

**MASSACHUSETTS COLLEGE OF ART AND DESIGN
CASH MANAGEMENT AND INVESTMENT POLICY**

AUTHORITY

Chapter 15A of Massachusetts General Laws provides that the Massachusetts College of Art and Design Board of Trustees has the authority to establish and manage trust funds. A concurrent responsibility of the management of the funds is the thoughtful investment of trust monies. This Policy is intended to guide the Trustees Investment Committee and the College Administration in the investment of designated cash balances held in college accounts.

GENERAL INFORMATION

The purpose of this Investment Policy Statement (“IPS”) is to provide criteria to ensure the effective supervision, monitoring, and evaluation of the College’s investment assets (the “Fund”). Specifically, the IPS is intended and designed to:

1. Articulate objectives, guidelines, and expectations for the investment of the Fund.
2. Set forth an investment structure for managing the Fund which includes various asset classes, asset allocations and acceptable ranges of assets that in total are expected to produce a desired level of total return at an acceptable level of risk.
3. Establish formalized criteria to monitor, evaluate, and compare performance results regularly.
4. Encourage effective communication between the Committee and the investment manager.
5. Comply with all fiduciary, prudence, and due diligence requirements, consistent with the nature of these funds, that experienced investment professionals would utilize.

INVESTMENT ADVISORY GROUP (IAG)

The Investment Advisory Group (“Group”), as established by the College Board of Trustees, will set the overall investment policy, choose the investment manager, review investment reports, and evaluate investment performance.

Annually, the Committee will review this Investment Policy Statement, and recommend to the Board of Trustees whether it should remain as written or be modified.

POLICY

The Massachusetts College of Art and Design Cash Management and Investment Policy applies to locally held non-appropriated Trust funds. The policy specifically excludes federal allocations. These funds are accounted for in the College’s financial statements.

The cash and investment balances of the College are classified as 1) operating funds and 2) core investment funds. The purpose of the operating funds is to provide sufficient cash to meet the ongoing financial obligations of the College promptly including the ability to meet expenses that may result from unanticipated events. The core investment funds are dedicated funds to meet specific strategic investment goals of the College. These funds may be combined as long as the operating fund requirements can be met without negatively affecting performance.

The basic objectives of the Cash Management and Investment Policy are:

1. Safety of principal
2. Liquidity for operating needs
3. Return on Investment
4. Diversification of risk

The cash and investment balances of the University are classified as:

Bank Balances, 2) Short Term Funds, 3) Intermediate Investment Funds, and 4) Long Term Investment Funds.

Bank Balances are funds used to meet immediate cash flow needs for operations and are often required as part of minimum balance requirements for bank services provided.

The purpose of the Short-Term Fund is to provide sufficient cash to meet the ongoing financial obligations of the University promptly including the ability to meet expenses that may result from unanticipated events.

The Intermediate Fund aims to produce returns greater than the Short Term Fund balances while allowing for reasonable conversion to meet extraordinary expenses that may arise. The Long Term Investment Fund is a dedicated fund to meet specific long term strategic investment goals of the University.

INVESTMENT INSTRUMENTS AND MATURITIES

Bank balance funds are held predominantly in interest-bearing checking accounts. Where account activity and balances warrant, fund balances may be deposited in money market accounts or used to purchase T-Bills.

The maturities of the Short Term fund shall generally not exceed one (1) year; provided however, upon review of the BOT Finance Committee, MassArt's Chief Financial Officer may invest in maturities beyond one year if such investment is determined, after review of ongoing financial obligations and cash flow requirements, to be consistent with the objectives of the portfolio and in the best interest of the College.

Short Term Fund balances will be deposited with the State Treasurer in the Massachusetts Municipal Depository Trust account or similar vehicles as described in item #2 B below.

