

NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY
SPENDING POLICY AND GUIDELINES FOR INVESTMENT
OF THE ENDOWMENT PORTFOLIO

STATEMENT OF OBJECTIVES AND POLICY

The purpose of North Carolina A & T State University's Endowment is to support the mission of the University. The endowment is to provide a reliable source of funds for both current and future use. The endowment is the property of the University and is held for its exclusive use, benefit and purpose.

The Board of Trustees of the Endowment Fund of NC A&T State University (Endowment Board; Board) has the responsibility for the prudent investment of the Fund in the exercise of sound discretion. The Board has delegated the responsibility for the operations and investment activities of the Fund to the Investments Committee of the University (Committee) under the direction of the Vice Chancellor for Business and Finance. The Committee is charged with carrying out the mandates of the Board, which establishes investment objectives and policies, and monitors their implementation and the performance of the investments.

The endowment is to be invested to maximize long term total returns consistent with prudent levels of risk. Returns are expected to preserve or enhance the real value of the endowment after funds are released for current use. Broadly diversified, the portfolio should include investments in cash and cash equivalents, equities, and fixed income securities. The Committee and the Board may consider alternative investments in the asset allocation, including but not limited to, real estate and venture capital. Investment risks are to be considered within the context of the entire endowment portfolio and the need to sustain its long-term purchasing power.

STATEMENT OF INVESTMENT PHILOSOPHY

The intent of the Committee is to allow its investment managers the opportunity to practice their art without undue interference from the Committee. Because different asset classes will perform at different rates, the Committee will monitor asset allocation shifts caused by performance.

The University's philosophy is to use a complementary investment structure that leads to a diverse portfolio. The goal of utilizing a varied portfolio mix is to generate optimal returns with a minimum of risk.

SPENDING POLICY

The University's Endowment spending policy governs the rate at which funds are released to the operating budgets from the endowment. The University is to use a disciplined spending rate with a long term spending rule. The target rate for spending is to be determined by the Committee prior to the beginning of the University's fiscal year. The target rate for spending is to be set at no more than five percent (5%) of the endowment's three year average calendar year end market value with consideration for the real rate of inflation.

The distributions from the Endowment to the University shall be made without regard for whether its return was greater or less than the agreed upon spending level. No distinction shall be made between income, realized appreciation, or unrealized appreciation. However, individual endowment corpuses should not be penetrated.

INVESTMENT POLICIES

The return objective of the Endowment is to increase the annual transfer to the operating budgets by at least the rate of inflation. To ensure that the annual transfer does not endanger the future value of the Endowment, the long term goal is to have an annualized total return of at least the CPI plus the spending level. To ensure real returns sufficient to fund the level of spending, the endowment portfolio will be invested with the following long term target allocations.

- 40 percent in equities
- 25 percent in fixed income securities
- 5 percent in cash or cash equivalents
- 30 percent in alternative investments

Actual allocations will vary within ranges depending on allocation decisions relative to the performance of the asset classes and the availability of high quality investment opportunities.

These ranges are as follows:

- 20 to 70 percent in equities
- 10 to 50 percent in fixed income securities
- 0 to 50 percent in cash or cash equivalents
- 0 to 50 percent in alternative investments

The Committee will review the relative market value of the asset classes and generally place new money under investment in the category(ies) which are furthest below their target allocation in this policy. Rebalancing will typically occur semi-annually as the allocations reach a point where they are out of the target ranges in excess of five percent (5%).

UNALLOCATED CASH

Cash and cash equivalents should be maintained at a level necessary to meet the immediate cash needs of the endowment relative to expected expenses. The Committee will generally attempt to see that the University's assets include a cash reserve sufficient to pay annual distributions and expenses due within a reasonable future period.

EQUITIES

The equities portion of the portfolio will be invested in marketable securities of both the broad U.S. domestic market and of foreign developed and emerging markets. Within this combination of strategies the fund may diversify further with respect to investment style, capitalization size, etc. The goal of the equity portfolio is to provide long-term capital appreciation. Appropriate indices will be used to benchmark equity performance.

OTHER INVESTMENTS

The Committee may authorize the use of alternative investment strategies that may include, but are not limited to market neutral funds, real estate, special sector funds, hedge funds, and managed commodities. The primary purpose of these investments is to provide additional diversification benefits to the overall portfolio and good risk adjusted returns.

FIXED INCOME SECURITIES

The fixed income portion of the portfolio will be invested to provide diversification to the portfolio, to provide a predictable and dependable source of income, and to reduce portfolio volatility. To meet this goal, the University will invest in high quality, medium to long term instruments or in investments backed by the U.S. Government. The Committee may allow managers to adjust bond credit quality as economic circumstances warrant. Fixed income investments may include short term money market securities to meet short term liquidity requirements. Appropriate indices will be used to benchmark fixed income performance.

PERFORMANCE MEASUREMENT

The performance of the endowment and its components will be measured against benchmark returns of appropriate indices over rolling three to five year time horizons. In addition to absolute performance, an important factor in evaluating the success of the fund is the pattern of returns generated by the fund within the context of financial market returns and other educational endowments having similar investment objectives. Returns should be in the top quartile of performance relative to other public university endowment funds. Benchmark indices could include the S&P 500, the MSCI EAFE (Europe, Asia, Far East) and World Indexes, the Lehman Long-Term Government/Corporate Bond Index, a 70/30% benchmark (S&P 500/Lehman Aggregate Bonds), and the Strategic Investment Policy Portfolio (SIPP).

INVESTMENT MANAGERS

The Committee and the Board will meet with the investment managers twice each year to review their performance.

During the reviews, the managers will be evaluated on a basis of their performance compared to relevant market indices and other managers with similar investment philosophies and styles under the same market conditions. In addition they will be reviewed for adherence to the University's Investment policy. Any changes within the investment manager's organization and their investment philosophy will be reviewed for changes that may materially affect their performance. Any significant changes in personnel that can affect future performance of the manager will also be reviewed.

REPORTING

On a monthly basis, the committee should receive from the investment managers, reports on the portfolio's position, a summary of assets, percentage of the account the assets hold, maturities schedule, diversification schedule, list of account assets, current yield of the assets, and cost and market values.

Semiannual and Annual Reports and their investment history will be used during the performance reviews of the managers.