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## WMU Board of Trustees Annual Formal Session February 18, 2010

WMU Board of Trustees

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WESTERN MICHIGAN UNIVERSITY  
BOARD OF TRUSTEES  
ANNUAL FORMAL SESSION  
FEBRUARY 18, 2010

The Board of Trustees annual formal session was called to order by Chair Miller on Tuesday, February 18, 2010, at 11:15 a.m. in Rooms 157-159, Bernhard Center.

Board members present: Chair Miller, Vice Chair Tolbert, Trustee Asmonga-Knapp, Trustee Carlson, Trustee Hettinger, Trustee Johnston, and President Dunn (ex officio).

Acceptance of the Agenda. The agenda was accepted as presented following a motion by Trustee Hettinger, supported by Trustee Johnston.

Remarks by the Chair. With the election of Board officers scheduled for the annual meeting, Chair Miller thanked Trustee Martin and Trustee Tolbert who served as vice chairs during the past two years. He noted that he felt confident with the leadership for the coming year as it is passed on to Trustees Tolbert and Archer, chair and vice chair respectively. Chair Miller spoke of the past two years as a pivotal point in the University's history, stating that he will always be proud of his role on the Presidential Search Advisory Committee that identified John Dunn as an ideal match for Western. He said when he became chair he wanted to bring to WMU his perspective as a loyal alumni and a member of the University's home community, with the focus on enhancing the school's strengths and raising its profile. Chair Miller stated he believes that we are in a good place on these fronts and he wants Western to become stronger and even more effective in the future. He spoke of the economic crisis in our state and nation, but noted that we are strong enough, creative enough and committed enough to overcome the challenges and turn them into opportunities. He said he was leaving his leadership role but not the Board and was looking forward to moving ahead with some exciting projects, including the proposed medical school. Chair Miller stated that it has been an honor and privilege to serve as chair and is looking forward to doing whatever he can to serve the University in the future.

Election of Officers. As indicated in the Board bylaws, officers are to be elected at the annual formal session of the Board of Trustees. Following a motion by Trustee Miller, supported by Trustee Johnston, Trustee Tolbert was elected chair, and Trustee Johnston, vice chair. After a motion by Trustee Hettinger, supported by Trustee Johnston, the following officers were elected—Betty Kocher, secretary; Lowell Rinker, treasurer and assistant

secretary; and Jan VanDerKley, assistant treasurer

Remarks by Chair Tolbert. Incoming Chair Tolbert stated he was looking forward to a new year of Board activity and was grateful for the support of his fellow trustees. He indicated that on behalf of the rest of his colleagues he wanted to thank Trustee Miller for his service as chair, noting it represents an enormous investment of time, energy and enthusiasm and a deep commitment to our students, faculty and staff. He said the University is a better place because of Trustee Miller's willingness to take on this challenge. Chair Tolbert noted, like Trustee Miller, he is determined that the University will continue to move forward and prosper and that the focus of each of the trustees is on the students. He said he cherished his own student experience at WMU and wants as many students as possible to enjoy the same opportunities..

Remarks by President Dunn. President Dunn congratulated Chair Tolbert and said he was looking forward to continue working together as Chair Tolbert leads the Board this year. President Dunn added his thanks to Trustee Miller for his service as Board Chair for the past two years, and for the care, commitment and affection for WMU he brought to that role. President Dunn spoke of student and faculty accomplishments, positive trends in enrollment numbers, and the largest number of participants in the annual Medallion Competition in its 27 year history. He reported progress in the medical school planning--a meeting last month, along with representatives from Bronson and Borgess, with the Liaison Committee on Medical Education. President Dunn noted that a committee is now formed to identify an individual who can serve as founding dean for the medical school.

Remarks by the WSA President and GSAC Chair. Nate Knappen reported that he has enjoyed his time as WSA president and speaking with the Board of Trustees; He will be graduating in May, WSA elections will be held before the next meeting, and a new president will be introduced to the Board in April. GSAC Brandi Pritchett spoke on the activities of the Graduate Student Advisory Committee.

Remarks by the Faculty Senate President. Professor Jellies reported on the work of the Faculty Senate.

Approval of the Minutes of the November 2 Formal Session and the December 9 Conference Call Formal Session. Following a motion by Trustee Johnston, supported by Trustee Miller, the minutes were approved as distributed.

College of Engineering and Applied Sciences Report. A report on the college was presented by Dean Anthony Vizzini.

