

## **ELIZABETH CITY STATE UNIVERSITY Investment Policy Statement**

### **Preamble**

The Investment Policy Statement (IPS) will also establish a clear understanding between Elizabeth City State University (“Investor”) and the chosen Advisor as to the investment goals, objectives, and management policies applicable to the Investor’s investment portfolio (“Portfolio”).

### **1. The Purpose of the Investment Policy Statement**

It is the responsibility of the Board of Trustees of the Endowment Fund of Elizabeth City State University to establish guidelines for the investment of the university's endowment, select an investment Advisor (buying a mutual fund is considered selecting a manager) or pool of managers (Advisors), and determine asset allocation. It is the responsibility of the Advisor to optimize the return on the assets within the guidelines that have been established by the board.

The purpose of this document is to establish a clear understanding of the investment policy, guidelines, and objectives governing the investment of the university's endowment. It will also provide the Advisor with an understanding of the limitations and directions that the Board judges to be most appropriate for these funds.

Careful management of the university's endowment is necessary to ensure a total return (yield plus capital appreciation) necessary to enhance (adjusted for inflation) the principal of the endowment, and at the same time provide a dependable source of income for current operations.

The endowment portfolio will consist of both equity and fixed income assets. The purpose of equity investments is to provide appreciation of principal, growth of income, and current income. The purpose of fixed income investments is to provide a predictable and dependable source of income and to reduce portfolio volatility. The fixed income and equity portions of the investment portfolio are to be diversified in order to provide reasonable assurance that investment in either a single security or a class of securities cannot have an excessive impact on the total portfolio.

The principal reason for developing an investment policy and for putting it in writing is to enable the Investor and Advisor to protect the portfolio from ad hoc revisions of a sound long-term policy. Without an investment policy, in times of market turmoil, investors are often inclined to make impromptu investment decisions that are inconsistent with prudent investment management principles. This investment policy is intended to provide a well thought out framework from which sound investment decisions can be made.

This IPS is intended to provide guidance in the management of the assets yet is not intended to be overly restrictive given changing economic, business and market conditions. The investment policies described in this IPS should be dynamic and should reflect the Investor’s current status and philosophy regarding the investment of the Portfolio. These policies will

be reviewed and revised periodically to ensure they adequately reflect any changes related to the Portfolio, to the Investor or the capital markets.

## **2. Statement of Objectives and Time Horizon**

The specific objectives for the Portfolio's assets shall be to achieve over the long-term horizon a return above inflation that is consistent with meeting the Investor's long term goals given their horizon and risk tolerance.

The time horizon with respect to the likely need for liquidity arising from the Portfolio's assets is long-term in nature. Capital values do fluctuate over shorter periods and the Investor recognizes that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of three to five years can be minimized with the long-term investment mix employed under this Investment Policy Statement.

## **3. Spending Policy**

The non-mandatory spending policy of the Board of Trustees of Elizabeth City State University is to take annual withdrawals on August 1 of each year in the annual amount of 5%. The 5% is computed on a three-year rolling average of the market value of the endowment. The "three-year rolling average of the market value" is defined as the average of the endowment fund's market value on June 30<sup>th</sup> of the previous three years. The investment advisor is expected to liquidate such investments as may be necessary to accomplish this objective, while still maintaining a balanced portfolio.

## **4. Portfolio Guidelines and Investment Policy**

No security restrictions have been imposed on the management of the Portfolio. Any changes of restrictions must be submitted to the Advisor in writing.

Research suggests that the decision to allocate total assets among various asset classes will far outweigh security selection and other decisions that affect portfolio performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior, certain asset classes will be selected by the Advisor to achieve the objectives of the Investor's Portfolio. These asset ranges were developed by applying an allocation which is based on generally accepted investment theories and which is consistent with the Investor's long term goals and time horizon.

Please see the Appendix to view the list of asset classes and permitted ranges for each asset class.

### **A. Updated Allocations**

From time to time, it may be desirable to amend the allocation policy due to a change in investor profile or refinement of asset allocation approaches. When such changes are

made, updates will be attached to this Investment Policy Statement as an Appendix and will be considered part of this Investment Policy Statement. Changes in capital market assumptions may result in shifts in target allocations but are restrained by policy ranges and do not require an updated policy statement.

## **B. Rebalancing Procedures**

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the established allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Advisor periodically shall review the Portfolio and each asset class in which the Portfolio is invested.

