the University with flexibility to invest the Retirement Funds opportunistically. The performance of such funds will be measured separately from the Post Retirement's respective weighted average benchmarks. The Separately Managed Funds' performance will be measured against the weighted average of the benchmarks of the underlying managers. The market value of the Post Retirement Plan's Separately Managed Pools should not exceed 15% of the market value of all Post Retirement Plans assets, subject to the Post Retirement Plan's target asset mix, taking into account any realized or unrealized gains in such pools. Continuation of the Separately Managed Retirement Pools shall be considered by the Investment Committee at least annually, at which time the Investment Committee shall be required to vote on their continuation.



As a statement of general policy, however, permissible investments include the following:

- U.S. equity securities as defined in Section I.J.
- International equity securities as defined in Section I.J.
- Emerging markets equity securities as defined in Section I.J.
- Fixed Income Investments, as defined in Section I.L.
- Alternative Investments as defined in Section I.K.
- Cash and Money Market Instruments as defined in Sections I.H. and I.I.
- Commingled funds consisting of the above-named qualified investments.
- Futures

## **Other Investment Portfolios**

Separate investment policy statements have been created for the following portfolio(s) which are included in Appendix III:

Good Samaritan Insurance Company Ltd

Any governing body different, in whole or in part, from the Committee overseeing the Investment Policy will be solely responsible for ratifying any changes to their respective policies. These policies may be reviewed and revised periodically by the appropriate governing bodies, at which time an updated policy will be included in Appendix III.

## **Appendix III Other Investment Portfolios**

### **Good Samaritan Insurance Company, Ltd Investment Policy**

Approved October, 2001  
Amended April 26, 2006  
Amended October 22, 2010  
Amended July 19, 2011  
Amended October 22, 2011  
Amended March 27, 2014

#### **OBJECTIVE**

The Company's investment objectives are to preserve capital and maintain liquidity, maintain an orderly cash flow to meet the operating, capital, and contingent needs of the Company, and produce a yield that is competitive with the financial markets.

#### **ASSIGNMENT OF RESPONSIBILITIES**

**Board of Directors**– The Company's Board of Directors is charged with the responsibility of overseeing the assets of the Company. To that end, the Board of Directors responsibilities include: establishing and maintaining the Company's investment policy, objectives and portfolio guidelines with respect to asset allocation, risk parameters, and return evaluation and for specific interpretation of said investment policy, as well as selecting the investment vehicles, and periodically monitoring the performance of the investments. The Board of Directors, however, may establish rules or other resolutions governing its investment policy and may delegate to a committee, the authority to act. The Board of Directors will meet periodically. The Board of Directors shall discharge its duties with the care, skill, prudence and diligence appropriate to the circumstances then prevailing. The Board of Directors recognizes that some risk must be assumed to achieve the Company's long-term investment objectives.

**Investment Consultant** – The Board of Directors may engage the services of an Investment Consultant. The Investment Consultant's role is that of a non-discretionary advisor to the Committee. The Investment Consultant will assist in the development and periodic review of an Investment Policy Statement and the Company's asset allocation, conduct manager searches when necessary, monitor the performance of the managers/funds, and communicate on other matters of relevance to the oversight of the Company's assets.

**Custodian(s) / Trustee(s)** – The Custodian / Trustee is responsible for the safekeeping and custody of assets. The Custodian / Trustee will physically (or through agreement

with a sub-custodian) maintain possession of securities owned by the Company, collect dividends and interest payments, redeem maturing securities, effect receipt and delivery following purchases and sales and perform regular accounting of all assets owned, purchased, or sold. The Custodian / Trustee may also move assets into and out of the Company (for example, to accommodate liquidity needs) pursuant to the written instructions of an authorized signer.

## **POLICIES**

### 1. Purpose

This policy statement, as it may be amended from time to time, shall be the basis of any investment of Company funds.

### 2. Investment Committee

The Board may create an investment committee to operate under the direction of, and to make recommendations to, the Board. The Committee shall be appointed from among the Directors and shall serve on the committee at the pleasure of the Board until their direct successors are appointed.

### 3. Conflict of Interest

Any person who serves on the Board of Directors is charged with the responsibility of decisions that, in their judgment, best serve the long-range interests and objectives of the Company. The members of the Board of Directors are subject to the Company's Bye-Laws and conflict of interest policy, approved from time to time by the Board of Directors.

### 4. Voting

All proxies are voted with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in conduct of an enterprise of a like character. Proxies should be voted for issues that enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive and provide reasonable accountability for management.

Unless the Board of Directors provides information on how to vote a proxy, the investment managers shall vote the proxies according to their best judgment as to how best to meet this policy.

### 5. Custody of Securities

All securities must be held in a custody account at a major financial institution to be selected by the Board of Directors. Custodians must have a minimum rating of A by Standard & Poor's or A1 by Moody's and have provided custody services for at least 10 years.

6. Funds to be held in cash or demand deposit

Basic operating cash requirements are defined as those funds required for day-to-day expenses of the Company plus a contingency for unanticipated cash needs in the current fiscal year. Such funds are held in the Agency Account and shall not exceed 1.2 times the maximum total budget expense and contingency expense in the current fiscal year.

