**Statement of Investment Objectives**
**Exhibit B: Michigan State University's Pooled Cash Fund**

## INTRODUCTION

This statement sets forth the investment objectives of Michigan State University's Pooled Cash Fund ("PCF"), which is a subset of the University's overall cash pool. (See Figure No. 1.)

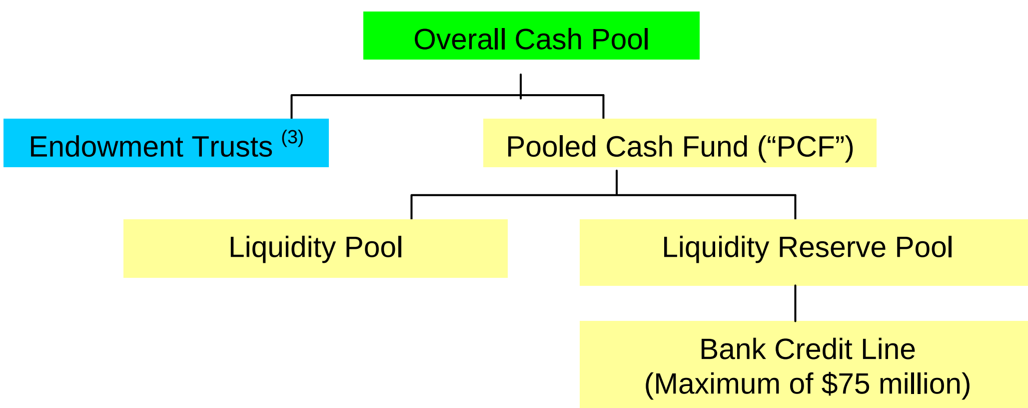
## PCF ASSETS

The PCF has two components -- the Liquidity Pool and the Liquidity Reserve Pool. The Liquidity Pool shall be composed of short-term (less than one-year maturity) and intermediate-term (maximum ten-year maturity) commercially available funds (three-year maximum average portfolio duration). These funds shall be available on a daily basis. The target range for the Liquidity Pool shall be 30 - 60 days of operating cash [1].

The Liquidity Reserve Pool shall be composed of commercially available funds (six-year maximum average portfolio duration) and up to a $75 million bank line of credit or its equivalent. (See Figure No. 1.) The target amount for the Liquidity Reserve Pool shall be 30 days of operating cash. [1][2]

The PCF minimum amount shall be the greater of (1) 45 days of operating cash or (2) the minimum daily liquidity to support five days of maximum commercial paper maturities.

**Figure No. 1**
**Structure of MSU's Overall Cash Pool**

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(1) One day of operating cash equals the daily average of operating expenses less depreciation as reported in MSU's Audited Financial Statements for the prior fiscal year.
(2) See also footnote 1 to Table No. 1 in the event the University employs a bank line of credit in the Liquidity Reserve Pool.
(3) Overall Cash Pool amounts in excess of 60 days of operating cash may be invested on a long-term basis with other Institutional Funds in the University's Common Investment Fund (CIF).
(4) The PCF minimum amount shall be the greater of (1) 45 days of operating cash or (2) the minimum daily liquidity to support five days of maximum commercial paper maturities.

Table No. 1 summarizes the target allocations for each component of the PCF.

| **Table No. 1<br>PCF Composition** | | |
|---|---|---|
| | Target Allocation | |
| | Minimum Amount | Target Amount/Range |
| Liquidity Pool | The greater of (1) 45 days of operating cash or (2) the minimum daily liquidity to support 5 days of maximum commercial paper maturities | 30-60 days of operating cash |
| Liquidity Reserve Pool | | 30 days of operating cash[(1)] |

1. Up to $75 million of this amount may be represented by a bank line of credit or its equivalent. Any Liquidity Reserve Pool target amount for which the bank line of credit would substitute would count towards satisfying the PCF minimum amount.

## INVESTMENT OBJECTIVES

The investment objectives for each component of the PCF are:

Liquidity Pool. The primary objective is to provide a liquid source of funds to meet the University's daily cash requirements. A secondary objective is to yield a competitive investment return while bearing minimal principal risk.

Liquidity Reserve Pool. The primary objective is to provide a source of funds in the event the Liquidity Pool is insufficient to meet the University's cash needs. A secondary objective is to earn a higher investment return than the Liquidity Pool. Because of the very low likelihood that these funds would be needed to meet cash flow requirements, a greater degree of principal risk is acceptable in order to obtain a higher return.

