

THE NORTH CAROLINA A&T INVESTMENT FOUNDATION, INC.

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES FOR THE LONG-TERM INVESTMENT POOL (Fund)

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INTRODUCTION

The North Carolina A&T Investment Foundation, Inc. (“NCAT IF”) is a North Carolina nonprofit corporation organized and operated to provide investment management for the benefit of its entities named in Article III of its by-laws, which presently include:

- The North Carolina A&T Real Estate Foundation, Inc., and
- The Foundation for NC A&T State University, Inc.

which together with North Carolina A&T State University (“University”) are hereinafter referred to collectively as the “Members” of the NCAT IF.

DUTIES AND RESPONSIBILITIES

Each Member’s board of trustees or directors has ultimate authority and responsibility for the management of that Member’s investment assets. In accordance with the applicable law of North Carolina, including the Uniform Prudent Management of Institutional Funds Act, the North Carolina Uniform Principal and Income Act, and the North Carolina Prudent Investor Act, the board of each Member has delegated to NCAT IF the investment management and responsibility for all or part of that Member’s investment assets, with authority to further delegate such investment management by establishing and investing in a long term investment pool (“Fund”) managed by one or more professional managers, all pursuant to this Statement of Investment Policies and Objectives (“Statement”).

The Board of Directors of the NCAT IF is responsible for managing the investment process. In carrying out this duty, the Board of NCAT IF has selected two investment managers (“Principal Managers”) to assist in managing the assets of the Fund. The Board of NCAT IF will regularly review investment performance of the Fund including the performance of each Principal Manager to monitor the progress being made toward achieving the stated objectives in this Statement.

STATEMENT OF INVESTMENT PHILOSOPHY

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

The NCAT IF'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.

PRINCIPAL MANAGERS

NCAT IF has given each Principal Manager full discretionary authority to manage their respective allocations and to select particular managers or partnerships (hereinafter "external managers") for that purpose. The two Principal Managers are:

Vanguard Institutional Advisory Services
UNC Management Company, Inc. ("UNCMC")

The Principal Managers shall also provide administrative investment management services to NCAT IF. Such services shall include:

1. Evaluation of the separate performance of their respective external managers, monitoring their portfolios of securities and investments, and, from time to time explaining additional allocations to or withdrawals from such managers;
2. Providing summarized quarterly performance reports from all external managers and providing overall quarterly reports to the Board;
3. Providing a monthly report of the Principal Manager's investment fund's performance and assets;
4. Reporting in a timely manner any substantive development that may affect the management of NCAT IF's assets.

In all investment decisions, including without limitation, the purchase, sale, exchange, or retention of assets, the determination of asset allocations, and the exercise of rights, options, and privileges incident to asset ownership, each Principal Manager shall have full authority to act solely under the direction and approval of its governing board or committee.

Principal Manager Investment Policy Statements

Each Principal Manager has an Investment Practices and Policies Statement (“IPS”) as of the date of this Statement. The IPS of Vanguard is attached as Appendix A, and the IPS of UNC Fund is attached as Appendix B, both being made a part hereof.

To the extent that NCAT IF allocates funds to a Principal Manager, NCAT IF adopts that manager’s IPS then in effect for those funds.

FINANCIAL OBJECTIVES

For the long term, the primary investment objective for the Fund is to earn a total net return within prudent levels of risk, that is sufficient to maintain the purchasing power of the Fund in order to meet spending needs of the Members.

NCAT IF does not set or approve any spending policies or spending rates. NCAT IF communicates the Fund’s risk and return estimates to the Members for their consideration in setting spending policies and spending rates. Based on this information, each Member approves a spending policy and spending rate to assist in balancing several competing objectives: 1) maximizing long-term real return, 2) optimizing annual spending, 3) preserving the real value of principal and spending distributions, and 4) maximizing the stability and predictability of spending distributions.

INVESTMENT OBJECTIVES

Rate of Return Objective

The primary **investment objective** of the Fund is to attain a minimum annualized real total return (net of investment management fees and any other expenses) of at least 5% over the long term (5% + CPI). It is recognized that this real return objective is a long-term average expectation and that there will be periods of time in which the portfolio may exceed or fall short of this target, sometimes by a significant amount.

Risk Tolerance

The Fund’s long-term objectives require a long-term investment horizon. Thus, the Fund can tolerate significant variability in short- and intermediate-term investment performance, provided that returns over the long-term exceed the stated goals.

However, the Members' dependence on the Fund for annual distribution will limit somewhat the amount of short-term illiquidity risk the Fund can bear.

INVESTMENT POLICIES

Target Allocations

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.

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.

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.

CONTROL PROCEDURES

Review of Investment Objectives

Investment performance will be reviewed at least quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for doing so. In addition, the validity of the stated objectives will be reviewed annually.

Review of Principal Managers, Investments, and Performance Evaluation

The NCAT IF Board will meet at least four times a year to review the Principal Managers' investment results and adherence to investment objectives and

guidelines. The Principal Managers will summarize performance reports from external managers and provide quarterly investment reports for review during the quarterly meetings. In addition to evaluating a Principal Manager's historical performance, emphasis will also be placed on a firm's professional and ethical values, investment philosophy, financial viability, organizational structure, and experience of key personnel.

The Principal Managers will be responsible for keeping the NCAT IF Board advised of any material change in its personnel, the investment strategy, or other pertinent information potentially affecting performance of all investments.