Revised Annuity and Life Income Funds Investment Policy Statement. As presented by Associate Vice President VanDerKley, the Board of Trustees, on a

motion by Trustee Johnston, supported by Trustee Miller, approved the revised Annuity and Life Income Funds Investment Policy Statement (att.) At the annual due diligence meeting of the University's Finance and Development staff with representatives from State Street Charitable Asset Management, as investment manager, and Fund Evaluation Group, the University's investment consultant, the annuity and life income funds asset allocation and performance were reviewed. As reported by Associate Vice President VanDerKley, it was determined that changes in the current policy statement should be made to enhance portfolio diversification.

Consent Items. On a motion by Trustee Johnston, supported by Trustee Miller, the Board of Trustees approved the following consent items— Personnel Report, Gift Grant, Name Changes, Academic Programs, Metro PCS/Consumers Energy Easement, Authorization to Confer Degrees, Board Meeting Dates, and State Property Transactions.


M.U.S.I.C. (Michigan Universities Self-Insurance Corporation) Update provided by Vice President Rinker and Associate Vice President VanDerKley.

Operating Cash Investment Performance Report and Annuity and Life Income Funds Performance Report. Information provided by Vice President Rinker and Associate Vice President VanDerKley.

Public Comments. Stephen Podewell spoke re personnel matters in his past employment at the University and his intention to announce his candidacy for Secretary of the State of Michigan.

Adjournment. The meeting was adjourned at 12:15 p.m.

Respectfully submitted,

  
Betty A. Kocher  
Secretary

Western Michigan University  
Board of Trustees

Agenda Item No. Addition  
February 18, 2010

## STATE PROPERTY TRANSACTIONS

### Background

The State of Michigan recently passed into law (Public Act 217) revisions to several properties that directly affect Western Michigan University. Following is a summary of those changes:

- Colony Farm/Orchard Property - In June 1978, the State Department of Mental Health transferred approximately 55 acres of property bordering US 131 and Drake Road, commonly known as the Colony Farm or Orchard Property, to the University. The property when conveyed to the University also included a restriction that it be utilized "solely for public park, recreation or open space purposes unless otherwise authorized by public act." Public Act 217 of 2009 has removed this restriction.
- Northwest Unit - The University acquired an approximately 12 acre parcel on Blakeslee Street in Kalamazoo from the State of Michigan in 1998. This parcel contains the former State Tuberculosis Sanitarium (also known as the Northwest Unit), and was acquired subject to a restriction that it be used exclusively for public purposes. Public Act 217 of 2009 has authorized the release and termination of the public purpose restriction.
- Noble Lodge - Public Act 217 of 2009 has authorized the transfer of the property known as Noble Lodge from the State Department of Corrections to the University for \$1. The property is a 2.55 acre parcel with a four story building located at the northwest corner of Howard and Oakland. The property is formerly one of the sites of the former Kalamazoo Regional Psychiatric Hospital and was most recently used as a halfway house by the Department of Corrections. At a minimum, the property would serve as a gateway parcel to the University Campus from the southeast. The property will be conveyed to the University subject to a restriction that it be used exclusively for public purposes. This restriction is similar to that which is in place for the remaining portion of the University's Oakland Drive Campus.

### Recommended Motion

It is recommended that the Board authorize the Treasurer or Assistant Treasurer to execute the appropriate documents to effect the property transactions described above.

**WESTERN MICHIGAN UNIVERSITY  
ANNUITY AND LIFE INCOME FUNDS**

**Investment Policy**

**PURPOSE**

The purpose of this Investment Policy is to establish a clear understanding of the philosophy and the investment objectives for the Western Michigan University (hereinafter, "University") Annuity and Life Income Funds. This document will further describe the standards that will be utilized by the University in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

**NATURE OF WESTERN MICHIGAN UNIVERSITY  
ANNUITY AND LIFE INCOME FUNDS**

The Annuity Funds consist of funds acquired by the University under various gift annuity agreements. The Life Income Funds consist of charitable remainder trusts for which the University is the trustee and remainderman. Upon termination of an annuity or trust agreement, the funds revert to the University. Depending on the donor's intention, these funds are then transferred either to unrestricted funds, designated University departments, or to the Western Michigan University Foundation.

**RESPONSIBILITY AND AUTHORITY**

1. The Vice President for Business and Finance shall report to the Board of Trustees as requested, or at least quarterly, the status of the investment portfolio.
2. The Vice President for Business and Finance shall, with the assistance of appropriate staff, continuously monitor and review the actions of the Investment Advisor/Custodian and the status of investments.
3. The Investment Advisor/Custodian shall be authorized to take investment actions within the guidelines described herein.
4. The Investment Advisor/Custodian shall report to the Vice President for Business and Finance, or appropriate staff, all changes in the investment portfolio when they occur.

