1. Purpose

The purpose of this policy is to affirm the responsibility of the Endowment Fund. The Board of Trustees for the Endowment Fund (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 Investment Committee of the University (Committee). 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.

2. Scope

Applies to the investment of the NCCU Endowment Fund.

3. Operating Guidelines

3.1 This statement is intended to provide a framework between the NCCU Endowment Fund and the advisors it retains regarding the objectives and guidelines of and for the management of its assets, such that:

3.1.1 There is a clear understanding on the part of the Endowment Committee as to the policies and objectives of the NCCU Endowment Fund.

3.1.2 Formal yet flexible guidelines are established including asset allocation limitations and total return objectives given the business, economic and capital markets environments.

3.1.3 The Endowment Committee has a basis for understanding the investment process and the evaluation of investment performance.
3.1.4 It is expected that this document will be revised periodically to insure its relevance to current conditions.

4. Responsibilities – Endowment Committee

4.1 The NCCU Endowment Committee acknowledges its fiduciary responsibility and that it should act in the exclusive interest of the NCCU Endowment Fund as follows:

4.1.1 Develop and communicate to the investment managers the investment goals, guidelines and performance measurement standards which are consistent with the needs of the NCCU Endowment Fund, including any material changes that may subsequently occur.

4.1.2 Evaluate and appoint investment managers to invest and manage the assets.

4.1.3 Communicate income and capital needs to investment managers annually.

4.1.4 Review and evaluate the performance of the investment managers in context with the standards established in this document.

4.1.5 Take actions deemed prudent and appropriate when the needs of the NCCU Endowment Fund are not being met.

5. Responsibilities – Investment Managers

5.1 It is the intent of this statement to establish an attitude and/or philosophy to guide an investment manager toward the performance desired. The following principles should be adhered to by the investment managers:

5.1.1 Investments for the endowed fund shall be made solely in the interest of the NCCU Endowment Fund and for the exclusive purpose of providing current income needs as determined by the Endowment Committee and defraying the reasonable expenses of administering the Fund.

5.1.2 The investment objectives shall be the protection of the purchasing power of the fund’s assets so that such assets are preserved for the ability of the Fund to provide increasing capital distributions and such long-term return (either in the form of income or capital appreciation or both) as may, without undue risk, maximize the amounts available to provide such benefits. For this purpose, short term fluctuations in value shall be considered secondary to long term investment results.

5.1.3 The assets shall be invested with the care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and with similar objectives.

5.1.4 The investments of the fund shall be so diversified as to minimize the risks of large losses, unless under particular circumstances it is clearly prudent not to do so.

6. Statement of Investment Policy

6.1 Asset Allocation Targets

6.1.1 The asset allocation will be diversified across growth strategies and stability strategies. The objective of the growth strategies is to provide a rate of return that will grow the purchasing power of the Fund. The objective of the stability strategies is to minimize drawdown risk.

<table>
<thead>
<tr>
<th>Asset Classes as a Percent of Total Assets</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth Strategies</strong></td>
<td>70%</td>
</tr>
</tbody>
</table>

POL - 30.04.1 - ENDOWMENT FUND INVESTMENT POLICY
The current target weightings and benchmarks for each individual asset category can be found in Appendix A.

7. Spending Policy

7.1 The optimum spending rate should not exceed the total return minus the real cost rise to ensure the purchasing power of each endowment account shall be maintained. Investment income to be spent in a budget year should never invade the fund corpus. If the returns for a particular year will not be realized, a reduction in the spending budget will be necessary.

7.2 The spending rate for the Endowment shall be 5.5% of the prior 12 quarters moving average of the fund’s market value, through the calendar year-end preceding the fiscal year in which the distribution is planned. From analyses of endowment planning projections, the long-term stability and current spending requirements can be met at this distribution level. It is understood that this total return basis for calculating spending is within the guidelines of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Chapter 36E of the NC General Statutes), which allows spending in excess of the current yield (interest and dividends), including realized or unrealized appreciation.

7.3 New endowments must be invested for at least one year to be eligible for spending. However, funds must first have earnings reserves to support spending.

8. Interpretation of Relevant Law

8.1 The Board of Trustees of the Endowment Fund of NCCU has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment Fund of NCCU classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

8.1.1 The duration and preservation of the fund

8.1.2 The purposes of the organization and the donor-restricted endowment fund
8.1.3 General economic conditions

8.1.4 The possible effect of inflation and deflation

8.1.5 The expected total return from income and the appreciation of investments

8.1.6 Other resources of the organization

8.1.7 The investment policies of the organization

9. **“Underwater” Endowments**

9.1 This is an endowment which, through declining market performance, has used all accumulated earnings and has eroded so that the fund’s net asset value is less than the original gift value, or corpus. We also refer to “underwater” endowments as endowments with eroded corpus.

9.2 Spending will not occur in “underwater” endowments, as required under UMIFA (NCGS 36B). A donor may make a current gift to support program or scholarship spending if an endowment fund is underwater.

10. **Appendix A**

<table>
<thead>
<tr>
<th>Asset Classes as a percentage of total Assets</th>
<th>Target</th>
<th>Allowable Range</th>
<th>Benchmark*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth Strategies</strong></td>
<td>70%</td>
<td>60-80</td>
<td></td>
</tr>
<tr>
<td>Domestic Equity</td>
<td>35%</td>
<td></td>
<td>Russell 3000 Index</td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td></td>
<td>MSCI, EAFE, MSCI EM</td>
</tr>
<tr>
<td>Global Equity</td>
<td>10%</td>
<td></td>
<td>MSCI World</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10%</td>
<td></td>
<td>Cambridge Venture Capital Index</td>
</tr>
<tr>
<td><strong>Stability Strategies</strong></td>
<td>20%</td>
<td>10-30</td>
<td></td>
</tr>
<tr>
<td>Absolute Return</td>
<td>5%</td>
<td></td>
<td>90 Day T-Bills</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>10%</td>
<td></td>
<td>Lehman Long-Term Gov/Corp</td>
</tr>
<tr>
<td>Enhanced Fixed Income</td>
<td>5%</td>
<td></td>
<td>JPM GB/LB HY</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Strategies</strong></td>
<td>10%</td>
<td>0-20</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>5%</td>
<td></td>
<td>NCREIF/NAREIT</td>
</tr>
<tr>
<td>Energy and Natural Resources</td>
<td>5%</td>
<td>GSCI/Real</td>
<td></td>
</tr>
</tbody>
</table>

*(Note: The Endowment Committee has authority to select appropriate benchmarks within each asset class.)*