Salem STATE UNIVERSITY

Investment Policy

October 8,2013

GLOSSARY OF TERMS

ASSET ALLOCATION – A term used to refer to how an investor distributes his or her investments among various classes of investment vehicles (e.g. stocks, bonds, cash).

BENCHMARK – A standard against which an investment's performance can be compared, often an index of securities in the same asset class as the investment.

CASH/CASH EQUIVALENTS – Cash equivalents are short-term securities, such as Treasury bills, money market mutual funds, or short-term bank certificates of deposit that provide safety and liquidity but historically have only marginally outpaced inflation in terms of return.

CORPORATE BONDS – Generally a promissory note given by a corporation to an investor, involving a promise to pay interest and to repay the par or face amount (also known as the principal) at a certain date. Interest is usually paid every six months, and the par value or face amount is usually $1,000. The payment date may be a few months or many years in the future. After a bond is issued, it may be bought or sold many times at discounts or premiums to face value depending upon the rate and term of the bond, the remaining term and the prevailing interest rates.

CUSTODIAN BANK – A specialized financial institution responsible for safeguarding client portfolio assets, arranging and accounting for any and all investment transactions, reporting status of investment activity on a regular basis and performing other fiduciary and financial services as directed by the university investment team.

EQUITY INVESTMENTS – Equity always refers to ownership. It is usually used as a synonym for common stock of a publicly traded corporation. There are variations but no maturity.

EXCHANGE TRADED FUNDS (ETF) – A type of investment company whose shares trade on stock exchanges at prices determined by the market.

EXECUTIVE MANAGEMENT – President, Vice President of Finance and Facilities, and Associate Vice President for Finance of Salem State University.

FEDERAL AGENCY SECURITIES – Generally a promissory note given by a government agency to an investor, involving a promise to pay interest and to repay the par or face amount (also known as the principal) at a certain date. Interest is usually paid every six months, and the par value or face amount is usually $1,000. The payment date may be a few months or many years in the future. After a bond is issued, it may be bought or sold many times. This investment is not guaranteed by the US Treasury, but it is generally believed that a default of repayment of principal would never occur.

FEE ONLY- A reimbursement model that pays investment managers or firms an agreed upon amount for agreed upon services.

FEE BASED- A reimbursement model that pays investment managers or firms an agreed upon percentage of portfolio assets for their services.

INVESTMENT ADVISOR(S) – Independent financial advisor and/or firm engaged to advise the University on investment strategies, portfolio selection, and economic forecasts as it relates to university assets. They may act on the university's behalf to effect trades or transactions as agreed upon between the advisor and university management.

INVESTMENT MANAGER(S) – Investment management firms and/or bank trust departments engaged to manage the University's portfolio.

INDEX FUNDS – A type of mutual fund or unit investment trust whose investment objective typically is to achieve approximately the same return as a particular equity or bond index by investing in the instruments of issuers included in the index (or a representative sample). Because an index fund is "passively" managed, its fees and expenses are typically lower than those of an actively managed fund.

LONG-TERM INVESTMENTS – May refer to a bond with a maturity of more than one year from the date of purchase.

MANAGED FUNDS – A portfolio of stocks or bonds owned by an individual or institution and managed by (i.e., investment decisions are made by) a professional investment manager.

MUTUAL FUNDS – Funds operated by an investment company that raise money from shareholders and invest it in stocks, bonds, options, commodities, or other money market securities. These funds offer investors the advantages of diversification and professional management. For these services they charge a management fee, typically one percent or less of assets per year.

NASDAQ – The National Association of Securities Dealers Automated Quotation, also called the "electronic stock market." The NASDAQ composite index measures the performance of more than 5,000 U.S. and non-U.S. companies traded "over the counter" through NASDAQ.

OPERATIONAL PROCEDURES – Used by university managers as implementation and administrative guidelines for the Salem State University Investment Policy.

PORTFOLIO COMPOSITION – The investment holdings of an individual or institutional investor; includes stocks, bonds, options, money-market accounts, etc.

PRUDENT INVESTMENT RULE-Generally refers to discharging of duties in good faith and with that degree of due diligence, care and skill which a prudent person would ordinarily exercise under similar circumstances in a like position.

SECURITIES AND EXCHANGE COMMISSION - A Federal agency established to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

SHORT·TERM INVESTMENTS - May refer to a bond with a maturity of less than one year from the date of purchase.