**GENERAL OBJECTIVES**

1. The goal of each Fund is to provide long-term growth while balancing the needs of the income beneficiary and Western Michigan University as the remainderman.
2. The overall asset allocation should reflect the following structure. Where necessary to achieve specific target income payments, the investment manager may deviate from the following recommended target allocations when so authorized by the Vice President for Business and Finance or his/her appropriate staff.

<u>Straight Unitrust</u>	<u>Target</u>	<u>Range</u>	
Large Cap	30%	25-35%	Deleted: 4
Mid Cap	5	0-10	Deleted: 3
Small Cap	10	5-15	Deleted: 4
International	20	15-25	Deleted: 15
Core Fixed Income	30	30-40	Deleted: 0
REITs	5	0-10	Deleted: 0
Cash	-	0-10	Deleted: 5
<u>Net Income Unitrust</u>	<u>Target</u>	<u>Range</u>	
Large Cap	15%	20-30%	Deleted: 25
Mid Cap	5	0-10	
Small Cap	5	0-10	
International	5	0-10	
Core Fixed Income	55	50-60	
High Yield	10	0-15	
REITs	5	0-10	
Cash	-	0-10	
<u>Pooled Income Fund</u>	<u>Target</u>	<u>Range</u>	
Core Fixed Income	100%	90-100%	
Cash	-	0-10	
<u>Gift Annuity</u>	<u>Target</u>	<u>Range</u>	
Large Cap	30%	25-35%	Deleted: 40
Mid Cap	5	0-10	Deleted: 3
Small Cap	10	5-15	Deleted: 4
International	20	15-25	Deleted: 10
Core Fixed Income	30	30-40	Deleted: 5
REITs	5	0-10	Deleted: 15
Cash	-	0-10	Deleted: 5

Western Michigan University expects each of its managers to maintain a fully invested position. However, it is recognized that managers may have an amount of cash or cash equivalents from time to time.



## PERFORMANCE OBJECTIVES

Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that the performance objectives will be achieved over a moving five-year period net of investment management fees and transaction costs. However, Western Michigan University reserves the right to evaluate and make any necessary changes regarding the investment manager/fund over a shorter-term using the criteria established in the "Evaluation of Investment Manager" section of this policy.

1. **Benchmark** - The total return for each Fund shall approximate a target weighted index corresponding to the target asset mix. The benchmarks for each asset class will be:

Large Cap U.S. Equity	-	S&P 500 Index
Small Cap U.S. Equity	-	Russell 2000 Index
<u>Mid Cap U.S. Equity</u>		<u>S&amp;P 400 Mid Cap Index</u>
International Equity	-	Morgan Stanley Capital International (MSCI) All Country World Index ex-US
Core Fixed Income	-	Lehman Brothers Aggregate Bond Index
High Yield	-	Lehman Brothers High Yield BA/B 3% Issuer Capped Index
<u>REITs</u>	-	<u>DJ Global Select Real Estate Securities Index</u>

The total return for each active equity manager shall exceed the relevant equity benchmark. Each passive equity manager shall approximate the total return of the relevant equity benchmark.

2. **Purchasing Power** - The total return for each Fund, except for those accounts that have donor restricted assets, shall exceed the Consumer Price Index plus:
  - 5% for Straight Unitrust accounts
  - 3% for Net Income accounts
  - 1.5% for Pooled Income Fund accounts
  - 5% for Gift Annuity accounts.
3. **Peer Group Ranking** - Each active manager shall rank in the top half of their relevant peer group universe (e.g. Large Cap Growth, Small Cap Value, Core Fixed Income,...).
4. **Volatility (Risk-Beta)** - Each active manager is expected to maintain a beta less than/equal to 1.20 times that of their relevant benchmarks. Each passive equity manager will be expected to maintain a volatility (beta) of approximately 1.00 versus the relevant equity benchmark.
5. **Risk-Adjusted Performance (Alpha)** - The risk-adjusted performance (alpha) for each active equity manager is expected to be positive. The risk-adjusted performance (alpha) for each passive equity manager is expected to approximate 0%.



## GUIDELINES

The guidelines stated below shall apply to the separately managed portfolios (i.e., non-pooled or non-mutual funds), unless prior written approval is obtained from the University to the contrary. Although the University cannot dictate policy to pooled/mutual fund investment managers, it is the University's intent to select and retain only pooled/mutual funds with policies that are similar to this policy.

