

## **FSU Research Foundation, Inc.**

### Investment Policy

(approved Sept. 6<sup>th</sup> 2005; first amendment approved Feb. 13<sup>th</sup> 2006, and second amendment approved June 16<sup>th</sup>, 2011 by FSURF Board of Directors)

#### I. General:

The highest and best use of the assets of the Florida State University Research Foundation (FSURF) is to support and expand research within the University, and, accordingly, the Board of Directors of FSURF (Board) hereby finds and declares such purpose its primary mission. All of the assets of the FSURF shall be available for this purpose notwithstanding that execution of this policy may eventually exhaust all assets currently available. Until all of the assets are invested or deployed for research purposes, the assets of the FSURF may be invested within the general policy parameters set forth below and within such policy at the discretion of the Investment Committee of the Board.

#### II. Purpose:

The purpose of this policy is to set forth objectives and guidelines for the investment of assets held by the FSURF. Previously, the Board of FSURF had delegated the investment of assets to the Florida State University Foundation (FSUF) since they had selected and retained portfolio advisors, custodians, and managers for their investments. Also, both organizations appeared to have the same or similar investment objectives. With the diminution of external revenues FSURF has a substantially different financial position than was previously the case and, accordingly, must alter its investment objectives to meet the current requirements of the FSURF. The FSURF, for the foreseeable future, must rely almost exclusively on income derived from its investment portfolio to fund all programs and operations of the FSURF. In addition to its own programs, the FSURF acts as custodian for funds which must be available upon demand

by others. (These funds include research grants and contracts, annuity obligations, Eppes professorships, royalty accounts, PI accounts and other balances owed to others.) Due to the dramatic decline of royalty income, which was not unexpected, the FSURF must alter its investment strategy consistent with the changed revenue circumstances, in order to meet the objectives of the FSURF in maintaining the current programs in support of the research objectives of the University and to provide assurance that such objectives are maintained with some degree of certainty for future years.

FSURF shall emphasize an investment approach that minimizes risk, provides reasonably consistent annual returns, and minimizes transactional and investment costs and fees. This policy shall be reviewed periodically to accommodate the reasonably expected fluctuations in revenues and expenditures incident to the operation of an active research foundation.

To differentiate between the classes of assets held by the FSURF, the portfolios shall be divided into two distinct classes and invested as provided herein. The short term investments shall be for: demand deposits; operating funds; monies needed within 36 months; major capital outlay expenses; and matched liabilities for up to three years. Investments in the long term category shall provide for expenditures to be made in three years or more and other monies not placed in short term, provided that long term investments shall generate income sufficient to meet the appropriation requirements of the Board together with readily available or expected to be available monies from other sources.

### III. Short Term Investments:

#### A. Investment Objectives

The FSURF shall attempt to achieve for the portfolio as a whole the following objectives and in the following order of priority:

1. Preservation of capital and liquidity; and
2. Investment income.

The primary objective of the short term investment process shall be liquidity and safety or preservation of capital. In order to meet the expectation of providing ready cash to demand depositors without risk to other FSURF corporate funds, investments shall be made in instruments which minimize the likelihood of capital losses by means of maturity or credit risk. Concurrently, the investments must be in readily marketable securities in order to provide maximum liquidity. If times of withdrawal are known to FSURF, then such amounts may be matched with appropriate maturities within the range of permitted investments for this short term class of investments.

Income from short term investments shall be of secondary importance to preservation of capital and liquidity and shall be used to support and enhance the operational activities of the FSURF.

#### B. Permitted Investments

Funds in the short term class may be invested consistent with the objectives stated hereinabove in the following categories:

1. US Treasury Securities: Issued and guaranteed by the U.S. Government.
2. Federal Agencies: Government National Mortgage Association (GNMA), Tennessee Valley Authority (TVA), et al.

3. Money Market Instruments: Registered with the SEC with the highest credit quality rating as defined by nationally recognized statistical rating organization.
4. Local Government Pooled Account: A portfolio structured as a “2a-7 like” fund and administered by the State Board of Administration.
5. Special Purpose Investment Account (SPIA): Administered by the State of Florida through the Department of Financial Services.
6. Certificate of Deposit: Not to exceed the amount of Federal insurance.
7. Interest Bearing Accounts: In State certified public depositories.

#### C. Maturities

The short term funds shall be invested in securities with less than a three year maturity.

#### IV. Long Term Investments:

The purpose of this statement is to establish investment objectives for the long term funds of the FSURF. The ultimate objective is to have the long term investment fund continue to grow and provide annual income necessary for the administrative costs and operations of the FSURF, and provide a stable economic asset of the FSURF.

##### A. Investment Objectives

The long term funds shall be invested with the following objectives in the following order of priority:

- (a) Return on Capital;
- (b) Preservation of Capital; and
- (c) Liquidity.

##### B. Authorized Investments

The endowment shall invest only in the following securities:

1. U.S. Treasury Bills, Notes, and Bonds: Issued and guaranteed by the U.S. Government.
2. Certificates of Deposit: Issued by banks and covered by Federal Deposit Insurance Corporation (FDIC).
3. Government Sponsored and Enterprises (GSE): Including Farm Credit System (FCS), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Federal Agricultural Mortgage Corporation (FAMC), Federal Housing Administration (FHA), Tennessee Valley Authority (TVA), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), and Farm Credit System Financial Assistance Corporation (FAC).
4. Corporate Fixed Income Securities: Rated investment grade as defined by National Recognized Statistical Rating Organization (NRSRO).
5. Money Market Instruments: Taxable-rated A1/P1 as defined by National Recognized Statistical Rating Organization (NRSRO).
6. Equity Securities: Listed on a major U.S. exchange (including the NASDAQ market).
7. Mutual Funds: Provided that holdings are limited to permitted investments or comprise and replicate a published index.
8. Exchange Traded Funds (ETFs)

#### C. Diversification

No limitations are placed on investments carrying the full faith and credit of the U.S. Government.

