INVESTMENT POLICY STATEMENT

For

Ball State University Operating Funds

Prepared: December 2016

Approved by Ball State Board of Trustees: December 16, 2016
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitions</td>
<td>1</td>
</tr>
<tr>
<td>Purpose</td>
<td>2</td>
</tr>
<tr>
<td>Background and Scope</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Objectives</td>
<td>5</td>
</tr>
<tr>
<td>Guidelines</td>
<td>7</td>
</tr>
<tr>
<td>Selection of Investment Managers</td>
<td>10</td>
</tr>
<tr>
<td>Control Procedures</td>
<td>11</td>
</tr>
<tr>
<td>IPS Review and Evaluation</td>
<td>15</td>
</tr>
<tr>
<td>Appendix A</td>
<td></td>
</tr>
<tr>
<td>Appendix B</td>
<td></td>
</tr>
</tbody>
</table>
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(e), 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:

- The 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 is divided 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 incremental
BACKGROUND AND SCOPE

return over Tier I. Tier III is invested for total return potential while taking on appropriate levels of risk. Initial recommended asset ranges for each tier are included in Appendix B.

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).

**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.

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 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.
STATEMENT OF OBJECTIVES

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 may 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**

Investment managers must adhere to the following guidelines as well as any applicable Indiana statutory requirements. Subject to the guidelines below, 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. 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. The underlying securities in the portfolio must be permissible investments under Indiana Statute.

The guidelines listed below are written with the intent to provide investment managers sufficient flexibility to carry out their investment process. Investment Managers, however, will be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums.

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Maximum % of Portfolio</th>
<th>Credit Rating Floor</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>100%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>U.S. Government Agency or Instrumentality</td>
<td>100%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>Mortgage-backed (Residential Agency)</td>
<td>50%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>Mortgage-backed (Commercial Agency)</td>
<td>20%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>Mortgage-backed (Non-Agency)</td>
<td>20%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>Asset-backed</td>
<td>10%</td>
<td>AA- / Aa3</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>50%</td>
<td>A-2 / P-2</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>50%</td>
<td>IDC rating &gt; 125</td>
</tr>
<tr>
<td>Investment-grade Corporate Bonds</td>
<td>50%</td>
<td>BBB- / Baa3</td>
</tr>
<tr>
<td>Taxable General Obligation Municipal Bonds</td>
<td>50%</td>
<td>BBB- / Baa3</td>
</tr>
<tr>
<td>Money Market Instruments and Funds</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Investment managers will also be restricted to a maximum maturity of 10 years. Certificate of Deposits are limited to P&I insured in full by the Federal Deposit Insurance Corporation (FDIC).

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.
- 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*

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Investment Policy Statement
Ball State University

Prepared: December 2016
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 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.

<table>
<thead>
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<th>Asset Type</th>
<th>Maximum % of Portfolio</th>
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- The 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).

**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. Jumbo CD in excess of $250k is 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.
GUIDELINES

All purchases must be reviewed and approved by the Vice President for Business Affairs and Treasurer or Associate Vice President for Business Affairs 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 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 (including without limitation, the Guidelines, set out above) 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
CONTROL PROCEDURES

- All legal material, SEC and other regulatory agency proceedings affecting the firm.

- 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 the preparation of necessary general ledger 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.
CONTROL PROCEDURES

- 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:*

<table>
<thead>
<tr>
<th>Name of Fund:</th>
<th>Ball State University Operating Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Fund/Tax Status:</td>
<td>Tax-Exempt University</td>
</tr>
<tr>
<td>Current Assets:</td>
<td>$325,947,144 (as of September 30, 2016)</td>
</tr>
<tr>
<td>Investment Committee:</td>
<td>TBD</td>
</tr>
<tr>
<td>Custodian:</td>
<td>TBD</td>
</tr>
<tr>
<td>Investment Consultant:</td>
<td>Capital Cities, LLC (800) 743-6010</td>
</tr>
</tbody>
</table>
APPENDIX B

Historical Record

<table>
<thead>
<tr>
<th>Date</th>
<th>Change</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov, 2016</td>
<td>Ball State University and Capital Cities conducted an initial due diligence meeting to review the needs and objectives of the University.</td>
<td>None.</td>
</tr>
<tr>
<td>Oct, 2016</td>
<td>Ball State University retained Capital Cities, L.L.C. as the investment consultant to the Funds.</td>
<td>None.</td>
</tr>
</tbody>
</table>

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. 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 are fully funded, will be allocated to the Tier III portfolio; therefore, no minimum or target market value was established.

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.
Objectives

<table>
<thead>
<tr>
<th>Tier</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Provides for daily and monthly operating cash needs, with limited return expectations.</td>
</tr>
<tr>
<td>II</td>
<td>Serves as a contingency account to replenish Tier 1 (if necessary). Return objectives are commensurate with conservative fixed income investing.</td>
</tr>
<tr>
<td>III</td>
<td>Maximizes risk-adjusted returns and provides emergency liquidity to Tiers I &amp; II.</td>
</tr>
</tbody>
</table>

Asset Balance Ranges

<table>
<thead>
<tr>
<th>Tier</th>
<th>Objective</th>
<th>Unrestricted Target Allocation</th>
<th>Fixed Income Style</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Liquidity / Operating Needs</td>
<td>$30mm - $50mm</td>
<td>Cash &amp; Equivalents</td>
</tr>
<tr>
<td>II</td>
<td>Contingency Reserves</td>
<td>$25mm - $35mm</td>
<td>Cash &amp; Equivalents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Active Cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Defensive</td>
</tr>
<tr>
<td>III</td>
<td>Total Return</td>
<td>Residual Balance</td>
<td>Defensive</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Intermediate</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Core</td>
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</table>
APPENDIX B

Descriptions of Selected 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 Barclays1-3 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 Barclays Capital 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 Barclays Capital Intermediate Government/Credit Bond Index.

Core Bond: Core Bond managers construct portfolios to approximate the investment results of the Barclays Capital Government/Credit Bond Index or the Barclays Capital 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.
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
APPENDIX B

- Significant account losses or significant account growth
- 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.
APPENDIX B

Selected Managers and Relevant Peer Group:

TBD

Evaluation Benchmark: TBD