

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 University Endowment Board Committee of the Board of Trustees (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). 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 which involves a mix of different managerial philosophies and 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 adjusted for inflation 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.

- 60 percent in equities
- 30 percent in fixed income securities
- 5 percent in cash or cash equivalents
- 5 percent in other 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:

- 50 to 70 percent in equities
- 25 to 50 percent in fixed income securities
- 0 to 10 percent in cash or cash equivalents
- 0 to 10 percent in other 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, and 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 kept to the minimum 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. Therefore, any investment manager performing under this policy is not expected to accumulate a significant cash position without prior approval. In general, "significant" means more than 10% of the value of assets under management.

EQUITIES

The equities portion of the portfolio, the primary asset class of the endowment, will be invested in marketable securities (unless otherwise disclosed to the Committee in advance of purchase) on the basis of total return, including dividend yield and capital appreciation. The portfolio will be invested to provide a diversified exposure to the broad equity market with a maximum investment in any one industry of twenty percent (20%) of the portfolio and a maximum investment in any one stock of five percent (5%) of the portfolio. Mutual fund investments may be used to diversify exposures. However, they should be selected on a basis of total expected return and be limited to an investment per mutual fund of no more than twenty percent (20%) of the total portfolio.

All equity securities should be evaluated on a basis of their long term total returns and the expectation of the returns continuing into the foreseeable future.

The manager may use asset classes that have equity characteristics as part of their stock allocation if they deem it appropriate based on their evaluation of risk versus reward compared to direct ownership of equities. Examples of approved investments include lower quality, high yield bonds and convertible securities. The manager should consult with the Committee if they are considering an investment in an "equity substitute or hybrid" to verify that it meets the Policy guidelines. Investments in this area should be well diversified and limited to no more than 20% of the portfolio unless pre-approved in writing by the Committee.

Mutual funds should be evaluated on a basis of their standing in the "Lipper 500" and on their performances as measured by the "Lipper Mutual Fund Performance Averages." Mutual funds may be considered for investment if they are in the top thirty percent (30%) of the above indices.

OTHER INVESTMENTS

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

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. Bonds also act as a hedge against inflation. 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. Other investments may include U.S. Treasury certificates, commercial paper, certificates of deposit issued by institutions of the highest safety ratings or the State Treasurer's Short Term Investment Fund (STIF). The guideline for this asset class would be the Lehman Aggregate Bond Index.

PERFORMANCE MEASUREMENT

The performance of the endowment and its components will be measured against benchmark returns of the appropriate indexes.

INVESTMENT MANAGERS

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

During the semiannual and annual 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 which may materially affect their performance. Any significant changes in personnel which 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.