Investments in any one single issuer (excluding obligations of the U.S. Government and its agencies, carrying the full faith and credit of the U.S. Government) are limited to 5% of the fund at purchase. Index funds are exempt from the 5% limit if they meet the mutual fund criteria stated above.

#### D. Asset Allocation

The investment policies, guidelines, and restrictions in the long term investment policy serve as a framework to help the FSURF Board, or any investment manager(s) acting on behalf of the Board, achieve the investment objectives at a level of risk deemed acceptable. Short-term fluctuations in value shall be considered secondary to longer-term results as defined by a full market cycle (four to seven years). In order to achieve these objectives, the portfolio will be invested in a mix of equities and fixed income investment securities. Due to variations in market conditions and outlook, the percentage invested in equity securities will be allowed to vary between 35% and 65%. The percentage invested in fixed income securities will be allowed to vary between 35% and 65%. The percentage invested in money market instruments will be allowed to vary between 0% and 50%.

#### E. Maturity and Duration

The average maturity of the fixed income investments of the Fund shall not exceed eight (8) years and the average duration shall not exceed five (5) years. Market accepted average life at time of purchase should not be used in lieu of final maturity for the purpose of acceptability of asset-backed securities.

#### V. Reporting

The Chairman of the Investment Committee of the FSURF shall report to the Board quarterly on the performance of the portfolio, including the asset allocation ranges and comparative returns for the Fund and their respective benchmarks. Also included will be a complete accounting of all transactions involving the Fund during the quarter,

together with a statement of beginning market value, fees, capital appreciation, income, and ending market value for each account.

#### VI. Performance Measurement Standards

Investment guidelines and performance standards are required for determining whether or not the objectives are being met. Performance measures will be prescribed in advance by the FSURF Investment Committee for any investments not held in the name of the FSUF. All investments held through the FSUF will be subject to performance measures dictated by their Investment Committee. The FSURF Investment Committee shall undertake an annual review of this policy to ensure its compliance with the stated purpose.

#### VII. Internal Controls and Monitoring

The Investment Committee shall exercise and monitor a set of internal controls, which are designed to protect FSURF's funds and ensure proper accounting and reporting of the securities transactions. Such internal controls shall consist of, but not be limited to, the following:

- A. Written documentation and/or confirmation of telephone transactions and wire transfers will be maintained.
- B. There will be adequate separation of duties with clear delegation of authority among investment personnel.
- C. Custodial safekeeping shall be properly utilized.
- D. Operation review and performance evaluations and reporting, interim and annual, shall be reported to the Finance Committee and the Board of Directors.
- E. There will be no physical delivery of securities.
- F. Written dealer confirmation and monthly and/or quarterly custodial account statements shall be maintained.

- G. All daily investment activity will be coordinated and reviewed by the Chairman of the Investment Committee or his designee.
- H. Periodic training and educational opportunities will be provided and made available concerning investments and related subjects for appropriate investment personnel.
- I. Such additional internal controls as established by the Finance Committee.

## VIII. General

### A. Prohibited Investments and Activities

The FSURF shall not engage in any prohibited investment activities which are activities not specifically authorized by this policy and include the following:

1. Options writing or purchasing;
2. Purchase securities on margin;
3. Purchase or sale of futures or commodity contracts;
4. Short sales of any security;
5. Leveraged derivative securities, defined as securities that produce a dollar exposure greater than that of the actual dollars invested in the securities; and
6. Foreign non-dollar denominated securities.

Notwithstanding the preceding, consistent with common practice for institutional index portfolios, the FSURF may invest in highly diversified index funds that:

1. Lend securities; and
2. Utilize futures, options and other securities authorized under Section 215.47, Florida Statutes, in order to closely track the performance of market benchmarks; provided that such investments are of short duration and never exceed the market value of such fund by more than five percent.



## B. Prudence and Ethical Standards

The “prudent investor” standard shall be used in the management of the overall investment portfolio.

The “prudent investor” standard is herewith understood to mean the following: Investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment and caution, and is to be applied to investments not in isolation but in the context of the entire portfolio and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for the Affiliate. In making and implementing investment decisions, the prudent investor has a duty to diversify the investments of the fund unless, under the circumstances it is prudent not to do so.

In addition, the prudent investor must:

- (a) Conform to the fundamental fiduciary duties of loyalty and impartiality;
- (b) Act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents; and
- (c) Incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the fund.

The Finance Officer, or persons performing the investment function, acting as a “prudent investor” in accordance with these written policies and procedures, exercising due diligence and investing in

investments authorized by law, shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

C. Authorized Investment Institutions and Dealers

The affiliate shall only purchase securities from financial institutions that are qualified as public depositories by the Treasurer of the State of Florida or are firms registered with the Securities and Exchange Commission as authorized broker/dealers or are governmental entities of the State of Florida.

D. Voting of Proxies

Voting of proxy ballots on securities held in any separately managed portfolio shall be for the exclusive benefit of the FSURF and the Florida State University. The investment manager shall vote the proxies in accordance with this policy on all shareholder issues.

E. Investment Managers & Advisors

The FSURF Investment Committee may retain the services of an Investment Consultant to provide expert advice and recommendations to help discharge its fiduciary responsibilities in furtherance of the FSURF's goals and objectives.

The FSURF Investment Committee may use the service of any FSU entity or affiliate or any State of Florida governmental agency authorized to manage funds.