VCU FOUNDATION
INVESTMENT/SPENDING POLICY

I. INTRODUCTION

Statement of Purpose and Objectives

This policy is issued by the Board of Trustees of the Virginia Commonwealth University Foundation (the "Foundation"). Its purpose is to guide staff, investment advisors, and others in the investment of Foundation assets (the "Fund"). This Policy should be formally reviewed on an annual basis.

The primary objective of the Foundation is to invest the Fund in a manner that will maximize the risk-adjusted return. This objective should simultaneously focus on meeting the cash flow requirements of the Foundation, earning an average net real total return of at least 5% over the long term, and preservation of capital. Maintaining a 5% real return over the long term should maintain the purchasing power of the investment assets as it mirrors the spending policy of the Foundation.

Standard of Care

Investments shall be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board shall also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. Special consideration shall be given to the overall liquidity of the Fund in regard to the institution's financial assets, liabilities (long-term debt and/or contingent liabilities), operating expenses, spending policy, and future spending/gifting expectations.

II. Spending Policy

Objective

The Foundation's endowment spending policy seeks to provide a stable flow of funds for current year spending, while maintaining the future purchasing power of the endowment.

Calculation

The maximum spendable return from endowment funds, calculated on an individual fund basis, shall be four and a half percent (4.5%) of the twelve-quarter average market value of endowment fund units.

This calculation will be made as of December 31st of the previous calendar year. Distributions shall be made as of July 1st of the following calendar year, or as soon thereafter as funds are available. Total return in excess of the actual distribution shall be considered principal for all future distribution computations. At the calculation 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 original principal balance.

Initial Distributions from New Endowments

Funds must be invested for a minimum of 4 quarters before becoming eligible for a distribution. The distribution for funds that have been invested for less than 12 quarters will still be based on a twelve-quarter average. This is intended to prorate the distribution based on the number of zero balance quarters that are in the calculation.

III. GOVERNANCE

Fiduciary Responsibilities and Delegation of Authority

The Board is responsible for establishing the Investment Policy Statement and the creation of an Investment Committee ("Committee"), which will be comprised of Board members and may include individuals external to the Foundation.

The Board may delegate responsibility for management of the Portfolio or any portion thereof to an investment advisor ("Advisor"). The Advisor would be responsible for the selection, hiring, monitoring and termination of investment managers, funds and strategies.

The Committee has the standing responsibility to monitor investment performance, asset allocations, and Advisor selection. The Committee is expected to meet at least quarterly and update the Board on recent activity at each full Board meeting.

The Committee, acting between announced meetings of the Foundation, shall have the power to employ or discharge investment Advisors for the Foundation's portfolio. The Committee is authorized to delegate certain responsibilities to professionals in various fields. These include, but are not limited to, the following:

Investment Management

Managers may be granted discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.

Investment Advisory

Advisors may be granted discretion over the day-to-day decision-making with respect to the investment portfolio as well as the duty to report to the Committee.

Custody

The Custodian will physically maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of Foundation accounts.

Other Specialists

Attorneys, auditors, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Endowment assets prudently.

Governance Structure for the Management of the Investment Funds
(Structure applies when the Investment Advisor has Discretion)

	Asset Allocation Policy	Strategic Rebalancing	Manager Selection and Monitoring	Investment Operations	Administrative Operations	Performance Reports
Investment Committee	Approves	Approves	Approves Investment Advisor			Reviews quarterly
Investment Advisor	Advises and recommends	Recommends and implements within guidelines	Researches and implements investment managers	Implements and monitors	Implements some	Provides quarterly
Internal Financial Staff				Oversees	Implements	

Fund Monitoring & Benchmarks

The total fund and the individually managed portfolios will be monitored by the Advisor on a continual basis for consistency in each Advisor's investment philosophy and return relative to objectives. **Appendix I** provides a list of minimal suggested reporting that the Investment Committee should review. Investment managers are expected to use state-of-the-art tools and industry best practices to manage risks in their portfolio(s). Some primary risks that should be evaluated include—asset concentration, exposure to extreme economic conditions, currency exposures, and absolute and relative volatility.

Overall investment performance is measured using a mutually agreed upon Investment Policy Benchmark. The Investment Policy Benchmark helps measure the value of manager selection combined with asset allocation strategy and is calculated by applying the investment performance of the asset class benchmarks to the Investment portfolio asset allocation targets. The current blended benchmark is included in the asset allocation in **Appendix II**.

Leverage and Derivatives

The Foundation may employ leverage and derivatives within funds only to the extent that the aggregate risk of the Fund is not increased beyond that which would be allowed within the ranges of the Policy Portfolio without using leverage or derivatives. Within the context of this policy, leverage is a strategy that increases expected return by raising exposure to and risk of a given investment. The most direct form of leverage is borrowing but many other strategies, structures, funds, and derivative securities produce similar results and therefore imply leverage. The use of leverage should be monitored and controlled as it can affect the Fund's volatility and liquidity.

