

Winthrop University Foundation Investment Policy Statement

1. Definition and Statement of Purpose

The Investment Policy Statement was adopted by the Board of Directors of the Winthrop University Foundation (the “Board”) to direct the prudent investment of the Winthrop University Foundation (the “Foundation”) in a manner consistent with the investment objectives stated herein. The Board has delegated management of the Foundation’s investment portfolio to the Investment Committee (the “Committee”).

The Board and the Committee recognize the need for the Foundation to support current operations of Winthrop University (the “University”) and to focus on the long-term growth of assets. Long-term asset growth enables the Foundation’s continued existence for the benefit of future generations of students, staff and faculty. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the “real” (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

Goals:

1. *Compound the principal of the Foundation’s assets by appreciating the assets above the rate of inflation for preservation of capital value.*
2. *Provide funds from the Foundation to meet the annual commitments established to financially aid the University.*
3. *Obtain new and renewed capital gifts to further expand the Foundation asset base to enable giving more financial assistance.*
4. *Hire professional Investment Manager(s) who demonstrate an ability to maximize the total return on the Foundation’s capital while limiting risk.*

2. Scope

This Policy applies to all assets except for those in CRATs and CRUTs that are included in the Foundation’s investment portfolio for which the Committee has been given discretionary investment authority. Assets within CRATs and CRUTs will generally be managed with a target asset allocation of 50% in equities and 50% in fixed incomes unless otherwise specified by restrictions placed on the CRAT or the CRUT by the donor of such a trust.

This Investment Policy Statement shall be used by the Committee in its duty to oversee (managing, monitoring and reporting on the investment portfolio) the investment portfolio and by the Foundation’s Investment Managers.

3. Objectives of the Endowment

The objectives of the endowment shall be defined as follows: *Absolute*, which shall be measured in real (net of inflation) rate-of-return terms and shall have the longest time horizon for measurement; *relative*, which shall be measured as time weighted rates of return versus capital market indices; and *comparative*, which shall be measured as the performance of the investment managers compared with a universe of similar investment funds.

The absolute objective of the endowment is to seek an average total annual real return of 5

percent, or Consumer Price Index plus 5 percent. This objective shall be measured over an annualized, rolling five-year and ten-year time period; the intent of this objective is to preserve, over time, the principal value of assets as measured in real, inflation-adjusted terms. The relative objective of the endowment is to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results of the total portfolio to a Policy Index, over a moving annualized three-year and five-year time period. The investment returns achieved by the total portfolio will be compared with the investment returns achieved by a Policy Index.

The Policy Index will be the weighted index consisting of the following indices:

<i>S&P 500</i>	<i>Large Cap Core Equity</i>	<i>19%</i>
<i>Russell 1000 Growth</i>	<i>Large Cap Growth Equity</i>	<i>9%</i>
<i>Russell 1000 Value</i>	<i>Large Cap Value Equity</i>	<i>9%</i>
<i>Russell MidCap Growth</i>	<i>Mid Cap Growth Equity</i>	<i>3%</i>
<i>Russell MidCap Value</i>	<i>Mid Cap Value Equity</i>	<i>3%</i>
<i>Russell 2000 Growth</i>	<i>Small Cap Growth Equity</i>	<i>2%</i>
<i>Russell 2000 Value</i>	<i>Small Cap Value Equity</i>	<i>2%</i>
<i>MSCI EAFE</i>	<i>International Equity</i>	<i>11%</i>
<i>MSCI Emerging Markets</i>	<i>Emerging Market Equity</i>	<i>5%</i>
<i>Barclays Aggregate Bond Index</i>	<i>Core Fixed Income</i>	<i>20%</i>
<i>Barclays Global Agg x US</i>	<i>International Developed Bds</i>	<i>2%</i>
<i>Merrill High Yield Index</i>	<i>High Yield Fixed Income</i>	<i>3%</i>
<i>HFRI FoF Conserv Index</i>	<i>Hedge Fund</i>	<i>7%</i>
<i>MSCI US REIT</i>	<i>Real Estate</i>	<i>3%</i>
<i>Dow UBS Commodity Index</i>	<i>Commodities</i>	<i>2%</i>

The 90-day Treasury Bill Index will serve as the benchmark for the cash and cash equivalent component.

The endowment and quasi-endowment assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, these funds can assume a time horizon that extends well beyond a normal market cycle and can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help to ensure a reasonable consistency of return.

4. Target Asset Allocation

To achieve its investment objectives, the endowment shall be allocated among a number of asset classes. These asset classes may include domestic equity, domestic fixed income, international equity, international fixed income, real estate, venture capital, private equity, hedge funds, funds of funds, commodities, and cash. The purpose of allocating among asset classes is to ensure the proper level of diversification within the endowment.

The following target asset-mix table defines the endowment's target asset allocation and the minimum and maximum allocation limits of each asset class.