SECURITIES INVESTOR PROTECTION CORPORATION (SIPC) – Government-sponsored organization created in 1970 to insure investor accounts at brokerage firms in the event of the brokerage firm's insolvency and liquidation. The maximum insurance of $500,000 per customer, including a maximum of $100,000 in cash assets, covers losses due to brokerage house insolvencies, not losses caused by security price fluctuations. SIPC coverage is similar in concept to Federal Deposit Insurance Corporation coverage of customer accounts at commercial banks.

U.S. TREASURY SECURITIES - A promissory note given by the US Government to an investor, involving a promise to pay interest and to repay the par or face amount (also known as the principal) at a certain date. Interest is usually paid every six months, and the par value or face amount is usually $1,000. The payment date may be a few months or many years in the future. After a bond is issued, it may be bought or sold many times. This investment is guaranteed by the US Government and is considered to have no default risk.

Salem State University
Investment Policy

I. PURPOSE

This Policy is intended to be used as a policy and procedural guide for the administration of Salem State University ("University") investment funds. The administration of these funds will comply with MGL Chapter 73, Section 14 as well as with MGL Chapter 180A, also known as the Uniform Management of Institutional Funds Law. This Policy will also serve as a basis for actions of management in carrying out its investment duties, and for the Board of Trustees of the University in monitoring management's investment activities.

The University shall use the services of one or more Investment Management Firms and/or a Bank Trust Departments ("Investment Manager[s]") to carry out the University's investment activities. The basic responsibility of the Investment Manager(s) will be to keep executive management of the University abreast of the economy and market conditions and to invest in a mix of eligible instruments within the context of laws, regulations and this Policy. The Investment Manager(s) shall be approved by the Board of Trustees ("Board") as part of this Policy. The University's Executive Management may delegate authority to the Investment Manager(s) to act within the boundaries of this Policy

II. OBJECTIVES

The primary objectives of the Policy are to provide safety of principal and sufficient liquidity to ensure a reasonable degree of flexibility in the operations of the University, while also achieving long-term capital growth and appreciation for the portfolio. This means that investments will be made which, if necessary, will provide the University with the ability to convert any asset to cash with the least amount of credit or interest rate risk (i.e. loss of principal) within a prescribed period of time as directed by the Board or Executive Management.

All investments made for the purpose of attaining the foregoing objectives shall be made exercising judgment and care consistent with the Prudent Investment Rule, so called, and consistent with all applicable statutes, regulations and generally accepted investment practices.

III. PORTFOLIO COMPOSITION

The University's investment portfolio, for purposes of this Policy statement, shall consist of three major categories of financial investments: (1) fixed income - short and long term (bonds); (2) equity (stocks); (3) cash or cash equivalents.

1. Fixed Income - short term and long term (bonds):

(a) *Fixed Income – short-term.* These are investments which have maturities of no longer than one year. The purpose of the fixed income short-term investment portfolio shall be to provide sufficient liquidity to meet institutional objectives. The use of this portion of the portfolio shall be consistent with management's anticipated cash flow needs and future investment opportunities.

(b) Fixed Income – long-term. These are investments which have maturities of more than one year from the date of investment. The purpose of the long-term portion of the investment portfolio shall be to maximize return within the context of other recognized needs and risks. The portfolio shall be considered for purposes of capital growth and the provision of long term funding of capital needs. Eligible securities and other restrictions are as follows:

1. U.S. Treasury and Federal Agency Securities
    a. Maximum size of portfolio - no limit
    b. Maximum lot size - no limit
    c. Maximum average maturity - 7 years

2. Corporate Bonds
    a. Aggregate limit of all corporate bonds: 20% of capital (distributed over at least several corporations)
    b. Maximum maturity – 7 years
    c. All corporate bonds shall have a rating of A or better as published by Moody's or Standard & Poor's at the time of purchase

3. Municipal/Other Tax Exempt Issues
    Municipal bonds and other tax exempt bond issues offer an opportunity that allows investors to avoid payment of taxes on income or capital gains resulting from the investment. Since the University is a tax-exempt entity that does not pay taxes, municipal bonds and other tax exempt bond issues are generally not advantageous to the investment portfolio although not necessarily prohibited within the portfolio

2. Equity (stocks):

The purpose of the equity investment portfolio shall be to maximize return and provide a hedge against inflation through a diversified approach in compliance with applicable Massachusetts statutes. Eligible securities, appropriate rating service and dividend policy follow.

Equities may also be in the form of Managed Funds, which include such investment vehicles as mutual funds, exchange traded funds (ETFs) and other types of funds that function in a managed way but are not directly managed by the University's Investment Manager. Managed funds of this sort are acceptable in the University's portfolio if they are consistent with the standards that otherwise apply to equities.