7. Funds to be held under the terms of a Reinsurance Trust

In association with the Facultative Reinsurance Agreement entered into with Lexington Insurance Company ("Lexington"), or any successor Agreement the Company has entered into through a Reinsurance Trust Agreement (the "Agreement") dated July 1, 2001 with Lexington and the Trustee. In accordance with this Agreement, funds held in trust will be subject to additional restrictions as defined in Exhibit A to the Agreement, which is appended to this policy.

8. Approved Investment List

The Agency Account may be invested with maturities per Section 9. Funds may be invested only in the following classes of securities:

- i. Direct obligations of the United States government
- ii. Obligations of agencies of the United States government
- iii. Commercial paper rated A1 or P1 by Moody's or Standard and Poor's.
- iv. Dollar denominated certificates of deposit with domestic banking institutions with assets of \$25 billion or more with a minimum rating of Aa or AA, respectively, by Moody's or Standard and Poor's. Funds invested in any one institution shall not exceed \$5 million. Certificates of deposit in other banks are permissible to the extent that deposits do not exceed the federally insured limit.
- v. Bank or broker repurchase agreements with dealers on the Federal Reserve Primary Government Securities Dealer List or with banks rated A or better by Moody's or Standard and Poor's. Repurchase agreements must be collateralized by direct US government obligations at 103%, be for a period of not more than 30 days and allow for a perfected lien on the collateral.
- vi. Eligible bank acceptances maturing in 180 days or less and endorsed by the bank's acceptance stamp.
- vii. High quality money market funds with a minimum of \$500 million in assets.

- viii. Guaranteed Investment Contracts with insurance companies rated at least A in Best's Reports.
- ix. Mutual Funds or commingled funds consisting of the above-named securities.

The Trust Account may be invested in securities with maturities described in Section 9. The structure of the Trust Account investment maturity guidelines ensure sufficient funds are available when needed to pay claims. Funds may only be invested per the approved investments listed in Exhibit A.

9. Investment Maturity

<b>Account</b>	<b>Maturity</b>	<b>Target Range</b>	<b>Benchmark</b>
Agency	100% ≤ 2 years	N/A	90-Day T- Bill
Trust	50% 1-5 years	45% to 55%	Barclays 1-5 year Gov't Credit A+ Index
Trust	50% 5-10 years	45% to 55%	Barclays 5-10 year Gov't Credit A+ Index

10. External Investment Managers

The Board of Directors is responsible for selecting external investment managers for the accounts. Unless otherwise directed by the Board of Directors, such investment managers are to comply with the Investment Policy.

11. Execution of Transactions

The investment managers will regularly and to the extent practicable solicit competitive bids from two or more non-affiliated broker/dealer before executing transactions. Selection will be based on the quality of execution, the value of research information, the financial viability of the brokerage firm, the general business integrity of the firm and the cost of services. As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.

12. Prohibited Transactions

- i. Short sales, options trading, forward contracts, purchases of letter (restricted) common stocks, purchases of securities on margin credit, or investment in commodities or transactions of a similar nature.
- ii. Borrowing for investment purposes.

iii. Trading done solely for the purpose of arbitrage or short-term, speculative gain.

13. Prohibited Investments

Any investments not listed in Section 8 are prohibited in the Agency account. Any investments not listed on Exhibit A, i - vii and investments specified as not permitted on Exhibit A are prohibited in the Trust account.

14. Investment Currency

Company funds are available for US Dollar investments only.

15. Account Rebalance

The Funds will be rebalanced to target when outside of the target ranges described in Section 9.

16. Investment Monitoring and Reporting

The Board of Directors will periodically review performance of Company investments. Performance monitoring is the mechanism for revisiting the investment selection process and confirming that the criteria originally satisfied remain intact and that an investment continues to be appropriate for the Company. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an on-going process.

Any exception in practice to the above rules and limitations must be approved in writing and in advance by the Board of Directors.

## EXHIBIT A

### List of Approved Investments and other Restrictions

The investments of the following classes may be made by the Trustee under the Trust Agreement.

- (i) U.S. Government, including an instrumentality of agency thereof, obligations with a stated maturity of 10 years or less from the date of purchase.;
- (ii) Any certificate of deposit, maturing not more than 30 days from the date of purchase, issued by a commercial bank which is a member of the Federal Reserve and which has a combined capital and surplus and undivided profits of not less than \$1 billion.
- (iii) Commercial paper, maturing not more than 45 days after the date of purchase, which is assigned a rating of “P-1” (or higher) by Moody’s Investor Service Inc. or “A-1” (or higher) by Standard & Poor’s Ratings Group (“S&P”), or its equivalent by another nationally recognized statistical rating organization.
- (iv) Fixed Income Obligations of U.S. corporations with stated maturities of 10 years or less and that are assigned senior debt ratings of at least “A-” by S&P or its equivalent at another nationally recognized rating organization.
- (v) Cash.
- (vi) Shares of U.S. SEC-registered money market funds.
- (vii) The maximum amount that can be invested in the commercial paper or any other obligations of institutions of any one corporation is 5% of the required collateral.

Trusts may not hold equities, non-U.S. denominated assets, auction rate securities, mortgage backed securities (MBS) and asset backed securities, except U.S. Agency and Government-Sponsored Enterprises (GSE) debt securities, and U.S. Agency and GSE backed mortgages.

Investments in AIG or its subsidiaries or affiliates or in the grantor, its parent, subsidiaries or affiliates are not permitted.

The overriding investment objective for the trust’s fund manager(s) must be the safety and liquidity of the trust assets.