
INVESTMENT POLICY STATEMENT

For

Ball State University Operating Funds

Prepared: December 2016

Revised: December 2017

Revised: December 2018

Revised: December 2020

Revised: October 2021

Approved by Ball State Board of Trustees:

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DEFINITIONS

Definitions are set forth below for all parties involved in the Ball State University (“University”) investment program.

Board: refers to the Board of the Trustees who governs the investment program.

Investment Committee: refers to the Investment Committee responsible for providing additional oversight of the University’s investment program, so as to allow the Board the ability to better carry-out their fiduciary duties. The Investment Committee is made up of the following:

- A. The Vice President for Business Affairs and Treasurer of the University.
- B. Other members appointed by the Vice President for Business Affairs and Treasurer
- C. One member of the Board designated by the Board Chair to serve as liaison to the Investment Committee

Consultant: refers to a third-party person or firm who is contracted by the University and is responsible for providing advice on the University’s investment program based upon their expertise and their analysis of the issues under consideration.

Investment Manager: refers to an external person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the University under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (e.g. banks and insurance companies and affiliates).

Investment Officer: refers to a University employee appointed by the Vice President for Business Affairs and Treasurer who is responsible for the management of all other investments that are not under the management of an Investment Manager.

Custodian: refers to a bank or trust company which is contracted by the University to hold the assets of the University.

PURPOSE

The purpose of this Investment Policy Statement (“IPS”) is to assist the University Investment Committee in effectively investing, supervising, monitoring and evaluating the investment of the University Operating Fund (“Fund”) assets on behalf of the Ball State University Board of Trustees (“Board”). The Fund’s investment program is defined in the various sections of the IPS by:

- Articulating the legal requirements within which the assets may be invested.
- Stating in a written document the Investment Committee’s attitudes, expectations, objectives and guidelines for the investment of Fund assets.
- Setting forth an investment structure for managing all Fund assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for investments and each investment manager (“Manager”) that control the level of overall risk and liquidity assumed in that investment style, so that all Fund assets are managed in accordance with stated objectives.
- Encouraging effective communications and understanding regarding investment performance between the Investment Committee, the investment consultant (“Consultant”) and the Managers.
- Establishing formal criteria to monitor, evaluate, and compare the performance results achieved by the Managers on a regular basis.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Fund assets.

BACKGROUND AND SCOPE

Vision Statement:

Ball State aspires to be the model of the most student-centered and community-engaged of the 21st century public research universities, transforming entrepreneurial learners into impactful leaders—committed to improving the quality of life for all.

Key information regarding the University can be found in Appendix A.

Background:

Indiana Code (IC) 21-29-2-1 gives the Board of the University the authority “to establish and carry out written policies for the investment of the funds of the state educational institution in the manner provided by IC 30-4-3-3.” Under Indiana Code 30-4-3-3(c), this authority requires exercising “the judgment and care required by IC 30-4-3.5,” also known as the “Prudent Investor Rule.”

Therefore, the Board is responsible for ensuring the prudent investment of University assets in a manner consistent with this Investment Policy.

With the exception of funds delegated to an external investment manager under separately-defined policies and parameters, authority for overseeing day-to-day investments is delegated to an Investment Officer as recommended by the Vice President for Business Affairs and Treasurer and approved by the President. The Investment Officer is responsible for Investment Policy compliance subject to and consistent with investment procedures and practices approved by the Vice President for Business Affairs and Treasurer.

Other pertinent investment requirements in the Indiana statute include the following:

- Certain Funds may not be invested in equity securities. Article XI, Section 12 of the Indiana Constitution.
- The Board is to establish and carry out written policies for the investment of funds of the Institution in a manner consistent with applicable Indiana Code, including IC 30-2-12 (Uniform Management of Institutional Funds).

The Board recognizes the above-stated laws govern the decision-making of the funds. In addition, in an effort to adhere to the highest fiduciary standards, the Board intends to act in accordance with the Uniform Prudent Management of Institutional Funds Act.

Tiered Structure:

The investment structure divides the pooled investments into three liquidity tiers to provide for total return potential while meeting the daily liquidity requirements of the University. In order to supply sufficient day-to-day operating liquidity, Tier I is invested in such assets as money market securities and liquidity reserves. Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of

BACKGROUND AND SCOPE

incremental return over Tier I. Tier III is invested for total return potential while taking on appropriate levels of risk. Designated investments make up a fourth group of assets. These assets are invested for specific purpose and are managed internally to meet their respective requirements. Initial recommended asset ranges for each tier are included in Appendix B.

