BethelUniversity

INVESTMENT POLICY

POLICY: 1.500

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POLICY

The purpose of this document is to set forth policies and procedures governing the investment of funds for the University, whether in debt or equity, to maximize funds available for the accomplishment of the mission of the University. The investment of these funds shall be performed in a manner consistent with the preservation of capital, the preservation and growth of purchasing power, and the performance of the mission of the University as defined by the Board of Trustees. These policies and procedures will also serve to educate, direct, and define the parameters for investment managers employed by the University and to authorize the appropriate committees and/or employees to invest funds consistent with the provisions herein.

STANDARD OF CARE

To use the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

SUPERVISION

The Board of Trustees will maintain and review the investment policies and objectives of the University, establish procedures for handling the receipts, transfers, safekeeping and safeguarding of assets, approve all changes or amendments to the Investment Policy, and delegate certain duties and responsibilities as the Board sees fit. The Vice President of Finance/CFO will review the investment accounts with the Finance Committee/Investment Committee, as designated by the Board of Trustees on a monthly schedule and report to the full Board of Trustees at each Board of Trustees meeting.

INVESTMENT POLICY ELEMENTS

The principle elements of this policy are asset allocation, performance standards, and security procedures. This policy allocates investments into three-time horizons: 1) Short Term, 2) Intermediate, and 3) Long Term according to the funding needs of the University. These time horizons are intended to provide general guidelines and restrictions for investment managers implementing these various portfolio strategies. Individual securities described within each horizon are not specifically approved or intended but are listed for explanatory purposes only.

The assets allocated to the "Short Term" horizon should be sufficient to supplement occasional operating needs of the University. The operating account may experience funding needs that "Short Term" funds can provide. "Intermediate" and "Long Term" include funds that will not be needed for liquidity thereby permitting a longer investment horizon and consequently higher yields. The Board of Trustees, in consultation with the Finance Committee and/or Investment Committee, will determine the amount of funds allocated to each horizon. Suggested guidelines for each horizon are:

1. Short Term - Less than 2 years
2. Intermediate - 2 years to 5 years
3. Long Term - 5 years to 10 years

With regard to the portfolio mix guidelines referred to hereafter, outside investment managers shall be permitted to change the allocation mix in response to market conditions only after approval by the Board of Trustees and/or Finance Committee/Investment Committee.

FUND SPECIFIC POLICIES

Attached to this document are separate guidelines for each investment fund. Each policy will identify and define:

1. The investment obligation, including its purpose;
2. Return objectives;
3. Risk factors;
4. Appropriate investment categories, asset allocation targets, broad quality constraints and maturity targets;
5. Liquidity constraints; and
6. Market value fluctuation tolerance.

FUND PERFORMANCE AND REPORTING

An overall total return objective is established by this policy for each investment account. The returns will be compared with generally accepted indexes, i.e., the Standard & Poor's 500, Lehman Bond Indexes, and MSCI EAFE stock indexes, and an index of 90-day U.S. Treasury Bills. It is expected that investment managers will meet in person with the Board of Trustees (Finance Committee) at least annually and provide a written report at least quarterly which will outline specific investments, their returns calculated net of fees and costs. The quarterly report will also provide comparisons with an appropriate benchmark composite index.

Annual and quarterly reports will also provide a detailed explanation of all fees including, but not limited to, custodial fees, brokerage fees, investment management fees, and fees relating to mutual fund expenses. Any soft costs or other soft dollar arrangements utilized by investment managers or other parties must be fully disclosed and approved in advance by the Board of Trustees (Finance Committee).

CUSTODIAL/SAFEKEEPING

Custody of all securities shall be maintained by the Vice President of Finance/CFO in a custodial account with a firm to be approved annually by the Finance Committee.

INVESTMENT MANAGER QUALIFICATIONS

Investment managers employed by the University shall be registered with the United States Securities and Exchange Commission pursuant to the Securities Act of 1940, including any amendments. An investment manager's current Form ADV, Part II shall be reviewed by the Board of Trustees (Finance Committee) prior to employment, and the Board of Trustees (Finance Committee) shall be informed within 90 days of any material changes in an investment manager's Form ADV, Part II.

SHORT TERM HORIZON

PURPOSE

The investments in this horizon will seek returns in excess of a passive approach and provide liquidity for short term reserve funds. Capital preservation is paramount in this portfolio.

RETURN OBJECTIVE

- Performance of the fund will be measured against: 90 day Treasury Bills, plus 0.50%
- Most Important Risk Factors: Capital preservation and liquidity
- Appropriate Investments: All securities will be readily marketable. Please see Short Term Horizon table below.

Security	Description	Maximum Position
Treasuries	3 years or less	20% in any single issue maturity ladder
Agencies	3 years or less	20% in any single issue maturity ladder
Agency mortgage Pass-Through	WAL 3 years or less	20% in MBS 10% in any single issue
Corporate Debt Securities	3 years or less, minimum of an A rating	5% in any single issuer maturity ladder
Repurchase Agreements	Maximum 30 days	5% for any non-govt. issue & 10% for govt. backed repos.
Bank Certificates	1 year maximum	5% for any one issue 30% in repos. & CDs
Municipal Debt	3 years or less, minimum of an A rating	5% in any single issuer, Total munis 25%
Commercial Paper	270 days maximum maturity Minimum A1/P1 rating	5% of any single issuer

The following securities are prohibited from purchase:

1. Euro dollar and non-US dollar bonds
2. Inverse Floaters
3. Support tranches of CMO securities
4. Principal Only and Interest Only securities
5. Collateralized Mortgage Obligations
6. Bankers Acceptances

INTERMEDIATE HORIZON

PURPOSE
Investments in the intermediate category will be designated to meet capital expenditure needs and longer-term operating requirements.

