

**FERRIS FOUNDATION
ENDOWMENT POOL
INVESTMENT POLICY STATEMENT**

OCTOBER 22, 2010

INVESTMENT PHILOSOPHY

The Ferris Foundation recognizes the long-term nature of gifts in the form of endowment funds. The Ferris Foundation's intent is to maximize the investment returns of these funds using the following guidelines.

The Ferris Foundation wishes to maximize the financial benefit intended by the donor, to support the programs of its beneficiary university, Ferris State University, and to achieve growth of both principal value and income over time to preserve and increase the purchasing power of the assets. This document will describe the standards that will be utilized by the Investment Committee in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

Investment of Funds not identified as part of the endowment pool will be received and invested under the guidelines established in the Unrestricted/Temporarily Restricted Investment Policy or the Charitable Gift Annuity Investment Policy.

INVESTMENT OBJECTIVE

The investment objective of the Foundation is to preserve and enhance the real (inflation-adjusted) purchasing power of endowment fund assets, consistent with agreed-upon levels of risk, while providing a relatively predictable stream of total earnings in line with spending needs. The total return concept will be used and is defined as the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest.

SCOPE

This Investment Policy Statement applies only to those assets for which the investment manager and the Investment Committee have discretionary authority.

INVESTMENT COMMITTEE RESPONSIBILITY

The Investment Committee is charged with the responsibility for managing Foundation assets. The Investment Committee will discharge its duties solely in the interest of the Ferris Foundation and its beneficiary organization, Ferris State University.

The Investment Committee authorizes the Foundation Executive Director or his/her designee to act upon the direction and decisions made in the placement of investments and the spending decisions of the Investment Committee. A formal record of investment and spending decisions will be kept.

ADMINISTRATIVE RESPONSIBILITIES

Day-to-day management of the assets of the Foundation will be the responsibility of the Foundation Executive Director, or his/her designee. The Foundation will work in cooperation with the Administration and Finance Division of Ferris State University. The Foundation Executive Director is charged with supervising the administrative duties on behalf of the Ferris Foundation and its Investment Committee.

The Foundation Executive Director may delegate authority in the completion of day-to-day management of the assets to specific internal or external individuals. This management may include such things as broker contacts, dividend/interest decisions, account maintenance, performance measurements, portfolio tracking and analysis, sale and purchase of investments, etc. The Foundation Investment Committee will know these individuals. All buy/sell activity must be presented to the Foundation Investment Committee at its meetings for review.

In the event that a manager needs to be terminated immediately and the Investment Committee is unable to meet to approve the termination, the Executive Director or his/her designee will attempt to contact all of the Investment Committee members to explain the rationale behind the recommendation. If a majority of the committee members cannot be reached to act upon the recommendation, the Executive Director or his/her designee is authorized to terminate the manager and invest the proceeds in an index fund or similar type of investment until the Investment Committee can meet.

The Investment Committee authorizes the Foundation Executive Director or his/her designee to review and compare different types of investment managers, along with recommendations from the Investment Committee, to determine appropriate managers and funds for the Foundation. The Investment Policy Committee will review and act on the information and analysis gathered and presented.

SPENDING POLICY

The Ferris Foundation's annual distribution will be 4% of a 12 quarter moving average of the endowment's market value, but only to the extent that such distribution does not cause the value of the endowment fund on the annual December 31 valuation date to be less than the historic dollar value of the fund. No distributions will be made from an endowment whose value of the fund on the annual valuation date is less than historic dollar value. Returns in excess of the distribution are to be reinvested; however, an additional one percent of the 12 quarter moving average may be used to offset Foundation administration. Excess amounts of this administrative percentage not used for administrative operations will be added to a special holding account for support of priority projects and related expenses identified by the President of the University and the Vice President for University Advancement & Marketing/Executive Director of the Foundation. The Executive Director will advise Foundation officers and the Audit Committee of planned uses of funds in the special account. Any activity in the account will be reported regularly and formally to directors at meetings of the full board of directors.

The Investment Committee will periodically review the spending policy. Any deviations from this spending policy must be approved by the Foundation Board and recorded in official minutes.