The University has analyzed several years of data to determine the level of non-state resources which are allowable for equity investment. Equities are allowable only in Tier III of the pooled investments. The current equity target allocation, as reflected in Appendix B, is conservatively calculated and lower than the allowable level.

The minimum balance and asset range requirements for Tier I and Tier II will be reviewed and adjusted periodically, as will the investment management styles used in each tier.

Further details are included in Appendix B.

Scope of the Investment Policy Statement:

This Investment Policy applies only to those assets for which the Board and the Vice President for Business Affairs and Treasurer have discretionary authority.

- **Included Assets**

Assets subject to this Investment Policy are categorized as:

- **Designated Investments**
Funds held by the University that are to be invested separately as required by law, action of the Board, bond indentures, or other contractual agreements.
- **Pooled Investments**
All other funds held by the University not otherwise specifically designated.

- **Excluded Assets**

This Investment Policy does not apply to funds:

- Held by a bond trustee;
- Held by the Other Post-Employment Benefits (OPEB) 115 Trust; and
- Held by the Voluntary Employees Beneficiary Association (VEBA) Trust.

STATEMENT OF OBJECTIVES

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

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the University shall be undertaken in a manner that ensures the preservation of capital in the overall portfolio.
- **Liquidity:** The Funds will remain sufficiently liquid to enable the University to meet working capital needs, planned capital asset expenditures, unanticipated spending requirements and investment opportunities.
- **Return on Investments:** The Funds shall be structured with the objective of attaining the highest possible “total-return” for the Portfolio while adhering to the restraints and obligations inherent in the current legal structure of a prudent fiduciary, and all the objectives of the IPS.
- **Compliance:** Compliance with all legal and regulatory requirements of the state of Indiana, the federal government or other required regulatory agencies.

Time Horizon

The investment guidelines are based upon unique investment horizons for the various tiers. In general, interim fluctuations in market value should be viewed with appropriate perspective. Tier I has a short time horizon (less than one year), Tier II has an intermediate time horizon (one to three years) and Tier III has a longer time horizon (three to ten years). Designated investments will have a time horizon dictated by their intended purpose.

Risk Tolerance

The Board recognizes the complexity of balancing the competing objectives of the IPS. Some risk must be assumed in order to support the objectives for the Funds, including providing for the annual level of disbursements required by the operating needs and achieving preservation of the overall asset base.

Specifically, the risk tolerance for Tier I is defined as having little to no volatility given the objective of this Tier to supply sufficient day-to-day operating liquidity. The risk tolerance for Tier II has a slightly longer-term focus, as this Tier is to provide sufficient level of reserves in case of unanticipated liquidity needs. Therefore, Tier II is anticipated to provide enhanced returns from that of Tier I, but with limited volatility. Tier III has been designed with a longer-term objective in order to provide the University with additional return opportunities. The Board is willing to accept more volatility within Tier III in order to achieve a longer term objective. Designated investments must meet specific criteria attributable to their designation.

Risk tolerance is reviewed periodically by the Investment Committee in order to determine whether such objectives can be met given the current market environment. Based on these evaluations, along with cash forecasts and budgetary needs, the Investment Committee may make adjustments to the

STATEMENT OF OBJECTIVES

tiered structure, asset allocation and investment manager structure to maintain an acceptable level of risk for the Funds. Further details are contained within Appendix B of the IPS.

Performance Expectations

In general, it is expected that the Fund's investment strategy is structured to provide returns consistent with the Investment Committee's objectives outlined within the Statement of Objectives' section of the IPS. However, it is understood that the performance of the Fund is influenced by the market environment. Therefore, performance expectations will be reviewed not less than quarterly by the Investment Committee in order to determine whether the Investment Committee's objectives can be met given the current market environment. Based on these evaluations, the Investment Committee may make adjustments to the asset allocation and investment manager structure to maintain an acceptable level of risk for the Fund. Further details are contained within Appendix B of the IPS.

Additionally, over complete business cycles, the Fund's overall return will be compared to a customized benchmark as indicated in Appendix B.

Portfolio Construction

The Investment Committee views the appropriate construction of each tier in relation to two broad components: Liquidity and Total Return. The balance between these two components is reviewed on a not less than quarterly basis and is determined in light of the goals and objectives of each tier, the risks and opportunities available at a given time and the risk tolerance of the Investment Committee. Initially, the Investment Committee shall review a number of manager structure alternatives to further define investment strategies for inclusion within each component. The risk to any one manager will be evaluated regarding proper diversification among investment strategy and business risk, along with proper diversification among investment vehicles. Further details are contained below and within Appendix B of the IPS.

