

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.**

POLICY MANUAL

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**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
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POLICY MANUAL

SECTION I - INTRODUCTION

The University of North Carolina at Greensboro Investment Fund (the “Fund”) is a diversified investment pool organized and operated by The University of North Carolina at Greensboro Investment Fund, Inc. (the “Corporation”) for the benefit of the University and its affiliated organizations (“participants”). The Fund operates like an open end mutual fund, in that participants may purchase units on a monthly basis at the market value on that date. The Corporation exists solely for the purpose of managing the investments of the Fund.

Benefits of the Fund include: (1) professional investment management, (2) asset class and manager diversification, (3) performance measurement, (4) investment accounting and administrative services, and (5) possible reduced management and administrative costs.

Effective September 1, 2013, the Board committed to invest The University of North Carolina at Greensboro Investment Fund, Inc. with Cambridge Associates (the “Fund Manager”) through a single-limited-partner partnership, the UNCG Endowment Partners L.P. The agreement provides Cambridge Associates broad discretion to manage the Fund. Pending the approval of this Investment Policy Statement, there will be an implementation window of approximately four months to allow for the portfolio to transition from the pre-existing legacy investments into the Fund’s managed portfolio. [For purposes of assessing the Fund Manager’s performance, the University agrees that the Fund Manager’s official track record will begin January 1, 2014, after which the Fund Manager will be responsible for the Fund’s performance relative to the stated return and risk objectives.]

SECTION II – REQUIREMENTS FOR PARTICIPATION IN THE FUND

Only the Endowment of The University of North Carolina at Greensboro and its affiliated organizations, which are recognized as tax-exempt entities under state and federal law, may participate in the Fund. A participant’s Board must approve its participation in the Fund as evidenced by a resolution and a properly executed “Memorandum of Agreement” in the form set forth and attached hereto. At least one officer should be specified in the resolution that is authorized to interact with the Fund on behalf of the participant’s Board.

The Fund only accepts cash deposits from its participants. Non-cash gifts received by a participant must be liquidated before investment in the Fund.

SECTION III – INVESTMENT OBJECTIVES AND PORTFOLIO COMPOSITION

The following investment objectives and policies are intended to govern the overall management of the General Pooled investment of The University of North Carolina at Greensboro Investment Fund, Inc. (the “Fund”). The policies and guidelines may be changed when the Board of Directors of the Fund (the “Directors”) deems it appropriate.

A. FINANCIAL AND INVESTMENT OBJECTIVES

1. The primary objective of the investment management of the Fund is to preserve and enhance its real (inflation-adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings for current use.

The Fund operates under the concept of **total investment return**, which envisions the sources of spending as being from interest, dividends, and capital gains. In the event that capital gains are insufficient to meet the difference between the spending amount and the total of interest and dividends, then that difference shall be withdrawn from the Fund.

2. The long term investment objective for the Fund is to attain an average annual real total return¹, net of investment management fees, of at least 5%, as measured over rolling five-year periods. It is recognized that the 5.0% real return objective may be difficult to attain in every five-year period, but the Fund will seek to achieve the objective over a series of five-year periods. Secondary objectives of the Fund are to (1) outperform the Fund's custom Policy Benchmark; and (2) perform in the top third of a pool of Endowments with broadly similar investment objectives and policies.

B. PORTFOLIO COMPOSITION

The Fund will seek to be diversified by manager, asset class and investment strategy (e.g. equities, bonds, and diversifying strategies) and within each class (e.g., within equities by economic sector, industry, quality, size, etc.). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Fund.

To achieve its long-term investment objective, the Fund shall be invested primarily in various forms of equity, categorized under Capital Appreciation and will include asset classes to hedge against deflation and provide liquidity, categorized as Deflation Hedging, and unanticipated inflation, categorized as Inflation Sensitive. The final categorization is Diversifying Strategies, and is comprised of strategies that have low correlation to Capital Appreciation, lower absolute risk than Capital Appreciation, and are not well characterized as either Deflation Protection or Inflation Sensitive. The asset allocation of the Fund should reflect the proper balance of the University's need for liquidity, preservation of purchasing power, and risk tolerance. The target asset mix and relevant indexes are noted in Exhibit A.

Roles of Investments

The purpose of **Capital Appreciation strategies** (e.g. domestic stocks, foreign stocks, and private equity) is to provide a stream of current income and appreciation of principal that more than offsets inflation. It is recognized that pursuit of this objective could entail the assumption of significant variability in price and returns. Return premiums may exist for investors who accept the illiquid and inefficient characteristics of the private equity market. For private investments, the performance objective is to achieve an internal rate of return over the life of the investment that is commensurate with public equity benchmarks plus a premium for illiquidity and risk.