Asset Category	Minimum Allocation	Target Allocation	Maximum Allocation
Equities			
Large Cap Core	14%	19%	24%
Large Cap Growth	4%	9%	13%
Large Cap Value	4%	9%	13%
Mid Cap Growth	1%	3%	5%
Mid Cap Value	1%	3%	5%
Small Cap Growth	1%	2%	4%
Small Cap Value	1%	2%	4%
International	6%	11%	16%
Emerging Market Equity	1%	5%	10%
Fixed Income			
Core	15%	20%	25%
High Yield	1%	3%	5%
International Developed Bonds	1%	2%	4%
Alternative Investments			
Hedge Fund of Funds	2%	7%	12%
Real Estate	1%	3%	5%
Commodities	1%	2%	4%
Cash	0%	0%	75%
TOTAL		100%	

The general policy shall be to diversify investments among both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Notwithstanding the above, it is understood that at no point in time shall the aggregate of equities exceed 75 % of the portfolio. Likewise, notwithstanding the above, it is understood that at no point in time shall the aggregate of fixed income exceed 34% of the portfolio. Alternative investments should not exceed 15% of the total portfolio.

5. Investment Policies, Guidelines, and Restrictions

The investment policies, guidelines, and restrictions presented in this policy statement serve as a framework to help the endowment and its investment managers achieve the investment objectives at an acceptable level of risk. The endowment will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, quality, and size. The purpose of diversification is to provide reasonable assurance that no single component of the portfolio will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced.

Within the equity and fixed-income asset classes, managers with different investment styles and emphasizing various capitalization ranges will be employed. Diversification by investment style is also an important step in reducing the risk of the portfolio. Funds of funds may be utilized as long as the total fees paid are reasonable and within industry ranges.

a) *Equity Securities.*

The purpose of equity investments, both domestic and international, in the endowment is to provide capital appreciation and growth of income with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss. The investment managers should maintain each equity portion of the portfolio at a risk level roughly equivalent to the appropriate market index of that component of the portfolio, with an additional objective of exceeding its results as represented by the annualized returns of the appropriate indices listed in the policy index, over an annualized moving three-year and five-year time period. Investment styles within the equity asset class are defined as follows:

- *Core Equity* - equity securities whose portfolio characteristics are similar to that of the S&P 500 Index, with the objectives of adding value over and above the index, typically from sector or issue selection.
- *Growth* - stocks of companies that are expected to have above-average prospects for long-term growth in earnings and profitability.
- *Value* - stocks of companies believed to be undervalued or possessing lower than average price-to-earnings ratios, based on their potential for capital appreciation.
- *Large, Mid and Small Capitalization* - stocks of companies vary by total market capitalization. Though definitions of “cap” can vary, frequently used definitions are: large – greater than \$10 billion, mid - \$2 -\$10 billion and small - less than \$2 billion.
- *International* stocks of companies domiciled outside of the United States.

Equity holdings, including International Equity investments, generally shall be restricted to readily marketable securities of corporations that are actively traded on the major stock exchanges, including Nasdaq.

Decisions as to individual security selection, number of industries and holdings, revenue levels, and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. The Investment Manager is expected to maintain appropriate diversification of manager styles and appropriate diversification of industries, securities, and capitalization of equities within the total portfolio. For equities that are managed in a separate account, in the event that a single major industry comes to represent more than 20 percent of the total market value of the endowment or a single security comes to represent more than 5 percent of the total market value of the endowment, the Investment Manager shall inform the Committee so that an appropriate review of the diversification of the portfolio may be undertaken by the Committee. With the exception of investments in hedge funds and Alternative Investments, the investment managers are prohibited from buying non-marketable investments, selling securities short; buying securities on margin; borrowing money or pledging assets; or trading uncovered options, commodities, or currencies without the advance written approval of the Board. The managers also are restricted from investing in illiquid private placements and restricted stock unless otherwise permitted in writing by the Board. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent or who

otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over the timing and selection of equity securities.

b) *Fixed-Income Securities.*

Investments in fixed-income securities should be actively managed to pursue opportunities presented by changes in interest rates, sector allocations, and maturity premiums, with the objective of meeting or exceeding the results of the fixed-income market as represented by the annualized returns of the appropriate indices listed in the policy index over an annualized moving three-year and five-year time period. The Investment Managers have complete discretion over the timing and selection of fixed-income securities.

c) *Alternative Investments.*

Marketable alternative investments are broadly defined to include hedge funds, private equity, real estate and commodities. Alternative marketable investments may be made by the endowment directly or through partnerships. The breadth of Alternative Investments strategies is very broad, and the selection of appropriate investments in this area must be made with the help of knowledgeable and experienced people in the field.