Rebalancing

- **Between Tiers:** Tier balances will be reviewed on a periodic basis, but not less than quarterly. Assets will be adjusted between the tiers to remain within asset ranges and cover appropriate reserves.
- **Between Tier Components:** From time to time, the components and underlying strategies of each tier may deviate from each other due to market conditions. A range has been established for each component and underlying strategy to control risk and maximize the effectiveness of the University's overall investment strategy, while avoiding unnecessary turnover at the security level. When a component or underlying strategy is outside of its allowable range, the Investment Committee will evaluate the feasibility of rebalancing back to the target allocation and may initiate portfolio rebalancing. Under extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing might unduly hinder the Funds, the Investment Committee may choose to delay rebalancing in order to better reflect the overall goals and objectives of the Funds.

GUIDELINES

Investment Managers

Subject to the IPS, each separate account investment manager shall have full discretionary investment authority over the assets under his or her management. Each manager shall be retained to implement a specific investment style and strategy for the University. Accordingly, managers selected to manage University assets through a separate account will be subject to specific guidelines that will be negotiated and agreed upon by the Investment Committee and Consultant. In addition, if the University chooses to invest a portion of the assigned assets in mutual funds or other commingled investment vehicles, the products selected shall adhere to the guidelines set forth in the prospectus or trust document. Descriptions of permissible styles of investments are found in Appendix B. Tiers II and III utilize external investment managers.

Other pertinent investment requirements in the Indiana statute include the following:

- Certain Funds may not be invested in equity securities. Article XI, Section 12 of the Indiana Constitution. Equities are allowable only in Tier III of the pooled investments.
- The Board is to establish and carry out written policies for the investment of funds of the Institution in a manner consistent with applicable Indiana Code, including IC 30-2-12 (Uniform Management of Institutional Funds).

Guidelines for Investment Manager Selected Brokers

All transactions effected for the Fund will be "subject to the best price and execution". If a Manager utilizes brokerage from the Fund assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Investment Committee.

Investment Officer

The Investment Officer must adhere to the following guidelines as well as any applicable Indiana statutory requirements. The investment types in the portfolio must be permissible investments under Indiana Statute. The Investment Officer is tasked with overseeing Tier I and any Designated Assets.

The guidelines listed below are written with the intent to provide the Investment Officer sufficient flexibility for the liquidity needs of the University. The Investment Officer will be subject to more specific guidelines to ensure internal controls and separation of duties.

Asset Type	Maximum % of Portfolio	Credit Rating Floor*
U.S. Treasury	100%	
U.S. Government Agency or Instrumentality	100%	AA- / Aa3
Investment-grade Corporate Bonds	50%	AA- / Aa3
Taxable General Obligation Municipal Bonds	50%	AA- / Aa3
Commercial Paper	50%	A-2 / P-2
Certificate of Deposit	50%	
Money Market Instruments and Funds	100%	

GUIDELINES

*When credit ratings are split between various credit rating agencies, the lowest observed rating will apply.

In the event a single investment is downgraded, to a level below the established credit rating floor for the specific asset type, the following actions must be taken:

1. Identify the asset, the most current credit ratings, and the rationale behind the respective downgrade.
 - a. If the lowest credit rating is below investment grade, (i.e., equal to or lower than BB+ or Ba1) the asset must be sold as soon as possible.
 - b. If the asset is still considered investment grade, (i.e., equal to or above BBB- or Baa3) an evaluation of swapping the asset for an alternative replacement should be considered.
2. If an asset swap that is permissible can result in a net gain, it should be executed when identified.
3. Where an asset swap that is permissible would result in a net loss, the swap should be at the discretion of The Vice President for Business Affairs and Treasurer of the University while acting in the best interests of the University.

The use of derivatives are prohibited.

Other pertinent investment requirements in the Indiana statute include the following:

- The Funds may not be invested in equity securities. Article XI, Section 12 of the Indiana Constitution. Equities are not allowed within Tier I or any Designated Assets.
- The Board is to establish and carry out written policies for the investment of funds of the Institution in a manner consistent with applicable Indiana Code, including IC 30-2-12 (Uniform Management of Institutional Funds).

Financial Institution and University Selected Brokerage Firms

Any financial institution holding Ball State funds must have an IDC rating greater than 125. Certificate of Deposits are limited to P&I insured in full by the FDIC. Certificates of Deposit in excess of \$250k are permissible if the issuing bank insures them under the PDIF program of the state of Indiana.

Investments are to be placed with or through the financial institutions and approved brokerage firms that best support the objectives of the Investment Policy, considering the guidelines established in this IPS, cash flow needs, investment strategy, existing portfolio and best interests of the University.