The maturities of the Short Term and Intermediate Investment Funds may exceed one (1) year, provided, however, that such maturities consider potential cash flow and liquidity requirements arising from unanticipated events. Funds will be deposited in Short-Term and Intermediate-Term accounts or similar vehicles upon approval of the BOT Administration and Finance Committee.

At the discretion of the Finance Committee the Intermediate and Long Term Investment Funds may be actively managed by a professional fund manager. Investment parameters will be governed by statute and this Cash Management and Investment Policy.

The portfolio will maintain liquidity sufficient to meet operating needs. All investments will be held in U.S. dollars.

Eligible Investments for Bank Balances Funds, Short Term Funds, Investment Funds and Long Term Funds:

1. Bank Balances, which are collateralized, may be deposited in:
 - a. Interest Bearing Checking and Saving Accounts
 - b. Money Markets
2. Short Term Funds for investment in the portfolio shall be limited to:
 - a. Obligations issued by the U.S. Treasury
 - b. Obligations issued by the U.S. Federal Agencies
 - c. Obligations of banks for:
 - 1) Bankers' acceptances
 - 2) Certificates of deposit
 - 3) Time deposits
 - d. Repurchase agreements secured by the U.S. Treasury and U.S. Federal Agencies
 - e. Municipal securities
 - f. Commercial paper
 - g. Vehicles approved by the State Treasurer for MMDT holdings
 - h. Eligible Investments allowable for Bank Balances Funds
3. Intermediate Investment Funds and Long Term Investments Fund for investment in the portfolio may include:
 - a. Corporate mortgage and asset-backed securities
 - b. Corporate equities
 - c. Investment grade bonds
 - d. Mutual Funds / Exchange Traded Funds (ETFs)
 - e. Eligible Investments allowable for Operating/Liquidity Funds All holdings will be of high credit quality.
 - f. High Yield Bonds or global bonds

Further, Massachusetts General Laws contain directives regarding standards of conduct and authority that apply, under general principles of law, to trustees in their management of trusts. These broader standards obligate a trustee “to conduct himself faithfully and to exercise a sound discretion, and to be enlightened by observance as to how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the safety of the capital.” A trustee, in other words, has a duty to make the trust property productive and to use due care in maintaining a proper trust portfolio.

INVESTMENT OBJECTIVES

The College’s investment program is based on the following principles:

1. The primary long-term objective is to preserve the investment assets in order to generate a return that will allow distribution for operating needs or strategic investment.
2. The investment program will seek to meet or exceed the respective benchmarks for each appropriate asset class.
3. Fund performance will be enhanced by fixing an asset allocation target and not “market timing” transactions.
4. Diversification within investment asset classes will be maintained to achieve the desired risk/return objectives
5. Over time the College should earn a return in excess of inflation and comparable to the returns of similar institutions.
6. The portfolio should be diversified by asset class: equities, bonds, alternatives, and cash equivalents; and within asset class: economic sector, industry, and quality. The purpose of diversification is to ensure that no single security or class of security will have a disproportionate impact on the total portfolio.
7. The purpose of fixed-income investments is to provide a source of current income and to reduce the volatility of the total market value of the portfolio.
8. The purpose of equity investments is to provide growth of principal as well as some dividend income. It is recognized that these investments may entail the assumption of greater market volatility and risk than fixed income securities.
9. The purpose of alternative investments is to provide growth as well as some income. It is recognized that these investments may entail the assumption of greater market volatility and risk than fixed income securities.

The investment objectives are based on a ten-year time horizon; fluctuations should be viewed with appropriate perspective.

INVESTMENT GUIDELINES

Asset Allocation:

The Committee, along with the investment manager, has established an overall target allocation of 60% Equities/10% Alternative Investments/30% Fixed Income, with discretion to move within the articulated ranges (see Table 1). This reflects the Committee's desire to maximize returns consistent with prudent levels of risk. This long-term target allocation is based upon the following assumptions:

1. Over the long-term, traditional equities, and alternatives, have historically provided a greater total return than bonds or cash.
2. Since the Committee has a long-term horizon for risk tolerance, it believes the College's investment program should be able to handle short-term risk.