The spending policy will keep in mind overall investment objectives of maximizing the benefit intended by the donor and achieving growth of both principal value and income over time to preserve and increase the purchasing power of the endowment.

ASSET ALLOCATION

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a highly desirable objective. The Foundation's general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather, upon the broad nature of such investments and of the factors that may influence them.

To insure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

ASSET CATEGORY	Target	Range
Public Equity		
US Equity		
Large Cap	15%	10-25%
Mid Cap	8%	5-15%
Small Cap	7%	5-15%
International Equity		
Developed Lg Cap	15%	10-20%
Developed Small Cap	5%	0-10%
Emerging Mkts	5%	0-10%
Total Public Equity	55%	40-70%
Private Equity		
Private Equity	5%	0-10%
Hedged Equity	10%	5-15%
Total Private Equity	15%	0-15%
Fixed Income		
Investment Grade	7.5%	5-10%
Credit	5%	0-10%
Cash	0%	0-10%
Total Fixed Income	12.5%	10-40%
Real Assets		
Real Estate	5%	0-10%
Timber	2%	0-7%
Energy	3%	0-7%
Total Real Assets	10%	0-20%
Diversifying Strategies		
Absolute Return Hedge Fund	7.5%	0-15%
Total Portfolio	100%	

Style

The Committee understands investment styles (growth and value) are cyclical, but believes that over the long-term, value stocks outperform growth stocks and this is more pronounced for smaller market capitalization (cap) stocks. Therefore, the Foundation will employ a strategic overweight to value stocks, with a larger value overweight to mid and small cap stocks. The target overweight for each category shall be (Core managers will be considered to be 50% growth style and 50% value style):

Large Cap	60/40	value / growth
Mid Cap	67/33	value / growth
Small Cap	75/25	value / growth

Market Capitalization

Additionally, the Fund will employ a strategic tilt towards smaller market cap stocks, due to the Committee's belief that over the long-term, small cap stocks outperform large cap stocks, although with higher volatility relative to larger cap stocks.

Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers. High efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies due to the low probability of traditional active management outperforming an appropriate benchmark.

REBALANCING ASSET ALLOCATION

The Executive Director or his/her designee, with advice from the Investment Consultant, will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class. If the portfolio becomes overweighted or exceeds the range of percentage for that asset class, the Executive Director or his/her designee will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

LIQUIDITY

A goal of the Foundation is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

HEDGED EQUITY STRATEGIES

Hedged equity is not an asset class, but rather an investment strategy. These strategies tend to opportunistically invest in a broadly defined market with few constraints. As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, use leverage, and actively manage market exposure.

For the hedged equity allocation to achieve the expected objectives without unnecessary risk, the Foundation will seek access to skilled hedge fund of funds that are well-diversified. Hedged equity fund of funds may have “lock-up” periods of 1-2 years from the date of investment, during which money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

ABSOLUTE RETURN STRATEGIES

The Foundation classifies absolute return strategies as non-directional, non-benchmark driven strategies that attempt to provide positive absolute returns in all market environments. These strategies seek to provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

For the absolute return allocation to achieve the expected objectives without unnecessary risk, the Foundation will seek access to skilled hedge fund of funds that are well-diversified. Absolute return hedge fund of funds may have “lock-up” periods of 1-3 years from the date of investment, during which money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

ILLIQUID INVESTMENTS

The Foundation classifies illiquid investments into three categories: Private Equity, Private Real Estate, and Natural Resources. Each illiquid fund will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have each document reviewed by independent legal counsel.

Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation will achieve this diversification through investments in fund of funds. A prudent fund of funds strategy will consider the following areas for diversification:

- 1) ***Sub-Category*** – venture capital, buyouts, distressed, etc.
- 2) ***Vintage Year*** – Capital commitments to private equity should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns. Most fund of funds will commit to funds over a 3 year time period as returns are dependent on market cycles.
- 3) ***Number of Investments*** – to mitigate firm specific, as well as deal specific risk
- 4) ***Stage*** – spread across the life cycle of businesses. Within venture capital, investments should be made in early, mid and late stage companies. Buyout investments ought to cover small, mid and large market firms (in the form of traditional buyouts, growth equity, recapitalizations or restructuring).