Diversifying strategies in aggregate are intended to provide a long-term return consistent to that of a 70% stock and 30% bond portfolio, with low equity correlation and lower

¹ Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation as measured by the Consumer Price Index.

levels of risk than Capital Appreciation strategies. Examples of these strategies include long-short equity, event-driven, and relative value hedge funds.

The purpose of **Inflation Sensitive assets** (e.g. public and private investments in hard assets such as real estate, oil and gas, U.S. short duration Treasury Inflation Protected Securities and commodities) is to provide potential portfolio protection against the risk of unanticipated severe inflation, thus preserving the real value of the portfolio over the long term.

The **Deflation Hedge** allocation (e.g. domestic and foreign bonds and cash) is intended to: (1) provide some asset appreciation in periods of declining interest rates (especially in periods of significant equity price deflation) and (2) provide ready liquidity.

Tactical Asset Allocation

Tactical asset allocation decisions will be made from time to time by the Fund Manager within the parameters of this Investment Policy Statement. In addition, the Fund Manager may invest in opportunistic strategies that are generally shorter-term, tactical investments and can be allocated across the portfolio. However, the Fund Manager will not engage in wholesale market timing.

Rebalancing

The Fund's actual asset allocation will be monitored by the Fund Manager relative to the above targets and ranges. The Fund Manager will be responsible for rebalancing as appropriate. Rebalancing the actual allocation of the Fund to policy targets is useful for maintaining the risk profile adopted by the Board. Contributions to and withdrawals from the Fund shall be allocated and managed in the discretion of the Fund Manager. In managing contributions to and withdrawals from the Fund, the Fund Manager will seek to adhere to the asset allocation policy and guidelines. In the event that the Fund falls outside of the above ranges, the Fund Manager will communicate this breach to the Board and have a reasonable period of time to bring the Fund back into compliance with the applicable guidelines.

SECTION IV – INVESTMENT OVERSIGHT AND ADMINISTRATIVE COSTS

Administrative Costs. The following expenses will be incurred and paid by the Fund and are deducted from income prior to distribution to participants.

Investment Manager Fees – Charged by the investment managers for their services in managing assets.

Custody Fees – Charged for custodian services such as safekeeping of assets, settling trades, and providing monthly book and asset value reports.

Fund Manager Fees – Charged for discretionary investment oversight services including manager selection, tactical asset allocation, research, and board meeting attendance.

Other reasonable costs which may be incurred in the administration of the Fund.

Fees are paid by the Fund when incurred. Income is distributed to units owned by each participant net of the above fees.

SECTION V – DETERMINATION OF MARKET VALUE

Fund units are valued on the last business day of each month. In determining the unit value, the Fund relies upon its master custodian. In valuing readily marketable securities held by the Fund, the custodian uses published sources of information and pricing methods that are generally accepted by the industry. For securities which are not readily marketable, the custodian may rely upon the General Partners of the partnership investments the Fund has made, subject to the terms, conditions, and restrictions agreed to by the General Partner and the Limited Partners, and contained in the executed partnership agreements.

The Fund may from time-to-time invest a portion of the Fund's assets in alternative investments by entering into limited partnership agreements with investment advisors who are general partners in the investments. Because these limited partnership interests and the assets backing them may not be readily marketable, valuations of these security interests may be subjective in nature. Hence, participants are advised the valuation of these interests may impact the Fund's unit value, and consequently the number of units purchased or sold.

SECTION VI – ADDITIONS AND WITHDRAWALS

To purchase units of the Fund, cash payments may be made to the Fund at any time by the participants. The participant's addition will be recorded and the number of units acquired will be calculated by the Fund as of the first business day of the following month.

The Fund uses a unit value accounting system to compute the ownership of units in the Fund, and to calculate income distribution. Therefore, when Fund participants buy into or exit from the Fund, they do so by purchasing or selling units. The number of units bought or sold is a function of the dollar amount being added to or withdrawn from the Fund and the market value of the units derived above.

A participant may withdraw its investment and terminate its participation under the Memorandum of Agreements as of June 30 of any year upon the passage of a resolution by the participant's board. Due to the potential effect on the Fund's portfolio by the withdrawal of a participant, notice of intent to withdraw a substantial part of a participant's assets must precede the withdrawal date by at least six months.