Table 1. (SAMPLE)

<u>As a % of Asset Class</u>	<u>Minimum %</u>	<u>Target %</u>	<u>Maximum %</u>
<u>Public Equity:</u>	<u>50%</u>	<u>60%</u>	<u>75%</u>
US Large Cap	55%	70%	75%
US Mid Cap	0%	10%	15%
US Small Cap	0%	10%	15%
International (Developed)	0%	5%	15%
International (Emerging)	0%	10%	15%
<u>Alternative Investments</u>	<u>0%</u>	<u>10%</u>	<u>15%</u>
<u>Fixed Income:</u>	<u>20%</u>	<u>30%</u>	<u>50%</u>
Investment Grade	85%	90%	100%
High Yield	0%	10%	15%
Global Bonds	0%	0%	15%

(1) Alternative investments would include, but are not limited to, the following:

- Real Estate Mutual funds
- Commodities Mutual funds
- Managed Futures Mutual funds

The Committee must be notified by the manager before any strategic asset allocation or recommended change of 5% or more is implemented, or, if for any reason, a line item in Table 1 above falls below or above the minimum/maximum % by more than 5% respectively.

Periodically, but not less frequently than every 2 years, the Committee will undertake a review of the College's asset allocation. Such review will consider long-term expected risk and return of various asset classes. Short/intermediate term market outlooks will be considered only when there are commitments to fund a project or program that need to be matched with short/intermediate term liquidity. The Committee also recognizes that there may be other alternative investments which, from time to time, may be considered and integrated into the investment portfolio. The Committee therefore has the authority to decide and alter the investment portfolio within the guidelines of this policy, as it deems appropriate.

Cash and/or cash equivalents should not represent, at any time, more than 10% of the portfolio.

Equity Investments:

The equity allocation should consist of a portfolio of high quality mutual funds and/or ETFs and individual stocks diversified by market capitalization and economic sector. Single stock positions are permitted, but generally not to exceed 5% of the portfolio. To achieve an optimal risk/return profile, the equity portfolio should be further diversified across market segments, within the above listed target ranges.

The following are not permissible equity transactions:

- Stock in non-public corporations
- Short sales of any type
- Letter or restricted stock
- Buying/selling on margin

Fixed Income Investments:

The fixed income allocation will consist of:

- Well-diversified investment grade securities, with intermediate term duration, consistent with the following criteria:
 - Overall average quality A or better Minimum credit quality Baa (issuer)
 - Maximum Baa exposure Not to exceed 20% of the overall bond portfolio
 - Single issuer exposure not to exceed 5% for Corporates and 15% for U.S.
 - Agencies; no limit for U.S. Treasuries.
 - Portfolio duration +/- 20% of the benchmark (Barclays Capital Aggregate)

- Short-duration securities designated for near-term distributions will be invested in money market funds, which in turn are primarily invested in Commercial Paper rated A1 or P1, and securities issued or guaranteed by the U.S. Government or its agencies.

Fixed income investments may be affected through high-quality mutual funds and/or ETFs if the Investment Manager determines that pooled funds represent a more efficient means to achieve effective diversification.

Trading:

The Investment Manager will execute all transactions on the most favorable terms and in the most effective manner possible.

Investment Restrictions:

As no list of investment instruments or strategies can be all-inclusive, the Investment Manager must seek guidance before employing new types of instruments or strategies.

PERFORMANCE MEASUREMENT (Sample list to be updated with investment manager)

Total portfolio return will be measured against the following indices:

- Total portfolio against:
 - A blended 60%/10%/30% benchmark of MSCI ACWI World Index/Barclay's Capital Aggregate
- Equity and Alternative Investment portfolio against:
 - MSCI ACWI World Index
 - S&P 500 Large Cap Index
 - S&P 400 Mid Cap Index
 - Russell 2000 Index
 - MSCI EAFE Index (International)
 - MSCI EMF Index (Emerging)
 - HFRX Global Hedge Index (Alternatives)
- Fixed Income portfolio against:
 - Bloomberg Barclays Aggregate Bond Index
 - Bloomberg Barclays Intermediate Gov/Credit Index
 - Barclays 1-3 year Government Index

The Investment Managers may make changes in the indices as conditions and availability of information warrant.