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All purchases must be reviewed and approved by the Vice President for Business Affairs and Treasurer or Associate Vice President for Budgets and Finance and Assistant Treasurer.

All brokerage firms must meet a compliance checklist, reviewed at least annually, before approval by the Vice President for Business Affairs and Treasurer, including:

- Current registration with the Securities and Exchange Commission (SEC);
- Current registration with the Financial Industry Regulatory Authority (FINRA);
- Current licensure with the State of Indiana;
- Status of no unresolved major regulatory or legal events disclosed on FINRA related to suspensions, crimes or fraud;
- Current membership of the Securities Investor Protection Corporation (SIPC).

SELECTION OF INVESTMENT MANAGERS

The Investment Committee has the responsibility for selecting money managers. The Investment Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment managers, the Investment Committee will:

- Retain a "prudent expert" (a bank, insurance company, or investment advisor as defined by the Registered Investment Advisors Act of 1940).
- The Investment Committee may evaluate criteria specific to the mandate being sought. Such criteria may include, but is not limited to:
 - Investment manager strategy and approach
 - Organizational structure
 - Minimum and maximum assets under management
 - Client servicing capabilities
 - Performance criteria relative to an appropriate index and peer group, where appropriate
 - Capacity in the appropriate vehicle
 - Initial lockup and redemption provisions, where appropriate
 - Fund transparency (confidentiality agreements may be necessary)
 - Fees and alignment of economic interests
- Follow a due-diligence process so as to avoid selecting investment managers on an ad-hoc basis. The due diligence process should involve analyzing investment manager candidates in terms of certain:
 - **Qualitative Characteristics**, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
 - **Quantitative Characteristics**, such as GIPS-compliant composite return data, investment performance over multiple time periods, performance volatility, risk-adjusted rates of return (e.g., Sharpe Ratios), and certain portfolio characteristics.

CONTROL PROCEDURES

Duties and Responsibilities of Investment Committee:

The Board has delegated the day-to-day responsibilities for overseeing the investment program to the Investment Committee. The Investment Committee's specific responsibilities include: establishing the Fund's asset allocation and diversifying portfolio assets; establishing and following investment policy objectives and guidelines; hiring prudent experts to make investment decisions; controlling and accounting for expenses; and performing ongoing monitoring. The Investment Committee is also responsible for ensuring that the Fund is managed in the best interests of the University. The Investment Committee shall conduct its responsibilities as outlined in this IPS.

Duties and Responsibilities of Board:

The Board is responsible for establishing and monitoring investment policy objectives and guidelines to be carried out by the Investment Committee. The Board is also responsible for ensuring that the Funds are managed in the best interests of the University. The Board shall conduct its responsibilities as outlined in this IPS. The Board will review and approve the IPS on an annual basis.

Duties and Responsibilities of the Investment Managers:

The duties and responsibilities of each Separate Account Manager shall be as set forth in the applicable Investment Management Agreement entered into between the University and the Investment Manager retained by the Investment Committee and shall include the following:

- Managing the Funds' assets under its care and control in accordance with the IPS objectives and guidelines) set forth herein, and also as may be expressed in separate written agreements between the Manager and the University when deviation is deemed prudent and desirable by the Investment Committee upon recommendation of the Investment Consultant.
- Exercising investment discretion [including holding cash equivalents as an alternative] within the IPS objectives and guidelines set forth herein.
- Promptly informing the Investment Committee in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
 - Investment strategy
 - Portfolio structure
 - Tactical approaches
 - Ownership
 - Organizational structure
 - Financial condition
 - Professional staff
 - Recommendations for guideline changes
 - All legal material, SEC and other regulatory agency proceedings affecting the firm.

CONTROL PROCEDURES

- Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Funds with like aims in accordance and compliance with applicable laws, rules and regulations from local, state, and federal entities as it pertains to fiduciary duties and responsibilities.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

Managers selected to manage Funds' assets through a mutual fund, exchange-traded fund, commingled investment trust, or private offering must adhere to the guidelines set forth in their respective prospectus, trust document or offering memorandum.

Duties and Responsibilities of the Investment Officer:

The duties and responsibilities of the Investment Officer shall be included in the University's Cash and Investments Procedure and includes the following:

- Administer the cash management program by determining cash requirements and projecting cash disbursements.
- Oversee the operational cash flows of the University to provide liquidity with maximum return within the guidelines of the IPS.
- Invest and manage funds in accordance with IPS for assets under its care and control in accordance with the IPS objectives and guidelines.
- Calculate investment income applicable to all funds held by the University for financial reporting.
- Responsible for ensuring cash management team is adhering to internal controls.
- Provide daily management and leadership to the support staff ensuring that departmental procedures are adhered to.