Withdrawals of quasi-endowment assets are approved by the participants' Treasurer. A participant may offset any withdrawal with additions and remit the net amount to the Fund for additions. However, if a participant does not have adequate additions to offset the withdrawal, the Fund liquidates the requested dollar amount and the corresponding units valued as of the previous month end. The number of units liquidated are calculated during the same technique as additional units purchased are calculated. The need to liquidate an insignificant portion of a participant's investment in the Fund may be accomplished by communicating this request sixty (60) days in advance of withdrawal.

Errors made in recording and processing additions or withdrawals are corrected in the period in which the error is discovered.

SECTION VII – INCOME DISTRIBUTION

The Board attempts to provide a relatively predictable, stable, and constant (in real terms) spending stream to support budgetary needs. It is the expectation of the Board that the real return of the Fund will exceed the annual rate of spending from the Fund. For this reason spending

refers only to those funds withdrawn from the Fund to cover budgetary needs, and excludes fees expended for the purposes of managing the Fund.

The Treasurer recommends the spending amount for approval at the spring Board meeting. Based on the approved spending amount, the annual distribution from the Fund to the participants is made near the end of the fiscal year (June30). The participants then distribute their portion of the Fund's income to their endowment or income accounts.

Spending from the Fund in any one fiscal year shall not exceed 5.5% of the "average market value" of the Fund. The "average market value" is defined as an average of the market values on December 31 of the previous three years. This statement is issued by the Board and governs the maximum spending allowable from the Fund. The actual spending rate may be less than the 5.5% maximum rate due to the economic environment.

SECTION VIII – ACCOUNTING, AUDITING AND REPORTING

The Fund maintains its accounting records in accordance with generally accepted accounting principles (GAAP). Fees are recorded as expenses of the Fund and netted against income prior to distributions to participants.

The Fund will maintain a checking account at a national bank with at least \$10 billion in assets to facilitate the processing of additions. The participants remit payments, which are then transferred to the custodian so that the managers may make investments.

The Fund will be audited annually by independent certified public accountants.

The Fund provides quarterly reports to its participants. These reports provide the yield (usually dividends and interest), realized gains and losses, and fees. Performance and Asset Allocation Reports are prepared on a quarterly basis. From time-to-time the content, nature and format of these reports may change.

SECTION IX – DELEGATION OF RESPONSIBILITIES

Effective and cohesive relationships between the Board of Directors of the Corporation, Administration and the Fund Manager are important to fulfilling the purposes of this Policy and the Fund. The major duties and responsibilities of the parties are as follows:

Board Responsibilities:

1. Develop Fund objectives and monitor the achievement of these objectives;
2. Establish the Long-Term Asset Allocation Policy, which is comprised of the long-term target asset allocation and allowable ranges. The Policy Portfolio is outlined in **Exhibit A**;
3. Establish suitable benchmarks for asset/strategy composite and total portfolio performance. Composite and portfolio benchmarks are defined in **Exhibit B**;
4. Establish suitable investment restrictions for risk management purposes the Fund. Investment restrictions are defined in **Exhibit C**;
5. Evaluate the performance of the Fund Manager on a periodic basis;
6. Monitor effects of the spending policy on the Fund and recommend modifications, as necessary;
7. Retain, evaluate and terminate the services of professional staff, investment consultants, and legal advisors to manage the Fund;
8. Report to the participants on a regular basis, but no less frequently than annually.

9. Review annually and make changes in investment policy, which in its judgment are necessary to maximize returns of the portfolio in the existing investment environment. Such changes are reported to the participants in a timely manner with whatever rational deemed appropriate by the Board.

Administration:

1. Manage The University of North Carolina at Greensboro's relationships with external service providers, including but not limited to the Fund Manager and the University's auditor;
2. Work with the Fund Manager and Board as needed for the day-to-day management of the Fund;
3. Authorize and execute wire transfers into or out of the Fund.

Fund Manager (Cambridge Associates Outsourced Investment Office)

1. Annually review this policy statement to ensure its appropriateness in the context of macroeconomic and market environments and the University's and the Fund's financial situation;
2. Assist and advise the Board in developing, reviewing, and (where appropriate) revising this Statement;
3. Implement the policy asset allocation within specified ranges approved by the Board;
4. Select (and terminate as necessary) investment managers in accordance with this Statement;
5. Monitor and report to the Board and Administration the performance of each manager, each asset class and the total portfolio on a quarterly basis;
6. Communicate to the Board and Administration any significant portfolio issues that might arise;
7. Prepare all manager documentation for execution. Track and monitor the flow of such paperwork;
8. Provide the Board with audited financial statements and K-1 for the Fund;
9. Provide documentation to support the University's audit preparation;
10. Provide the Board with a copy of its annual Form ADV, Parts I and II.
11. Provide the Board with a quarterly certification of compliance to these investment guidelines.