RETURN OBJECTIVE
- This portfolio is expected to produce a return in excess of the following composite:
  - Lehman Bond Intermediate-Term Govt. /Credit Bond Index: 95%
  - 90-day United States Treasury Bills: 5%

Unless the manager's interim results are significantly below expectations, the period for evaluation will include a complete market cycle, assumed to be 3 to 5 years.

- Most Important Risk Factor: Purchasing power risk (inflation)
- Appropriate Investments: All securities will be readily marketable. Please see Intermediate Horizon table below.
- Liquidity: The manager needs to fully understand the plans and cash requirements of Bethel University.
- Market Value Fluctuations: Minimal

SECURITY	DESCRIPTION	MAXIMUM POSITION
Treasuries	10 years or less	20% in any single-issue maturity ladder
Agencies	10 years or less	20% in any single-issue maturity ladder
Agency mortgage pass through	WAM less than 10 years	20% in Mortgage Backed Securities, 10% in any single issue
Corporate Debt	Minimum of A rating, 10 years or less maturity	5% in any single issue, maturity ladder
Repurchase Agreements	30 days maximum maturity	5% for any single issue 10% for govt. backed repos
Bank CDs	1-year maximum maturity	FDIC insured
Municipal Debt	10 years or less, minimum of an A rating	5% in any single-issue maturity ladder
Commercial Paper	270 days or less maturity	Minimum rating of A1/P1 5% in any single issue

Corporate and municipal exposure in the aggregate will not exceed 50% at cost unless approved by the Board of Trustees (Finance Committee). In the event of a downgrade of a fixed income security below an A rating by either Moody's or S&P, the investment manager will inform the Board of Trustees (Finance Committee) within 90 days and recommend a course of action.

The following securities are prohibited from purchase:

1. Eurodollar and any non-US dollar bonds
2. Inverse Floaters
3. Support tranches of CMO securities
4. Principal Only and Interest Only Securities
5. Collateralized Mortgage Obligations
6. Bankers Acceptances

LONG TERM HORIZON

Purpose

Investments will maximize returns on funds designated to meet capital expenditure needs and longer-term requirements. The focus will be to produce returns within an acceptable level of risk that reduces the impact of purchasing power risk (inflation).

Asset Allocation

The portfolio will be allocated as follows:

	Target	Acceptable Range
Equities	60%	50% - 70%
Fixed Income	40%	30% - 50%
Cash	0%	0% - 20%

Return Objective

- The portfolio is expected to produce a return in excess of the following composite:

  S&P 500 Index with Dividends...48%
  MSCI EAFE Index with Dividends...%
  Lehman Intermediate-Term Govt./Credit Bonds 35%
  90-day U.S. Treasury Bills..5%

  Unless the manager's results are significantly below expectations, the period for evaluation will include a complete market cycle, generally 3 to 5 years.

- Time Horizon: This portfolio's time horizon for investments is expected to be 5 to 10 years.

- Most Important Risk Factor: Purchasing power risk (inflation)

- Appropriate Investments:
  - Equities: A majority of the equity portfolio is to be invested in large capitalization companies from developed markets in a balanced and diversified manner. Smaller capitalization companies and developing markets may be used to complement the core portfolio in a risk-controlled manner.

    Individual issues may not exceed 7% of the portfolio at cost unless an exception is approved by the Board of Trustees (Finance Committee).

    No more than 25% of the portfolio may be invested in a single industry and no more than 35% of the portfolio may be invested in a single sector.

    Short sales, margin, leverage, listed options, restricted issues, and any derivative issue shall not be used as an investment vehicle.

    The investment manager will be required to vote proxies in the best interest of the University in accordance with appropriate policies disclosed to the Board of Trustees.

  - Fixed Income: The fixed income portion of a balanced account must comply with the appropriate investments and specific requirements set forth in the Intermediate Horizon.

  - Liquidity: Liquidity needs will generally be used for strategic rebalancing of the portfolio.

  - Market Value Fluctuations: It is understood that fluctuating rates of return are characteristic of the equity markets. However, the greatest concern should be long-term appreciation and consistency of returns with no greater than market risk.

Spending Policy

The spending policy of the funds from the University endowment account is based on the "Total Return" concept of determining the amount available for distribution. Total Return takes into consideration all of the elements of long-term investment return including interest, dividends, and realized and unrealized capital appreciation or loss. The appropriate spending amount is based on the projected long-term Total Return of the funds, less an estimate of future inflation. The goal of the Total Return approach is to provide for a level of current income that protects the future purchasing power of the fund, thereby providing for increasing amounts of future income.

Once determined the appropriate spending amount is applied to the total market value of the funds. It is anticipated that this percentage will be in the range of 3% - 5% of the market value based on historical measurements of Total Return and inflation. The market value of the fund will be noted each year on a specific date and a three-year rolling average market value will be established. The rolling three-year market value will be multiplied by the approved spending percentage with will be set annually.

The current approved spending percentage is 3%.

The available income determined from multiplying the approved spending percentage by the rolling three-year market value will be set aside each year in a separate account to be determined by the Board of Trustees (Finance Committee).