### SHORT-TERM PERFORMANCE GOALS

Short-term performance goals for each component of the PCF, and for individual managers, will be to outperform (if actively managed) net of fees appropriate market and peer benchmarks over rolling one, three and five-year periods. Furthermore, adherence to the investment style for which individual managers were selected will also be monitored.

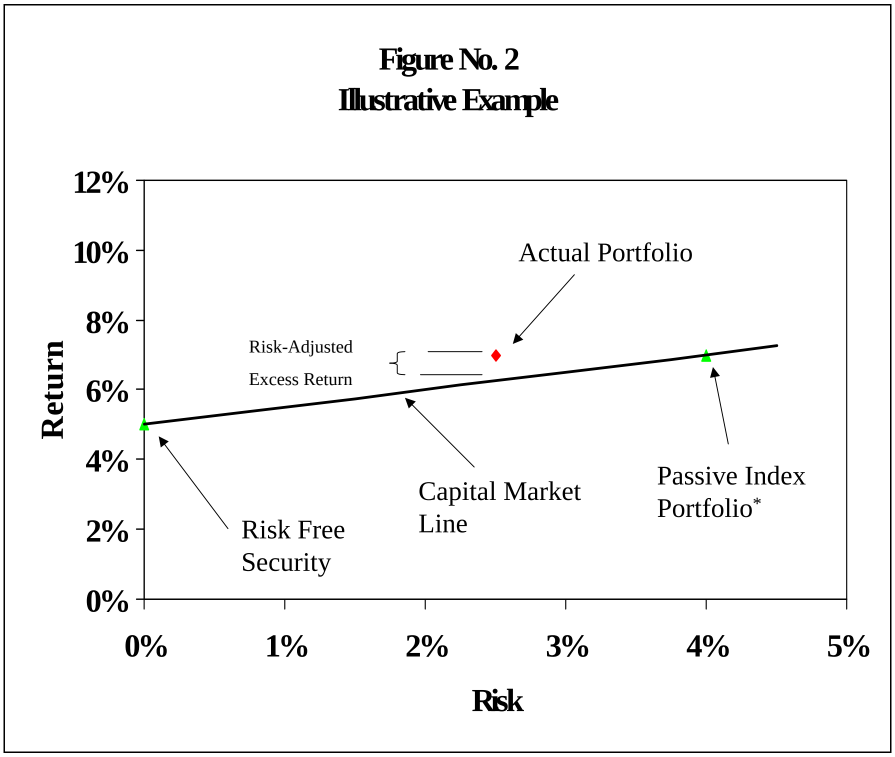
### LONG-TERM PERFORMANCE GOALS

The following long-term performance goals of the PCF are expected to be achieved over a ten-year period, measured on a ten-year rolling basis.

1) A total annual return net of fees greater than the rate of inflation
    a. plus 1.5% for the Liquidity Pool, and
    b. plus 3.0% for the Liquidity Reserve Pool.

2) To the extent an actively managed strategy is used, a risk-adjusted, excess annual return net of fees greater than
   a. 0.25% for the Liquidity Pool, and
   b. 0.50% for the Liquidity Reserve Pool.

   Risk-adjusted, excess return is defined as a portfolio's actual return less the capital market line return corresponding to the same risk level. (See Figure No. 2.)




*The passive index portfolio would be the appropriate fixed income benchmark index.

Table No. 2 lists the benchmark indices and long-term performance goals for each PCF component. Similarly, the long-term performance goal for each individual manager will be for it to contribute a risk-adjusted return corresponding to its respective component of the PCF.

**Table No. 2**
**Benchmarks & Long-Term Performance Goals**

| PCF Component | Benchmark | Long-Term Performance Goals |
|---|---|---|
| Liquidity Pool | Merrill Lynch 1-3 year Treasury Index | If passive, benchmark. If active, risk-adjusted excess return of 0.25% after fees |
| Liquidity Reserve Pool | Barclays Aggregate | If passive, benchmark. If active, risk-adjusted excess return of 0.50% after fees |

INVESTMENT GUIDELINES

1) Liquidity Pool - Investment guidelines are provided in Exhibit C.

2) Liquidity Reserve Pool – Investment guidelines are provided in Exhibit C.

3) Additional guidelines may be adopted by separate Board action. They will be communicated to the affected investment managers.

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