It is not the University's practice to accept donor-restricted assets; when exceptions to this practice are necessary, the guidelines and objectives outlined in this policy shall not apply to those funds.

1. No more than 10% of the Fund, at market value, can be invested in the common stock of any single company.
2. There shall be no investments in non-marketable securities.
3. There shall be no purchase that would cause a position in the portfolio to exceed 5% of the issue outstanding.
4. May invest up to 100% of the portfolio in U.S. Government Securities and up to 50% of the fixed income portfolio in U.S. Government Agency issues.
5. No more than 10% of the fixed income portfolio, at cost, can be invested in any single issue, except the investments in U.S. Government Securities.
6. The weighted average credit quality for core bond managers is to be no less than "A" or its equivalent rating by two national rating agencies. In addition, the minimum acceptable credit quality at purchase shall be "BBB". Furthermore, the weighted average credit quality for high yield bond managers is to be no less than "BB" or its equivalent rating by two national rating agencies. In addition, the minimum acceptable credit quality at purchase shall be "B".
7. The duration of the portfolio shall be within plus or minus 50% of the benchmark index.
8. Commercial paper must be, at the time of purchase, rated within the highest classification established by not less than two national rating services.
9. Bank Certificates of Deposit and Bankers' Acceptances are to be rated within the top two rating classifications by any one national rating service. Foreign bank issues are capped at 25% of the total investment in this category.

10. The active investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the University. Subject to other provisions in this Investment Policy, the use of primary derivatives, including, but not limited to, Structured Notes, lower class tranches of Collateralized Mortgage Obligations (CMOs), Principal Only (PO) or Interest Only (IO) Strips, Inverse Floating Securities, Futures Contracts, options, short sales, margin trading and such other specialized investment activity is prohibited.

Moreover, the investment managers are precluded from using derivatives to effect a leveraged portfolio structure (if options and futures are specifically approved by the University, such positions must be offset in their entirety by corresponding cash or securities).

The University must explicitly authorize the use of such derivative instruments, and shall consider certain criteria including, but not limited to, the following:

- i. Manager's proven expertise in such category.
  - ii. Value added by engaging in derivatives.
  - iii. Liquidity of instruments.
  - iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers).
  - v. Managers internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.
11. Although the University reserves the right to vote proxies for all individually managed portfolios (not mutual or commingled funds), it may delegate this responsibility to the investment managers. In these cases, the investment managers shall provide, on a quarterly basis, an accounting of all non-routine (routine proxy votes include matters such as the approval of outside accountants and re-election of directors) proxy votes with explanations. The investment managers have the duty to vote proxies in a manner that is consistent with the investment objectives contained herein. We recognize the University could from time to time adopt socially responsible policies that may reduce the total return. We also recognize that certain proposals, if implemented, could have a substantial impact on the market prices of the securities held in the portfolio. Therefore, in the absence of specific socially responsible restrictions, proxies shall be voted on in a manner which maximizes the value of the portfolio's securities. Although each proxy vote must be examined on a case-by-case basis, we would generally expect to vote against proposals such as the approval of poison pills, golden parachutes, unequal voting rights plans, staggered boards, and the elimination of shareholder rights, which are designed to make it difficult for a company to be acquired or which have a tendency to entrench current management at the expense of shareholders.

#### REAL ESTATE

Real estate received as a gift shall be sold as soon as possible, keeping in mind the market value at the date of the gift.

**EVALUATION OF INVESTMENT MANAGERS**

The investment managers will be reviewed on an ongoing basis and evaluated based upon the following additional criteria:

1. Ability to exceed (active managers) or approximate (passive managers) the performance objectives stated in this Investment Policy.
2. Adherence to the philosophy and style which were articulated to the University at, or subsequent to, the time the investment manager was retained.
3. Ability to exceed (active managers) or approximate (passive managers) the performance of other investment managers who adhere to the same or similar style.
4. Continuity of personnel and practices at the firm.

**CONCLUSION**

This statement of investment policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis and the report will be provided by an independent third party. The manager may provide any suggestions regarding appropriate adjustments to this statement or the manner in which investment performance is reviewed.

Acknowledged \_\_\_\_\_  
On Behalf of Western Michigan University

Date: \_\_\_\_\_

Acknowledged \_\_\_\_\_  
On Behalf of the Investment Manager

Date: \_\_\_\_\_

Acknowledged \_\_\_\_\_  
On Behalf of Fund Evaluation Group, LLC

Date: \_\_\_\_\_