Performance shall be measured on a total return, time weighted basis and presented for the most recent quarter, calendar and fiscal year to date, and the trailing year, trailing three-year, five-year and ten-year fiscal periods. Investment results are shown net of fees and any other expenses. Performance will be compared to the benchmarks as described below.

Benchmarks

Investment performance will be judged primarily by a weighted market index that will reflect the investment asset allocation at each calendar quarter.

In addition, absolute returns will be judged by the production of sufficient investment returns to equal or exceed the Consumer Price Index plus the rate of spending on the investments.

NCAT IF believes these benchmarks approximate the average investment policies of similar institutional investors.

The returns of peer institutions will also be used as measures of performance. The primary comparison universe will be a group of comparable pools that represent the University's investment peers (most with much larger funds under management). NCAT IF seeks to surpass the median return of such universe. In judging performance relative to peers, emphasis will be on periods of at least three years.

Monitoring Risk

The Fund objective is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek a total real return while preserving capital, and, in general, to avoid speculative investments.

NCAT IF's Board recognizes that, in addition to volatility measured by beta factors, there are specialized investment risk types that may be inherently associated with each investment asset class. Those risks include, among others: Interest Rate Risk, Credit Risk, Custodial Risk, Concentration Risk, Counterparty Risk, Foreign Currency Risk, and Moral Risk.

Monitoring total fund composition and asset allocation in accordance with this Statement addresses the overall risk; but it does not separately identify and monitor those specialized risks. NCAT IF expects each of the Principal Managers to identify and monitor those risks with respect to all external managers chosen by that Principal Manager, in order to assist NCAT IF in its overall monitoring of those risks.

Diversification

In general, the Principal Managers are chosen for their individual strength in investment approach, methodology and research, correlation of strategies, quantitative stock selection models and distinct manager specialists in a risk controlled framework. This diversification should provide reasonable assurance that no single security, class of securities or investment manager has a disproportionate impact on the results of the Fund.

Appendix A

Vanguard Investment Practices and Policies

Allocation:

Fund assets will be managed as a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of equity investments will be to maximize the long-term real growth of assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments. Cash investments will, under normal circumstances, only be considered as temporary holdings, and will be used for liquidity needs or to facilitate a planned program of dollar cost averaging into investments in either or both of the equity and fixed income asset classes.

Asset Class	Sub-Asset Class	Target Allocation
Equity		80%
	Domestic (U.S.)	46%
	International (Non-U.S.)	28%
	REITS (U.S.)	6%
Fixed Income		20%
	Domestic Investment Grade	20%

International Investment Grade	0%
Cash	0%

Diversification:

Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
- With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.
- With respect to fixed income investments, the minimum average credit quality of these investments shall be investment grade (Standard & Poor’s BBB or Moody’s Baa or higher).

Rebalancing:

It is expected that the Portfolio’s actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be re-balanced to its target normal asset allocation under the following circumstances:

- Utilize incoming cash flow (contributions) or outgoing money movements (disbursements) of the portfolio to realign the current weightings closer to the target weightings for the portfolio.
- The portfolio will be reviewed quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:
 - If any asset class (equity or fixed income) within the portfolio is +/-5 percentage points from its target weighting, the portfolio will be rebalanced.
 - If any fund within the portfolio has increased or decreased by greater than 20% of its target weighting, the fund may be rebalanced.
- The investment manager may provide a rebalancing recommendation at any time.
- The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

Other investment policies:

Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:

- Purchasing securities on margin, or executing short sales.
- Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
- Purchasing or selling derivative securities for speculation or leverage.

- Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of their portfolios

Benchmarks:

- U.S. Equity: CRSP US Total Market Index
- Non-U.S. Equity: FTSE Global All Cap ex US Index
- U.S. Investment Grade Fixed Income: Bloomberg Barclays Capital US Aggregate Float Adj. Index
- Real Estate Investment Trusts: MSCI US REIT Index
- Cash: Citigroup 3-Month T-Bill Index

Appendix B

UNC Investment Fund (UNCIF)

Primary Objective

Preserve the inflation-adjusted purchasing power of the endowment while providing a predictable and growing stream of spending distributions

To accomplish this objective - - the endowment must earn an annualized net return exceeding the spending rate + inflation over rolling 5 – 10 year (and longer) periods

UNCIF’s stated return objective is 5.5% + CPI

Managing the return volatility of the endowment helps to stabilize the annual spending distribution.

Fund Attributes

UNCIF has a significant allocation to alternative strategies: 25% SIPP allocation targeted to hedge funds and other “uncorrelated” public portfolio strategies 15% to Long/Short Equity, 10% to Diversifying Strategies

33% SIPP allocation targeted to “private” strategies 18% to Private Equity, 8% to Real Estate, 7% to Energy & Natural Resources.

Approximately 60% of the Fund is allocated to “alternative” strategies

Asset Allocation Targets

Asset Class	Current SIPP Target	Approved Change	New SIPP Target
Long Biased Equity	27%	+3%	30%
Long/Short Equity	18%	-3%	15%
Diversifying Strategies	12%	-2%	10%
Fixed Income	10%	--	10%
Cash	0%	+2%	2%

<i>Public Subtotal</i>	67%	--	<i>67%</i>
Private Equity	18%	--	18%
Real Estate	8%	--	8%
Energy and Nat. Resources	7%	--	7%
<i>Private Subtotal</i>	33%	--	<i>33%</i>