- 5) **Geography** – Investments should be spread within the U.S., and expand internationally to the extent the investment committee approves.
- 6) **Sector** – The portfolio should be diversified by sector, as well as across industries within a sector.

Private Real Estate

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation will achieve this diversification through investments in fund of funds. A prudent fund of funds strategy will consider the following areas for diversification:

- 1) **Sub-Category** – value-added or opportunistic funds are designed to generate excess return for the overall real estate allocation.
- 2) **Vintage Year** – Capital commitments to private real estate should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns. Most fund of funds will commit to funds over a 3 year time period as returns are dependent on market cycles.
- 3) **Number of Investments** – to mitigate firm specific, as well as deal specific risk.
- 4) **Geography** – Investments should be spread within the U.S, and expand internationally to the extent the investment committee approves.
- 5) **Property Type** – The portfolio should be diversified across property types (e.g. apartments, office, industrial and retail).

Natural Resources

The objective of the natural resources allocation is provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation will achieve this diversification through investments in fund of funds. A prudent fund of funds strategy will consider the following areas for diversification:

- 1) **Sub-Category** – timber and energy investments.
- 2) **Vintage Year** – Capital commitments to natural resources should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns. Most fund of funds will commit to funds over a 3 year time period as returns are dependent on market cycles
- 3) **Number of Investments** – to mitigate firm specific, as well as deal specific risk.
- 4) **Geography** – Investments should be spread within the U.S, and expand internationally to the extent the investment committee approves.

5) Stage/Type

i. Energy

Investments in energy funds will focus primarily on the upstream end of the energy market with development and production, and to a lesser extent exploration. Exposure to the upstream markets will be gained through private equity investments, working interests, and royalty interests. Investment in downstream activities such as refining, transmission, and distribution may be considered opportunistically. Upstream markets offer two primary benefits:

- 1) Inefficiencies, which offer attractive investment opportunities, and
- 2) Exposure to the underlying commodity (oil and gas), which provides an inflation hedge.

ii. Timber

Investments with Timber Investment Management Organizations (TIMOs) should be diversified by wood type (hard and softwood, species, etc.). Investing in TIMOs exposes the portfolio to timber prices, providing inflation protection, with the potential to generate additional return through the underlying management of the timberland.

Time Horizon

The majority of private equity, private real estate, and natural resource investments will be made with private partnerships. These partnerships will range from 7-15 years in life, during which time the fund may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for the first 3-5 years (depending on the strategy). New investments may create a drag on fund performance in the early years (3-5 years) until these investments begin to mature.

Tax Implications

The Foundation is a tax-exempt organization, but may be subject to taxation on Unrelated Business Taxable Income (UBTI). Since net risk adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the investment analysis and selection process. Additionally, the Foundation shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Fund.

TIME HORIZON

Due to the inevitability of short-term market fluctuations, the Investment Committee intends that the investment managers meet the following Specific Performance Objectives over a 5-year moving period, net of investment management fees. Nonetheless, the Investment Committee reserves the right to evaluate and make any necessary changes regarding the investment manager over a shorter term using the criteria established in the "Evaluation of Investment Manager" section of this statement.

SPECIFIC PERFORMANCE OBJECTIVES

Total Fund

1. The total return shall exceed the Consumer Price Index + 5% (4% spending and 1% administrative fee).
2. The total return shall exceed a Broad Policy Index composed of: 45% of the Russell 3000 Index, 25% of the MSCI All Country World Ex-US Index, and 30% of the Barclays Capital Aggregate Bond Index.
3. The total return shall exceed a Target Weighted Index composed of the relevant indexes in the same proportion as the target asset mix.