Certain alternative non-marketable investments are expected to earn superior equity type returns over extended periods in order to justify their illiquid (lockup) status. The advantages of non-marketable investments include their ability to enhance long-term returns through investment in inefficient, complex markets. They may offer reduced volatility of asset values by offering low correlation with listed securities and fixed-income instruments. The disadvantage of the asset class is its illiquidity and more complex fee structures, and performance frequently is dependent on the quality of external managers. The Foundation expects to control the risks of alternative non-marketable investments through extensive due diligence and diversification. These investments may be held directly or through limited partnerships. Typically, they include venture capital, private equity, international venture capital, real estate, mezzanine debt, and energy, commodities, and natural resources.

d) *Cash and Equivalents.*

The Investment Managers may invest in the highest quality commercial paper, repurchase agreements, Treasury bills, certificates of deposit, and money-market funds to provide income, liquidity for operational expenses, and preservation of the endowment's principal value. Commercial paper assets must be rated at least A-1 or P-1 (by Moody's or S&P). Un-invested cash reserves shall be kept to a minimum; short-term cash equivalent securities usually are not considered an appropriate investment vehicle for endowment assets. However, such vehicles are appropriate as depository for income distributions from longer term endowment investments or as needed for temporary placement of funds directed for future investment to the longer term capital markets. Also, such investments are standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, the Investment Managers have complete discretion over the timing and selection of cash-equivalent securities.

e) *Restrictions.*

The Investment Committee is authorized to waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a thorough review of the manager and the investment strategy involved. Documentation supporting all waivers and modifications will be maintained as part of the permanent records of the Investment Committee. All waivers and modifications will be reported to the Board at the meeting immediately following the granting of the waiver or modification.

6. Communications

The Investment Managers shall meet regularly, or as reasonably expected, with the Committee. Investment policy shall be reviewed during such meetings and no less than annually.

a) *Manager Reporting and Evaluation.*

The investment managers responsible for the investment of Foundation assets shall report quarterly to the Committee on the performance of the portfolio, including comparative gross and net returns for the funds and their respective benchmarks. Also included will be a complete accounting of all transactions involving the endowment during the quarter, together with a statement of beginning market value, fees, capital appreciation, income, ending market value, and additional funds to the corpus for each account. The Committee should assess the risk-and-return guidelines of each strategy in light of the role of that strategy in the total portfolio.

The Foundation recognizes that market conditions may greatly influence the ability of a manager to meet year-to-year investment goals and objectives. Further, the Foundation realizes that significant cash flow also may affect the ability of a manager to meet a specific short-term objective. Accordingly, the Foundation expects to monitor performance through absolute, relative, and comparative terms over annualized time periods. Absolute results will determine the rate of fund growth, while relative results will provide the Foundation with a view of investment performance compared with the securities markets, and comparative results will present performance compared with other investment managers.

Review of portfolio results in *absolute* terms shall be made with consideration towards meeting and/or exceeding the expressed minimum real rate of return over a moving five-year and ten-year time period.

Review of portfolio results in *relative* terms shall be accomplished primarily by comparing results over a moving annualized three-year and five-year time periods to assigned market indices.

Review of portfolio results in *comparative* terms shall be accomplished primarily through universe comparisons over moving annualized one-year, three-year, and/or five-year time periods.

b) *Spending Policy.*

It is the Foundation's policy to distribute annually 5 percent of a trailing three-year or five-year average of the endowment's total asset value, with the understanding that this spending rate plus inflation will not normally exceed total return from investment.

However, it is understood that this total return basis for calculating spending is sanctioned by the Uniform Management of Institutional Funds Act (UMIFA), under which guidelines the Foundation is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized or unrealized appreciation.

This statement of investment policy is accepted and entered into by the Foundation and the Investment Managers. Any revisions or changes in policy shall be made in writing and accepted by both parties. Any changes within the Investment Managers - ownership, principals, specific portfolio managers, or changes in investment philosophy - should be communicated as soon as possible to the Foundation and its representatives.

c) Rebalancing Policy.

It is the Foundation's policy to rebalance to its target asset allocation on a uniform basis so as not to cause undue expense to be allocated to the portfolio. It is the Foundation's policy to have the Committee review rebalancing of the portfolio at least annually - or sooner, if desired by the members of the Committee. The method of rebalancing will be based upon the "tolerance" rebalancing formula, which generally states that the portfolio will be rebalanced if the target asset allocation moves beyond the stated tolerance for any particular asset category. As an example, if the target asset allocation for equities is 65 percent with a 5 percent tolerance, then no rebalancing would be required under this investment policy if the range for equity investments remained within a 60 percent to 70 percent range; otherwise, management is required to direct investment advisers to rebalance once the limits are achieved.

d) Investment Manager Policy.

It is the intention of the Investment Committee to review the Investment Manager annually and to consider a competitive Request for Proposals every five years.