Eligible Securities	Rating Service *	Dividend Policy
Domestic Equities	S & P Stock Guide Rating of B+ or Better	Maximum Reinvestment Enhance Growth
International Equities	MSCI All World Index Rating of B+ or Better	Maximum Reinvestment Enhance Growth
Total Equities (Blended)	Blend 60/40 S & P and MSCI Rating of B+ or Better	Maximum Reinvestment Enhance Growth
Mutual Funds	Morningstar Four Star or Better	Maximum Reinvestment to Enhance Growth
Exchange Traded Funds	To Be Determined * Four Star or Better	Maximum Reinvestment to Enhance Growth

*At least annually, the Rating Service (i.e. benchmark) will be determined based upon mutual discussion and agreement between the investment manager and University management.

3. **Cash and Cash Equivalents:**

Cash and cash equivalents are instruments that are relatively "liquid" in nature and are available for operational and/or investment opportunities. This component of the portfolio should be minimal.

4. **Prohibited Investments**:

Investment in derivative securities, forwards, swaps, futures of any type is prohibited under this policy.

IV. ASSET ALLOCATION

Asset Allocation of the University portfolio should be equivalent to approximately 55% in equities, 45% in fixed income. Managed Funds that include both equity and fixed income underlying investments shall be distributed to the appropriate portfolio category for the purpose of reviewing asset allocation. Recognizing that from time-to-time during the course of business it is not realistic to expect complete compliance with this guideline, an acceptable range follows:

	General Goal	Acceptable Range
Equities	55%	45% – 65%
Fixed Income	45%	35% - 55%
Other investments	TBD	TBD
Cash	Minimal	0% - 10%

Any asset allocation not within these ranges should be communicated by the Investment Manager(s) to the Associate Vice President of Finance as soon as practicable but no later than the next monthly status report to the University. Unless otherwise directed by Executive Management, the portfolio should be re-balanced to fit within the acceptable ranges defined in this policy as soon as practical, taking investment risks into consideration.

V. INVESTMENT MANAGER(S)

The approved Investment Manager(s) must be fully-licensed and registered by all applicable Federal, State and professional agencies/organizations. The Investment Manager(s) shall be responsible for managing the portfolio consistent with the overall objectives of the Policy. Additionally, their responsibilities will include providing the University with overviews of current economic conditions and market forecasts and timely reports on the University's portfolio, which may impact investment strategies. The Investment Manager(s) shall be advised of the University's operational needs (if any) and projected capital expenditures that may impact the portfolio.

Each year, the Board will review the financial strength, standing, and performance of the Investment Manager(s). During this review, any material changes in the licensing, registration or other information deemed material in the relationship between the University and the Investment Manager(s) should be communicated to the Board.

VI. **PORTFOLIO PERFORMANCE**

Each Investment Manager engaged by the University to manage all or part of the investment fund shall report to Executive Management on a monthly basis and shall present a report to the Board of Trustees at least semi-annually or as requested by the Board. Reports to the Board shall review the performance of the portfolio in comparison to established benchmarks and asset allocation goals; comparison to a targeted return pegged to a pre-determined percentage above the Consumer Price Index (CPI) and where applicable comparison to other peer institution performance for a comparable and readily available period. On the basis of the performance report, the Board may direct changes in investment activities or approach.

VII. USE OF INVESTMENT PORTFOLIO

The University's intent in investing in securities is to hold the respective security to its maximum earning potential while addressing the fiduciary responsibility to preserve principal. The Investment Manager(s) is authorized to buy and sell securities to improve yields, quality and marketability or to realign the composition of the portfolio in order to make it consistent with the policies set forth herein. At the direction and with the formal authorization of the Board, monies may be withdrawn from the portfolio to fund unanticipated and/or extraordinary operational expenses of the University, improve the quality of life on campus, and/or capitalize on other opportunities.

VIII. REPORTING AND MONITORING

The Investment Manager(s) will provide the University with on-line tools that allow review of the portfolio on a daily basis, such on-line tools to be in conformity with industry standards relating to data security, and with timely reports (at least monthly) that include all transactions, fees/charges and accumulated earnings and changes in market value for the stated period. In addition, the Investment Manager(s) shall provide a quarterly report to Executive Management. The report should also include purchases and sales of securities, composition, valuation, quality and yield performance of the Portfolio for the stated quarter. The Investment Manager should also advise Executive Management as soon as practicable of any material changes to operations including but not limited to: changing economic or political situations, portfolio allocation assumptions; investment management staffing or partnership service arrangements; different investment opportunities not specifically addressed in this statement to name a few.