Duties and Responsibilities of the Investment Consultant

The duties and responsibilities of the Consultant include the following:

- Meet quarterly with the Investment Committee to review the Investment Program.
- Assist in the development of an overall strategy that meets the risk/reward requirement of the University.

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- Prepare a written Investment Policy Statement and assist in the documentation of investment decisions.
- Assist in the selection of “prudent experts” (investment managers) who, in turn, are charged with making investment decisions that are consistent with the IPS.
- Assist in the control of investment expenses, including helping to negotiate investment manager and custodian fees.
- Monitor the activities of hired Managers and service vendors.
- Educate Investment Committee and Board members of their fiduciary responsibilities and the fundamentals of investment management.
- Assist fiduciaries in avoiding conflicts of interest.

Duties and Responsibilities of the Custodian

The Investment Committee believes that timely and accurate completion of custodial functions is necessary for effective management and monitoring of the Fund assets. Specifically, the duties and responsibilities of the Custodian include the following:

- Implementing in a timely and effective manner the investment actions as directed by the investment manager(s) or University;
- Investment of any cash into the chosen sweep vehicle;
- Holding all securities in safekeeping for the University;
- Collecting and receiving all income and principal;
- Maintaining accounting records and preparing reports that are required by the Consultant and Investment Committee;
- Providing performance measurement numbers consistent with GIPS standards as requested by the Consultant and Investment Committee;
- Processing distributions from the Fund as requested by the Investment Committee;
- Conforming to all provisions in its contract with the University.

Performance Evaluation

Investment performance will be reviewed at least quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. Additionally, over complete business cycles, each Tier’s performance will be compared

CONTROL PROCEDURES

to a customized, weighted benchmark that represents each Tier's portfolio construction. Further details are contained within Appendix B of the IPS.

IPS REVIEW AND EVALUATION

Each investment manager will agree to the terms and conditions of this Investment Policy by acknowledging in writing the receipt of this Investment Policy. In the event an investment manager believes at any time that changes, additions, or deletions to this Investment Policy are advisable, the investment manager will communicate such recommendations to the University and the Investment Consultant in writing. It is clearly understood that the University, and not the investment manager, is responsible for the establishment of this Investment Policy. The spirit of this paragraph is to encourage investment managers to bring important matters to the attention of the University so that the University can conduct its reviews of its policies and objectives in an informed manner. The Board shall formally review and approve this Investment Policy Statement on an annual basis. The appendices are not considered a formal component of the Investment Policy. Any changes to the appendices shall be reported to the Board by the Investment Committee. Any modifications shall be reviewed and discussed with the investment managers prior to implementation.

APPENDIX A

Key Information:

Name of Fund: Ball State University Operating Funds

Type of Fund/Tax Status: Tax-Exempt University

Current Assets: \$411,763,089 (as of June 30, 2021)

Investment Committee:

Alan Finn
Rick Hall
Chris Moore
Lisa Bevans
Daniel Garreth
Scott Stachler

Custodian: U.S. Bank & Trust

Investment Consultant: Capital Cities, LLC (317) 475-4500

APPENDIX B

Historical Record

<u>Date</u>	<u>Change</u>	<u>Comments</u>
Oct, 2021	The Investment Policy Statement is reviewed periodically. Capital Cities amended the policy and updated the information contained within the Appendix.	The policy was amended to reflect the Investment Committee approved changes from the August meeting.
Aug, 2021	Capital Cities provided a follow up to the asset allocation study. The analysis focused on restructuring Tiers II and III of the Pooled Investments. The University has analyzed several years of data to determine the level of non-state resources and therefore allowable for equity investment. Equities are allowable only in Tier III of the pooled investments.	The Investment Committee voted to move Tier II of the Pooled Investments to external management. The Committee also voted to restructure Tier III to include Core & Core Plus Fixed Income and Passive US and International Equities. The Committee also approved to change the Tier I range to \$15 mm - \$65 mm to better reflect actual experiences.
May, 2021	Capital Cities provided an analysis of the overall allocation of the portfolio, including the tier structure, fixed income environment and risk/return metrics. Further Analysis focused on the recent investment manager meetings and potential enhancements to the overall asset allocation.	Discussions focused on potentially expanding the opportunity set of the investment program. Follow up analysis is being performed for the August meeting.
April, 2021	Merganser joined a special investment committee meeting to provide an update on their Portfolio.	None.
Feb, 2021	Reams joined the investment committee meeting to provide an update on their Portfolio.	None.
Feb, 2021	Capital Cities prepared a presentation to assist in reviewing 2020 year-end performance and looking ahead to 2021.	None.
Nov, 2020	The Investment Policy Statement is reviewed periodically. Capital Cities amended the policy and updated the information contained within the Appendix.	The policy was amended to remove the credit rating guideline for Certificates of Deposits. While there are still procedures in place to analyze credit ratings, the University no longer subscribes to the IDC methodology listed.
Aug, 2020	Capital Cities provided a presentation in order to assist the committee in reviewing the Portfolio's investment management, custody and consultant fees.	Though overall fees are reasonable, a follow-up of the fee discussion was to pursue potential fee savings with US Bank. Given that the US Bank relationship extends beyond the Operating Funds, this discussion was tabled.
May, 2020	Capital Cities provided an analysis of the overall allocation of the portfolio, including the tier structure, fixed income environment and risk/return metrics.	Discussions focused on potentially expanding the opportunity set of the investment program. Given uncertain liquidity needs, however, no changes were recommended.
Feb, 2020	Capital Cities prepared a presentation to assist in reviewing 2019 year-end performance and looking ahead to 2020.	None.
Dec, 2019	Capital Cities attended the Board of Trustees meetings to cover a fiduciary update.	None.
Nov, 2019	The Investment Policy Statement is reviewed periodically. Capital Cities updated the information contained within the Appendix.	None.
Aug, 2019	Reams joined the investment committee meeting to provide an update on their Portfolio.	None.
Aug, 2019	Capital Cities provided an analysis of the overall allocation of the portfolio, including the tier structure, fixed income environment and risk/return metrics.	The current structure was confirmed.
May, 2019	Capital Cities provided a presentation in order to assist the committee in reviewing the Portfolio's	None.

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	investment management, custody and consultant fees.	
Feb, 2019	Merganser joined the investment committee meeting to provide an update on their Portfolio and to provide education on Asset Backed Securities.	None.
Feb, 2019	Capital Cities prepared a presentation to assist in reviewing 2018 year-end performance and looking ahead to 2019.	None.
Nov, 2018	The Investment Policy Statement is reviewed periodically. Capital Cities amended the policy and updated the information contained within the Appendix.	The policy was amended to include directions for the Investment Officer in the event of a rating downgrade.
Aug, 2018	Capital Cities provided an analysis of the overall allocation of the portfolio, including the tier structure, fixed income environment and risk/return metrics.	The current structure was confirmed.
May, 2018	Capital Cities provided a presentation in order to assist the committee in reviewing the Portfolio's investment management, custody and consultant fees.	None.
March, 2018	Capital Cities provided an update to the Board of Trustees on the Operating Funds.	None.
Feb, 2018	Capital Cities prepared a presentation to assist in reviewing 2017 year-end performance and looking ahead to 2018.	None.
Feb, 2018	Capital Cities implemented a number of changes to the Performance & Evaluation Report	None.
Nov, 2017	The Investment Policy Statement is reviewed periodically. Capital Cities amended the policy and updated the information contained within the Appendix.	The policy was updated to include specific language regarding derivatives and split-ratings. The updates were approved by the Board in December.
Aug, 2017	Capital Cities visited Ball State to meet with the Investment Committee.	A sample Performance & Evaluation report was presented.
July, 2017	Capital Cities provided an update to the Board of Trustees on the progress of the Operating Funds implementation.	None.
June, 2017	Capital Cities coordinated Investment Manager Agreements between Ball State and both Investment Managers.	The Agreements were finalized in July. The accounts were funded in September.
May, 2017	Capital Cities negotiated fees with Merganser and Reams on behalf of Ball State.	None.
May, 2017	Capital Cities visited Ball State to present the Investment Manager finalists.	Ball State elected to hire Merganser Capital Management and Reams Asset Management.
April, 2017	Capital Cities altered the Investment Manager search given the liquidity restraints.	None.
April, 2017	Capital Cities along with Ball State analyzed the University's upcoming liquidity needs.	Given the timing and scale of the upcoming liquidity needs, the decision was made to move forward with hiring two investment managers who will each manage a blended portfolio of Defensive, Intermediate and Core Fixed Income. Both managers will be expected to facilitate cash flow needs.
March, 2017	Capital Cities along with Ball State interviewed finalists for the Custodian Search.	BMO Harris, Wells Fargo and U.S. Bank presented and Ball State ultimately selected U.S. Bank for custodian services. Implementation with U.S. Bank followed for the next several weeks.
Feb, 2017	Capital Cities met with the Investment Committee to discuss various topics.	The manager structure of the Portfolio was finalized. An update was provided on both the Investment Manager and