## **C. Asset Allocations**

- i. **Core Equity:** U.S. equity (Large Cap, Mid Cap, and Small Cap) as well as developed international equity.
- ii. **Core Fixed Income:** Investment-grade, intermediate-duration U.S. fixed income generally comprised of U.S. Treasury, agency, and corporate securities as well as securitized investment, such as mortgage-backed and asset-backed securities.
- iii. **Satellites:** Non-core asset classes that can be domestic or international, equity or fixed income. Generally, they are comprised of emerging markets equity, international small cap equity, master limited partnerships, emerging market fixed income, high yield fixed income, and leveraged loans.
- iv. **Alternatives:** Non-traditional investments (hedge funds, private equity, etc.) or non-traditional construction of traditional investments (long-short equity, global macro, etc.). In most cases, FCB implementation will utilize liquid alternatives via mutual funds within the following broad categories – long-short equity, managed futures, global macro, market neutral, and multi-strategy.

The general policy shall be to diversify investments within 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. As a general rule, new cash additions should be used to rebalance the total fund in the direction of the asset mix as determined by the Board of Trustees.

The mix of assets shall be reviewed at least quarterly by the board. The board may make changes in the asset mix. Such changes shall be communicated to the Advisor by the vice chancellor for Business and Finance. If not previously performed during the calendar year, this policy statement shall be reviewed at the September meeting of the Board of Trustees of the Endowment Fund.

## **5. Investment Goals**

### **A. Portfolio Goals:**

Return goals should exceed the return of a broad market index or an index blended in proportions similar to the long-term general asset allocation for the Portfolio.

Risk (volatility) should be similar to or lower than the return volatility of the blended index of the Portfolio.

It is unrealistic to expect that the Portfolio will meet every goal at all times. It is the objective of the Portfolio to meet these goals over full market cycles, which tend to range from 3 to 5 years.

The objectives of the accounts should be pursued as a long-term goal designed to maximize the returns without undue risk exposure. While it is understood that fluctuating rates of return are characteristic of the securities markets, the Advisor's greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, the following objectives are expected to be achieved:

- i. The overall objective of the portfolio is to produce a total annual return that exceeds the inflation rate (as measured by the consumer price index) by at least five percentage points measured over a three-year to five-year market period.
- ii. Total return on the common equity segment should equal or exceed that of the Vanguard Total Stock Market Index Fund Admiral Shares (VTSAX)
- iii. Total return of the fixed income segment should equal or exceed that of the Barclays Capital U.S. Government/Credit Bond Index

### **B. Investment Advisor Goals:**

Returns should exceed the return of a broad market index and/or style index comprised of securities of a nature similar to the Advisor's style over a full market cycle.

Risk (volatility) is expected to be managed so that over full market cycles the fluctuation in the rate of return is consistent with the Investment Advisor's investment style.

It is unrealistic to expect that an Advisor will meet every goal at all times. It will be the objective of the Portfolio to meet these goals over full market cycles, which tend to range from 3 to 5 years.

**C. Other Performance Benchmarks:**

<b>Investment Style</b>	<b>Broad Market Index</b>
U.S. Large Cap Core	S&P 500
U.S. Mid Cap Core	S&P MidCap 400
U.S. Small Cap Core	S&P SmallCap 600
International Equity – Developed	MSCI EAFE
International Equity – Emerging	MSCI Emerging Markets
Real Estate	DJ Wilshire REIT
Core Fixed Income	Barclays Government/Credit
High Yield Fixed Income	Barclays High Yield Corp Bond
International Developed Fixed Income	Citigroup Non-US Dollar Bond
International Emerging Fixed Income	JP Morgan GBI-EM Global Diversified
TIPS	Barclays TIPS
Commodities	DJ-UBS Commodity
Hedge Fund Composite	HFRI Fund of Funds
Total Return	UNC Investment Fund, LLC (UNCIF)

The benchmarks above are not intended to be a comprehensive list, and additional relevant benchmarks may be utilized as necessary to review performance

**6. Communication and Investment Performance Review**

As a matter of course, the Advisor shall keep the Investor apprised of any material changes in the Advisor’s outlook, recommended investment policy, and strategies.

In addition, Advisor shall meet with the Investor as needed to review and explain the fund’s investment results and any related issues. Updates should occur on at least quarterly and the Advisor shall also be available on a reasonable basis for telephone and email communication as needed.

**7. Appendix-Asset Allocation – Equity Weighted Strategy**

<b>Category</b>	<b>Range</b>
<b>Cash</b>	0-5
<b>Core Equity</b>	30-70
<b>Core Fixed Income</b>	10-30
<b>Satellite Investments</b>	15-40
<b>Alternative Investments</b>	0-30