

# **Statement of Investment Policy, Objectives and Guidelines**

## **Foreword**

This statement is issued by the Investment Committee (Committee) of the Virginia Commonwealth University Foundation. Its purpose is to guide staff and investment managers in the investment of Foundation assets. The Committee is responsible for initial and ongoing allocations of assets to the investment managers. Each investment manager is responsible for compliance with this policy and frequent and open communication with the staff and Committee in all significant matters pertaining to assets under their management. Investments are divided into the equity, fixed income, and alternatives funds. Within these basic categories, investments are divided into various styles of management.

## **Equity Fund**

The Equity Fund is designed to provide long-term capital appreciation. Investment objectives for the equity fund require investment managers (excluding managers of index funds) to outperform the appropriate market index, net of fees. The managers are also required to maintain the performance above the median of their individual peer groups (managers of similar style). Domestic equity managers, excluding small cap-style managers, will be measured against the S&P 500 index. Small cap domestic equity managers will be compared to the Russell 2000 index. International equity manager performance will be judged versus the EAFE index, and the MSCI World Ex USA index. Equity managers are encouraged to be fully invested in common stocks. Should a manager's style or philosophy dictate the need for case reserves to be held, the manager(s) may do so with the understanding that performance will be measured against the market indices listed above.

## **Fixed Income Fund**

The Fixed Income Fund is designed to provide a hedge against deflation and to increase current return relative to all equity funds. Equities and convertible

bonds are excluded from use in the fixed income portion of the investment pool. The portfolio is to be composed of investment-grade (Baa or better) issues. Investment objectives are to outperform the Lehman Brothers Aggregate Bond Index, net of fees, and to maintain performance returns above the fixed income universe median. Where index funds are used, the manager(s) will be measured against the respective indices they represent.

### **Alternatives Fund**

The Alternatives Fund is to provide, in exchange for illiquidity and higher risk, high long-term rates of return and diversification of the investment pool. The Alternatives Fund may include investments in leverage buy-outs, limited partnerships, real estate holdings, hedge funds, private equities and other similar investments.

### **Asset Selection**

Equity and fixed income managers may invest in readily marketable securities. Domestic and foreign common stocks and bonds are acceptable. All securities should comply with stated philosophies and management styles. Security selection, size, quality, number of holdings in the portfolio, number of industry groups, current income levels, and turnover are left to broad manager discretion subject to the standards of fiduciary prudence.

### **Fund Monitoring**

The Total Fund and the individually managed portfolios will be monitored on a continual basis for consistency in each manager's investment philosophy and return relative to objectives. Investment risks are measured by asset concentration, exposure to extreme economic conditions and market volatility. The investment objective of the Total Fund is to earn a real total return at least equal to the annual spending rate plus inflation as measured by the Consumer Price Index (CPI). In addition, Total Fund performance should be compared to a custom market index based on fund asset

allocation. The Alternatives Fund should provide a long-term return that exceeds the Total Fund.

### **Asset Allocations**

The following ranges are provided for each fund:

	<u>Range</u>
Equity	50-70 percent
Fixed Income	5-25 percent
Alternatives	15-35 percent

### **Security Trading**

As a general guideline, all transactions should be entered into on the basis of best execution. Commissions may be designated for payment of services rendered to the Foundation.

### **Security Custody**

The Foundation, or its designated custodial agent, shall hold securities purchased pursuant to the provisions of this policy.

### **Spending Policy**

The spendable return from endowment funds, calculated on an individual fund basis, shall be up to five (5) percent of the eight-quarter average market value of endowment fund units as of Dec. 31 of the preceding calendar year. The spendable return from endowment funds, calculated on an individual fund basis, shall be five (5) percent of the average quarterly market value of endowment fund units. This calculation will be made as of Dec. 31 of the previous calendar year and will be based on the average of the actual quarters that funds are held up to a maximum of eight quarters.

Distributions shall be made as of July 1 of the following calendar year or as soon thereafter as funds are available. Total return in excess of the actual distribution shall be reinvested and shall be considered principal for all future distribution computations. At distribution date, should a distribution or market value decline result in a balance below the donor's original principal, a distribution will not be made. Distributions will be reactivated when the account grows sufficiently to allow for a distribution while maintaining the donor's principal balance.

Reviewed and approved at VCU Foundation Full Board Meeting

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