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		Custodian RFPs.
Jan, 2017	Capital Cities visited Ball State for an introduction meeting to the newly established Investment Committee.	None.
Dec, 2016	Capital Cities issued a Custodian RFP for the Operating Fund assets.	None.
Dec, 2016	Capital Cities issued an Investment Manager RFP for Tier 3 Investment Mandates.	None.
Dec, 2016	Ball State University and Capital Cities revamped the Investment Policy Statement for the Operating Funds. The Board of Trustees approved the new policy on December 16 th .	None.
Nov, 2016	Ball State University and Capital Cities conducted an initial due diligence meeting to review the needs and objectives of the University.	None.
Oct, 2016	Ball State University retained Capital Cities, L.L.C. as the investment consultant to the Funds.	None.

APPENDIX B

Portfolio Construction Analysis

During Capital Cities' initial due diligence of the Operating Funds, Capital Cities and the university reviewed the portfolio construction of the Funds. The discussions centered on the goals and objectives of the University and the Funds. The University has unique short-term (less than 1 year) and long-term (more than 1 year) liquidity needs that were the main focus of the portfolio construction process. In the short-term, the University must meet all of its operating expenses with the Funds.

As a result, the university arrived at a tiered allocation and established a set dollar approach to determine the targeted market value for each tier (further outlined on the following page). In determining the structure and target balance of each Tier, factors that were considered included: historical distributions taken from the Funds (monthly, quarterly, and annually), worst case scenarios for cash balances; the need for return on the overall portfolio versus the need to ensure availability of assets; planned University capital projects that will be sourced from the operating funds. The target ranges of these tiers exclude designated funds.

- **Tier I:** It was determined that Tier I would have a target range of \$30,000,000 to \$50,000,000.
- **Tier II:** It was determined that Tier II would have a target range of \$25,000,000 to \$35,000,000.
- **Tier III:** The residual balance after Tiers I, II, and Designated Funds are fully funded, will be allocated to the Tier III portfolio; therefore, no minimum or target market value was established.
- **Designated Funds:** Balance is determined by purpose set forth in specific designations.

Rebalancing Between Tiers

In the event that Tier I becomes depleted, Tier II or Tier III can be used as a source of liquidity. Tier II would be sourced first followed by Tier III. In the event that Tier II becomes depleted, Tier III would be used as an emergency source of liquidity. In the event that Tier I becomes overfunded, excess reserves can be transitioned to either Tier II or Tier III depending on the balance of Tier II.

Rebalancing Between Tier Components

Rebalancing at the strategy and manager level represents a secondary level of rebalancing and is expected to have less of an impact on the overall characteristics of the Funds (i.e., risk, return, liquidity). Nonetheless, guidelines are in place to maintain the desired investment structure over time. Tier III rebalancing ranges can be found on the following page.

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Tier III Asset Class Rebalancing

Broad Asset Classes	Target % of Tier	Rebalancing Range
Fixed Income	78%	+/-10%
Equity	22%	+/-10%

Objectives

Tier	Objectives
I	Provides for daily and monthly operating cash needs, with limited return expectations.
II	Serves as a contingency account to replenish Tier I (if necessary). Return objectives are commensurate with conservative fixed income investing.
III	Maximizes risk-adjusted returns and provides emergency liquidity to Tiers I & II. Also serves to fund longer-term cash flow needs associated with initiatives of the University.

Asset Balance Ranges

Tier	Objective	Unrestricted Target Allocation	Investment Style
I	Liquidity / Operating Needs	\$15mm - \$65mm	Cash & Equivalents
II	Contingency Reserves	\$25mm - \$35mm	Defensive Fixed Income
III	Total Return	Residual Balance	Core Fixed Income Core Plus Fixed Income Domestic Equity International Equity

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Descriptions of Permissible Styles:

Cash and Equivalents: This style generally consists of cash and or short-term investment funds that invest in low-risk, highly liquid, short-term financial instruments and whose net asset value is kept stable at \$1 per share. The average portfolio maturity is 30 to 60 days.

Active Cash: Active Cash Managers' objective is to achieve a maximum return on short-term financial instruments through active management. The average portfolio maturity is typically less than one year.

Defensive Bond: Defensive Bond managers construct portfolios that approximate the results of the Bloomberg 1-3 Year Government/Credit Index. The objective is to minimize interest rate risk by investing in predominantly short to intermediate term securities. The average portfolio duration is similar to the duration of the Bloomberg 1-3 Year Government/Credit Index.