The Investment Manager(s) will meet with the Board semi-annually to review the investment objectives against the portfolio performance and economic forecasts. The first meeting should occur at the first meeting of the Board after the close of a calendar year and should primarily focus on portfolio performance for the recently completed year. The second meeting should occur in the fall of each year and should focus on strategic asset allocation, appropriate benchmarks and other performance criteria for the upcoming calendar year beginning in January. At both meetings, the Investment Manager(s) shall present economic forecasts and quantitative analysis impacting portfolio performance or investment strategies. Additional meetings with the Investment Manager(s) may be scheduled at the direction of the Board.

VIII. ASSIGNMENT OF RESPONSIBILITIES

Executive Management is responsible for carrying out the investment activities for the cash management and investment funds of the University. Executive Management may delegate authority to the Investment Manager(s) approved by the Board to conduct investment transactions consistent with the goals and objectives of this policy.

IX. OPERATIONAL PROCEDURES

The Operational Procedures are intended to be used by Executive Management as implementation and administrative guidelines for the Policy. The primary objective of the Operational Procedures is to provide Executive Management with the direction to oversee the investments consistent with the Policy. Areas of primary oversight include, but are not limited to the following:

(a) Review of asset allocations
(b) Investment Manager(s) selection

(c) Criteria for Investment Manager(s) performance and evaluation
(d) Investment Manager(s) compensation
(e) Conflict of Interest
(f) Accounting and internal controls

(a) Review of Asset Allocations

The Vice President of Finance and Facilities and the Associate Vice President for Finance will review asset allocation by category to ensure consistency between the recommendations of the Investment Manager(s) and the objectives of the University as defined in the Policy.

(b) Investment Manager(s) Selection

The Vice President of Finance and Facilities and the Associate Vice President for Finance will recommend to the Board of Trustees selection of the Investment Manager(s). The recommendation will have resulted from a Request for Proposal (RFP) process in conformity with the Commonwealth's procurement laws and regulations. Appointment of the Investment Manager(s) shall be made after an RFP process and with the approval of the Board, such appointment being for a period of not more than five (5) years unless directed by action of the Board.

(c) Criteria for Investment Manager(s) Performance and Evaluation:

The Vice President of Finance and Facilities and the Associate Vice President for Finance will measure quarterly the performance of the Investment Manager(s). Evaluation criteria may include, but are not limited to, investment returns compared to the stated objectives for the portfolio, or various market indices or benchmarks as are determined to be appropriate. In addition, review of Investment Manager(s) performance and status of investment portfolio will be presented to the Board of Trustees of the University at least semi-annually.

(d) Investment Manager(s) Compensation:

The Investment Manager(s) will be engaged on a fee for services basis. The fee will be determined based on the competitive procurement process (RFP). Specific language for this computation will be clearly defined in the contract between the University and the Investment Manager(s).

(e) Conflict of Interest:

In accordance with Commonwealth statutes and University policy governing financial conflicts of interest, trustees, officers and employees of the University may not have any professional or personal relationship with a securities firm, Investment Manager or employee doing business with the University. Further, trustees, officers and employees of the University may not receive gifts, gratuities or travel expenses from Investment Manager(s), dealers, custodians or others authorized to do business with the University.

(f) Accounting and Internal Controls:

The Investment Manager(s) will report to Executive Management monthly that all of the investments for which it is responsible are in compliance with the investment policy. If any investments do not meet the Policy, the Investment Manager(s) will so note and explain the reason for that breach.

The securities will be held at an authorized custodian in separate accounts and not co-mingled in accordance with MGL Chapter 29 Section 34. It will be the responsibility of the Associate Vice President for Finance to ensure that appropriate internal controls are in place for the security and handling of all accounts.

The University will record and report all investment activity in accordance with Generally Accepted Accounting Principles. The University's auditors will audit the investment records and reports in accordance with Generally Accepted Audit Standards as part of the annual audit of the University's internal controls and financial statements.

X. PROCEDURE FOR CHANGING INVESTMENT POLICY & INVESTMENT MANAGERS

This Investment Policy Statement may be changed only by a vote of the Board of Trustees. Executive Management shall report to the Board on an "as needed" basis regarding the desirability of modifying the Investment Policy Statement, however, notwithstanding, the Policy shall be reviewed by the Board annually.

At least biennially, the Board will discuss the need to issue an RFP for investment managers and at least every five years an RFP for investment managers will be issued.

Approved and Ordered By

BOARD OF TRUSTEES Date Approved: October 8, 2013