



ATTACHMENT A

Investment Policy Statement (IPS)

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I. Purpose

This Investment Policy Statement (IPS) establishes the investment objectives and guidelines that govern the activities of the Middle States Commission on Higher Education (MSCHE or the Commission), the Executive Committee, the Finance Committee, investment manager, or any other parties to whom the Commission has delegated investment management discretion. This statement also incorporates standards and benchmarks that will be used for monitoring the investment performance and for evaluating the performance of the investment manager hired on behalf of the portfolio.

The purpose of this statement is to:

- Establish the Commission's expectations regarding the investment of assets.
- Communicate the investment objectives of the portfolio to the Commission, staff, and investment managers.
- Offer guidance and limitations to all investment managers regarding the investment of assets.
- Guide the ongoing oversight of the management of the Commission's investments.
- Identify the criteria against which the investment performance of the portfolio will be measured.
- Meet the fiduciary responsibilities of the Commission, as delegated to the Executive Committee and the Finance Committee.

II. Roles and Responsibilities

The Finance Committee is acting in a fiduciary capacity with respect to the portfolio and is accountable to the Commission and to the Executive Committee for overseeing the investment of all assets of the portfolio.

The investment manager is authorized to manage the portfolio according to the objectives, benchmarks, and performance expectations established in this IPS, including but not limited to risk tolerances and control, liquidity requirements, and target asset allocation preferences.

III. Investment Objectives Established by the Commission

The Commission has established the following investment objectives for the portfolio:

- The investment objective of the portfolio is to grow the corpus of the fund (principal) and to produce targeted income to be expended in keeping with the purposes of the Commission while maintaining the long-term preservation of the real value of the assets.
- The portfolio seeks to provide a competitive total return consistent with historical capital market conditions and subject to risk tolerances and control, liquidity requirements, target asset allocations, and general investment guidelines set forth in this IPS.
- The following will be considered in making investment decisions:
 - General economic conditions
 - The possible effects of inflation or deflation
 - The expected tax consequences of investment decisions/strategies
 - The role of each investment within the context of the overall portfolio
 - The expected total return from income and appreciation
 - Other resources of the Commission
 - The need to make distributions and to preserve capital

IV. Prohibitions on Investments

Unless expressly authorized by the Commission, the portfolio and its investment managers are prohibited from the following:

- Acquiring any security subject to any restriction on the sale thereof, or subject to any investment representation.
- Acquiring or sell any commodity or commodity contract.
- Acquiring any security on margin, or otherwise utilize borrowed funds for the acquisition of any security including but not limited to the use of reverse repurchase agreements.
- Selling any security not part of the portfolio.
- Making any investment for the purpose of exercising control of any corporation.

V. Risk Tolerances and Control

The Commission has established the following guidelines for risk tolerance and control:

- Risk will be defined as the expected standard deviation of return based on historical capital market data for periods over one year.

- Risk will be evaluated in terms of the total portfolio, not each individual investment.
- To minimize risk, the portfolio investments should be well diversified across asset classes, economic sectors, industry groups, and individual securities as allowed by the target asset allocation of the portfolio. Portfolio investments:
 1. Will be widely diversified by security type.
 2. Include a commitment to primarily investment grade fixed income to lower portfolio risk.
 3. Include a commitment to international securities for added diversification and lower portfolio risk.
 4. Include a commitment to such other securities as deemed necessary for added diversification and enhanced return potential.

VI. Liquidity Requirements

The target asset allocation and asset allocation rebalancing policies established in this IPS have been established to assure funding for foreseeable liquidity events. It is anticipated that the portfolio will distribute income to the Commission annually and that the amount of income will be determined by the Executive Committee as a percentage of the fair market value of the assets in the portfolio determined at least annually and averaged over a period of three years.

Withdrawals from the portfolio for liquidity needs may be made from capital appreciation, income (as determined in the preceding sentence) or the liquidation of assets upon vote by the Executive Committee, with notice to the Commission at its next regular meeting.

VII. Asset Allocation Rebalancing

The key objective of the rebalancing process is to minimize the loss of efficiency resulting when the portfolio's actual asset allocations deviate from their asset target range. Rebalancing can also be used to enhance the risk adjusted return of the portfolio by the purchase/sale of asset classes at relative low/high valuations.

It is expected that the portfolio(s)'s actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes.

The Commission has established the following guidelines and target asset allocations to direct portfolio rebalancing decisions which should be applied only to investments that are publicly traded or have a high degree of liquidity:

- Incoming cash flow (contributions) or outgoing money movements (disbursements) will be utilized to realign the current weightings closer to the target weightings.
- At least quarterly, the portfolio(s) will be reviewed to determine the deviation from target weightings. If any asset class within the portfolio is +/- [5]% percentage points from its target weighting, the portfolio(s) will be rebalanced.

The following strategic asset allocation guidelines have been determined to be the most appropriate:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Allocation Range</i>
Total fixed income	40%	20-50%
Total equity	60%	50-80%
Total	100%	

VIII. Benchmarks

The Commission has established the following approximate benchmarks:

36%	U.S. Equity: CRSP US Total Market Index
24%	Non U.S.: FTSE Global All Cap ex US Index
28%	U.S. Investment Grade Fixed Income: Bloomberg Barclays U.S. Aggregate Float Adjusted Index
12%	Non U.S. Investment Grade Fixed Income: Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index Hedged

IX. Reporting and Performance Evaluation

The Finance Committee will monitor and evaluate the portfolio's investment performance against the stated investment objectives.

The investment manager will provide investment reports on a quarterly basis or as more frequently requested by the Finance Committee. The investment manager is expected to be available to meet with the Finance Committee at least once per year to review the portfolio structure, strategy, and investment performance.

The Commission has established the following guidelines for the evaluation of investment performance:

- In keeping with the portfolio's overall long-term financial objective, performance will be evaluated over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
- The portfolio will be evaluated based on the total return as well as that of the separate asset classes or funds that comprise the portfolio.
- The portfolio's composite investment performance (net of fees) will be judged against a composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations (Section VII Asset Allocation Rebalancing) and Benchmarks (Section VIII) set forth in this IPS.
 1. U.S. Equity: CRSP US Total Market Index
 2. Non-US: FTSE Global All Cap ex US Index
 3. US Investment Grade Fixed Income: Bloomberg Barclays U.S. Aggregate Float Adjusted Index

4. Non-US Investment Grade Fixed Income: Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index Hedged

The Commission has established the following guidelines for the evaluation of the performance of the external investment manager hired on behalf of the portfolio:

- A market-based index appropriately selected or tailored to the manager's agreed upon investment objective and the normal investment characteristics of the manager's portfolio.
- The performance of other investment managers having similar investment objectives.
- Other quantitative or qualitative concerns related to the level and quality of services provided by the investment manager.

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Related Documents: *MARCHE Bylaws; Investment Policy; Investment Procedures;*