Performance will be reviewed using year-to-date, one, three, five and ten year returns as compared with appropriate indices.

The Committee has adopted this benchmark in recognition of the primary objective of the College's investments is to preserve real purchasing power over time. It is expected that long-term (five to ten years) the total investment return will at least meet, and preferably exceed, the blended benchmark return.

Overall portfolio performance will be measured against combined indices indicated above. Individual equity segments (i.e., large cap, small cap) will be measured against their respective benchmarks.

While it is not expected that portfolio returns will exceed the benchmark returns each measurement period, it is expected that the returns will be favorable over five to ten year rolling periods.

RESPONSIBILITIES and OVERSIGHT

The hiring of the Investment Managers is the responsibility of the Investment Advisory Group. An Investment Manager may be terminated at any time at the discretion of the IAG, which will consider various factors, including, but not limited to, the actual performance of the investment manager.

Investment Manager:

1. Manage the investments in accordance with the IPS objectives and guidelines as set forth herein, or as amended in writing by the Committee. The Investment Manager will sign a copy of this IPS to acknowledge understanding and acceptance of it.
2. Exercise complete investment discretion within the IPS objectives and guidelines.
3. Provide monthly statements of investments and transactions and quarterly performance reports.
4. Meet with the Committee quarterly for the first 5 years, and then not less than annually or more frequently if requested, to review the portfolio results, update distribution needs for the coming year, review the economic and market outlook, discuss the asset allocation, and review this IPS to determine whether changes are appropriate.
5. Notify the Committee immediately of any material change in investment approach or significant changes in key personnel related to the management of the Fund.

The Investment Advisory Group (IAG):

Monitor the performance of the Investment Manager and the Fund in the context of the achievement of stated investment objectives.

1. If the IAG approves any change to this IPS or approves the purchase of any alternative investment, such change and approval will be communicated in writing to the Investment Manager and signed by at least two members of the IAG including the Chair.
2. Neither the IAG, nor any individual IAG member, will direct the Investment Manager regarding the purchase or sale of any individual security.

DELEGATION OF AUTHORITY

Management responsibility for the investment program is hereby delegated to the Investment Advisory Group (IAG) of the Board of Trustees which shall operate the investment program consistent with this approved investment policy. No College official may engage in an investment transaction except as provided under the terms of this policy and procedures that may be established by the IAG.

The IAG shall consist of the President, and two trustees, (Example: The Chair of the BOT and the Chair of the A&F Committee). The IAG shall elect a Chair. A majority vote of the IAG is required to execute business by this approved investment policy.

The Chief Financial Officer and Chief Business Officer shall be non-voting members of the Investment Committee. The Chief Financial Officer is authorized to invest, or instruct the Chief Business Officer to invest, the College's funds within the guidelines established by this policy or as directed by the IAG.

ETHICS AND CONFLICTS OF INTEREST

Trustees, officers and employees of Massachusetts College of Art and Design involved in the investment process shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

REPORTING

The Chief Financial Officer shall submit to the IAG a quarterly investment report which summarizes investment activity and detail. Said report shall be in a format as prescribed by the Investment Committee.

The IAG shall meet at least annually. The Chair may call additional meetings as necessary.

The financial institutions that manage the funds for the College shall meet at least annually with the committee. The Chair of the IAG may call additional meetings as necessary.

Approved by:

Administration and Finance Committee of the Massachusetts College of Art and Design, (DATE).

Accepted by:

Massachusetts College of Art and Design, Board of Trustees, (DATE)