Equity Managers

1. The total return for each active equity manager shall exceed the total return of the relevant equity benchmark: Domestic Mid Cap, - Russell Midcap style Index, Domestic Small Cap - Russell 2000 style Index, Core International Developed – MSCI EAFE Index, International Small Cap - MSCI Small Cap EAFE, Emerging Markets - MSCI Emerging Markets Index. Each passive equity manager shall approximate the total return of the relevant equity benchmark.
2. Each active equity manager will be expected to rank above the median versus the appropriate Equity Manager Universe.
3. Each active equity manager will be expected to maintain volatility (beta) no greater than 1.20 versus the relevant equity benchmark. Each passive equity manager will be expected to maintain volatility (beta) of approximately 1.00 versus the relevant equity benchmark.
4. 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%.

Hedged Equity Fund(s)

Hedged equity managers are not constrained by traditional benchmarks and will have varying degrees of net exposure. Therefore, hedged equity fund returns are not easily benchmarked. For performance evaluation purposes however, each manager's return will be compared to the total return of the HFRI Equity Hedge Index.

Fixed Income Managers

1. The total return for each core fixed income manager shall exceed the total return of the Barclays Capital Aggregate Bond Index. The total return for each high yield manager shall exceed the total return of the Merrill Lynch High Yield Bond Index.
2. Each manager will be expected to rank above the median versus the appropriate Universe (Core Fixed Income or High Yield).

Public Real Estate Managers

1. The total return shall exceed the total return of the relevant real estate index.
2. Each REIT manager will be expected to rank above the median versus the REIT Universe.

Absolute Return Fund(s)

1. The total return for each absolute return fund shall exceed the total return of U.S. Treasury Bills + 5%.
2. Each manager's return will be compared to the HFRI Fund of Funds – Conservative Index.

Private Equity, Private Real Estate and Natural Resources Managers

These funds measure performance utilizing internal rate of return (IRR), because the manager has control over the cash flows. Because of the time commitment to invest the funds, a moving five year period is not appropriate. Rather, returns are measured since inception, and typically, at least 7 years is needed to evaluate the success of the fund. For private equity, the IRR will be compared to the appropriate Venture Economics Benchmark. Private real estate funds will be measured versus the NCREIF Property Index. Timber funds will be measured versus the NCREIF Timber Index. Energy funds will be evaluated versus S&P 500 Index + 5%.

EVALUATION OF INVESTMENT MANAGERS

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

1. Ability to meet or exceed the performance objectives and comply with the investment manager requirements stated in this Investment Policy Statement.
2. Adherence to the philosophy and style that were articulated to the Investment Committee at, or subsequent to, the time the investment manager was retained.
3. Continuity of personnel and practices at the firm.

INVESTMENT MANAGER REQUIREMENTS

1. In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for The Foundation's investments.
2. Although there are no strict guidelines that will be utilized in selecting managers, the Investment Committee will consider the length of time the firm has been in existence, its track record, assets under management, and the amount of assets The Ferris Foundation already has invested with the firm.
3. The requirements stated below apply to marketable (does not include Hedged Equity, Absolute Return, Private Real Estate, Natural Resources, or Venture Capital/Private Equity) investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Investment Committee cannot dictate policy to pooled/mutual fund

investment managers, the Investment Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.

- a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.
- b. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with this Investment Policy Statement.
- c. The investment managers shall be evaluated on a quarterly basis and should be prepared to meet with the Investment Committee at least annually.
- d. The investment manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of The Ferris Foundation and consistent with the investment objectives contained herein.
- e. For diversification purposes, each equity portfolio manager shall have in excess of 20 positions.
- f. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee 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 and counter parties)
 - v. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints
- g. The equity and fixed income investment managers shall not invest in non-marketable securities.
- h. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies.
- i. Each core fixed income manager must maintain an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. Each high yield manager must have an overall weighted average credit rating of "B" or better by Moody's and Standard & Poor's rating services.
- j. Each core fixed income manager must maintain a duration of no greater than $\pm 20\%$ that of the Barclays Capital Aggregate Bond Index.
- k. The equity and fixed income investment managers shall not effect a purchase that would cause a position in the portfolio to exceed 5% of the issue outstanding at market value.
- l. The investment manager shall immediately notify the Investment Committee in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

CONCLUSION

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

Acknowledged on behalf of the
Ferris Foundation

Date

Acknowledged on behalf of
Fund Evaluation Group, LLC

Date