Intermediate Bond: Intermediate Bond managers' objective is to lower interest rate risk while retaining reasonable yield levels by investing primarily in intermediate term securities. The average portfolio duration and risk/return profile is similar to that of the Bloomberg Intermediate Government/Credit Bond Index.

Core Bond: Core Bond managers construct portfolios to approximate the investment results of the Bloomberg Government/Credit Bond Index or the Bloomberg Aggregate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

Core Plus Fixed Income: Core Plus Fixed Income managers construct portfolios to approximate the investment results of the Bloomberg Capital Aggregate Bond Index with increased amount of variability in duration around the index. The managers also have the ability to invest in "plus" sectors outside the Index (High Yield, Intl Debt, etc.) The objective is to achieve value added from out of benchmark selections.

Total Domestic Equity Index: Total Domestic Equity Index Style managers hold portfolios with characteristics similar to those of the broader market. An example of a broad market index is the Dow Jones U.S. Total Stock Market Index.

Total International Equity Index: Total International Equity Index Style managers hold portfolios with characteristics similar to those of the broader market. Broad market indices include the MSCI ACWI ex-US Index or other similar indices.

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Monitoring of Investment Managers:

The Investment Committee is aware that the ongoing review and analysis of the Managers is just as important as the due diligence implemented during the Manager selection process. Monitoring these managers is a three step process, outlined below:

Step 1 – On-Going Monitoring

The Consultant with the Investment Committee will perform a constant and on-going analysis of all Fund Managers. In addition to reviewing quarterly investment performance, the Consultant and the Investment Committee will continually evaluate:

- The Manager's adherence to the IPS guidelines
- Material changes in the Manager's organization, investment philosophy and/or personnel
- The volatility of the investment rates of return of the Manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix B)
- Comparisons of the Manager's results to appropriate indices and peer groups (as listed in Appendix B).

If appropriate market indices and/or peer groups are not available, the Consultant and Investment Committee will evaluate factors such as the money manager's adherence to stated risk and return objectives and the money manager's portfolio exposures in relation to the market environment and stated philosophy and process.

Step 2 – Formal Watchlist

If the Consultant with the Investment Committee determine that any of the above factors, or any other development regarding the Manager's performance or organization, warrants a more thorough examination, the Investment Committee will place the Manager on a formal "watchlist". Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events that may lead to action include such things as:

- Change in ownership (e.g., key people "cash out")
- Change in professionals
- Changes to a Manager's philosophy or the process it uses to implement the agreed upon strategy
- Manager is involved in material litigation or fraud
- Client-servicing problems
- Significant account losses or significant account growth

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- Change in cost
 - Change in financial condition
 - Extreme performance volatility
- Long-Term Performance in Relation to Appropriate Market Index, Market Environment, or Stated Goals and Objectives

Long-term performance standards measure a Manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style Group," Market Environment, or Stated Goals and Objectives

Shorter-term performance standards incorporate a time period of at least three years. Each Manager is expected to consistently perform in the top 50th percentile versus an appropriate peer group of investment managers with similar investment styles. Additionally, each Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. If appropriate peer groups are not available, the money manager's adherence to stated risk and return objectives and the money manager's portfolio exposures in relation to the market environment and stated philosophy and process will be evaluated. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

Step 3 – Replace or Retain

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the watchlisting examination of the Manager, a recommendation to either **replace** or **retain** the Manager will be made.

It is at the Investment Committee's discretion to take corrective action by replacing a Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Manager. The aforementioned events, or any other events of concern identified by the Investment Committee, may prompt the immediate removal of a Manager without it being watchlisted.

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Selected Managers and Relevant Benchmarks & Peer Group:

Tiers & Investment Styles	Manager	Benchmark	Peer Group
Tier II			
Defensive	Merganser Short Income	Bloomberg I-3 Gov/Credit Index	Defensive Fixed Income
Tier III			
Core	Merganser Core	Bloomberg Aggregate Bond Index	Core Fixed Income
Core Plus	Reams Core Plus	Bloomberg Aggregate Bond Index	Core Plus Fixed Income
Total Domestic Equity	Fidelity Total Stock Market	Dow Jones U.S. Total Stock Market Index	
Total International Equity	Fidelity Total International	MSCI ACWI Ex-US IMI	

Evaluation Benchmark:

Tier III Policy Benchmark:

78% Bloomberg Aggregate Bond Index

16% Dow Jones U.S. Total Stock Market Index

6% MSCI ACWI Ex-US IMI