EXHIBIT A
THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
Policy Portfolio Allocation
Adopted May 2017

<u>Portfolio Role</u>	<u>Policy Targets</u>	<u>Allowable Range</u>
Capital Appreciation	53%	43 - 65%
Public Equities	38%	33 - 50%
Private Equity	15%	10 - 20%
Diversifying Strategies	20%	10 - 30%
Diversifying Hedge Funds	20%	
Inflation Sensitive	10%	0 - 15%
TIPS	2%	0 - 5%
Natural Resource Equities	3%	0 - 5%
Private Inflation Sensitive	5%	0 - 10%
Deflation Hedging	17%	5 - 25%
Bonds	17%	
Cash	0%	0 - 10%
Total	100%	

The above targets to private equity and private inflation sensitive strategies reflect desired exposure to each asset class over the long term. Such exposure will take time to build and in the interim assets will be invested in public equities and benchmarked as such.

EXHIBIT B
THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
Total Portfolio Benchmarks
Adopted May 2017

Two benchmarks shall be used for analyzing total portfolio performance:

1. **Long-Term Objective:** This static benchmark reflects the University's long-term performance objective of total portfolio returns exceeding the sum of its spending policy and inflation, as defined in the body of this Investment Policy Statement. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over five-to-seven year periods.
2. **Policy Benchmark:** This benchmark represents a passive investment in the Long-Term Policy Target allocation described in Exhibit A. The table below defines the asset class indices which are weighted by the Long-Term Policy Target allocations at the beginning of each month.

<u>Portfolio Role</u>	<u>Policy Targets</u>	<u>Benchmark</u>
Capital Appreciation	53%	
Public Equities	38%	MSCI All Country World Index (Net)
Private Equity	15%	Vintage Year and Investment Strategy Blend of Corresponding C A Indices, Weighted by Fund NAVs
Diversifying Strategies	20%	
Diversifying Hedge Funds	20%	HFRI Fund of Funds Composite Index + 1.0%
Inflation Sensitive	10%	
TIPS	2%	Bloomberg Barclays U.S. TIPS (1-5 Year) Index
Natural Resource Equities	3%	S&P Global Natural Resources Index
Private Inflation Sensitive	5%	Vintage Year Blend of Corresponding C A Private Natural Resource Index and Private Real Estate Indices, Weighted by Fund NAVs
Deflation Hedging	17%	
Bonds	17%	Bloomberg Barclays Government Bond Index
Cash	0%	90 Day Treasury Bills
Total	100%	

The above targets to private equity and private inflation sensitive strategies reflect desired exposure to each asset class over the long term. Such exposure will take time to build and in the interim assets will be invested in public equities and benchmarked as such.

EXHIBIT C
THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
Investment Restrictions
Adopted August 2015

In the event that the Fund falls outside any of the investment restrictions described below, the Fund Manager will communicate this breach to the Board and will have a reasonable period of time to bring the Fund back into compliance with the applicable guidelines.

Liquidity

- ◆ Total Private Investments are limited to 25% (based on current NAV) and 35% (based on current NAV plus unfunded commitments) of the Fund at any time.

Fund Concentration

- ◆ No single, actively managed, underlying investment will be larger than 12% of the Fund. No single, passively managed, underlying investment will be larger than 20% of the Fund. Pre-existing legacy investments held at the inception of Cambridge Associates' oversight of the Fund are exempt from this restriction.

Firm Concentration

- ◆ Exposure to one external investment management firm will be limited to 15% of the Fund. In circumstances where one external firm manages assets for the Foundation on a solely passive basis, that firm will be limited to 25% of the Fund. Pre-existing legacy investments held at the inception of Cambridge Associates' oversight of the Fund are exempt from this restriction.

It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of these liquidity and concentration parameters. If this occurs, the Fund Manager will take action to reposition the portfolio consistent with these parameters as soon as practicable.

Derivatives

It is understood that certain investment managers in the Fund, chiefly those generally categorized as "hedge funds," may use derivatives and leverage as part of their investment strategies. Managers using derivatives and/or leverage should have in place systems to analyze and monitor liquidity and counterparty credit risk in order to minimize the risks associated with the use of derivatives.

The Fund Manager may use derivatives in the Fund to hedge investment risks or to replicate investment positions in a more efficient manner or at a lower cost than would otherwise be possible in the physical markets. Selling of uncovered options is prohibited.

Other than mentioned above, the Fund Manager shall not borrow any funds in the name of the Partnership.