Best Execution and Soft Dollars

As a general guideline, all transactions should be entered into on the basis of best execution. The Foundation defines best execution as the process and price that results in the best overall performance impact, as judged by the portfolio manager, taking into account current market conditions.

Public security trades generally fall into three categories: execution only, risk/principal, or research related. Execution only trades typically involve lower commission rates. Risk/Principal trades, which require a capital commitment from the broker, may be executed at higher commission rates to compensate for said risk. Research related trades might involve higher commission rates that compensate the broker for research services. These services must fall under the Safe Harbor Provision of Section 28(e) of the Securities Exchange Act of 1934. Managers of the Foundation assets are discouraged from using third-part soft-dollar transactions.

Custody and Corporate Governance

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

IV. POLICY PORTFOLIO

Asset Allocation Policy

The asset allocation policy provides a strategic mix of asset classes with ranges that are expected to produce the highest return within a prudent risk framework—i.e., maximize the risk-adjusted return. The asset allocation policy considers asset classes in the context of a diversified portfolio, where diversification benefits can increase expected returns and/or reduce overall portfolio risk. Within this context, interaction and correlation among asset classes is integral to the overall asset allocation policy.

The Fund may contain both passive and active strategies. Active strategies will seek to generate additional excess return relative to market indexes through asset allocation and individual security selection net of fees. Active investment strategies will encompass direct manager relationships and may include a diverse mix of mandates.

The Board has approved a broad strategic asset allocation framework (**Appendix II**) for the Fund including stated asset classes as defined below and acceptable minimum and maximum ranges.

Asset Classes

- GLOBAL EQUITY
  The Global equity asset class will be comprised of vehicles that invest in publicly traded equity securities with the primary goal of producing capital appreciation. This may include both passive and active equity strategies. Such investments may have global, domestic, developed international, or emerging market focus. Global Equity investments may include, but are not limited to, long-only, long-bias and long-short equity mandates.

- FIXED INCOME
  Fixed income investments are intended to generate stable flows of income, providing greater certainty of nominal cash flow than any other asset class. Fixed income portfolios can be used as a diversification tool, a liquidity reserve, and/or a hedge against deflation. Investments in this asset class may include, but are not limited to, treasury, agency, non-agency, and domestic and international securities of corporate, sovereign and supranational issuers.

- ABSOLUTE STRATEGIES
  Investment in Absolute Strategies seek to exploit market inefficiencies and generate positive investment returns with reduced volatility and minimal net market exposure. These investments may include, but are not limited to, credit-oriented, market neutral or multi-strategy investments.

- REAL ESTATE
  Investments in Real Estate seek to provide equity-like returns while providing a hedge against inflation. The Real estate portfolio also serves as a diversifier for the portfolio. Investments may include, but are not limited to, public or private real estate and are typically invested in illiquid structures with a long time horizon.

- REAL ASSETS
  Investments in Real Assets are intended to provide a hedge against inflation risk and also provide further diversification for the Portfolio. Investments may include, but are not limited to, inflation-indexed bonds, commodities, oil and gas, and timber/farmland and are typically directed toward illiquid investments with a long time horizon.

- PRIVATE EQUITY
  Private equity investments allow access to a large pool of non-public assets that offer the potential for higher returns than public markets. Investments may include, but are not limited to, venture capital, distressed or subordinated securities, buyouts, and mezzanine funds. Investments may be in both domestic and international markets. The investments are illiquid and return cash flow to investors over a period of 10 years or greater. The private equity portfolio is expected to be diversified across categories and investment stage.

- CASH
  Investment cash is a liquidity source for the portfolio and can be used as a hedge for the portfolio as a whole. Investments may include, but are not limited to, cash and cash equivalents such as high-quality, short-duration bonds.

  In addition to investment cash, a Short-Term Reserve Portfolio may be maintained. This portfolio will be mainly invested in cash and cash equivalents or fixed income securities with maturities of less than one year.

Liquidity Considerations

'Liquidity' will be analyzed on several levels and will be considered in construction of asset allocation guidelines and the implementation of portfolio strategy.

Cash on hand (Cash)

Typically defined as 'operating cash', this is the cash held out of investment pools to provide working capital for day-to-day operations. Analysis of historical operations provides data that can approximate with a margin of safety how much operating cash should be prudently held, with the remainder invested to earn a return to aid the Foundation in the future. These analyses should be conducted on an ongoing basis to note any material changes so the Foundation can adjust operating cash needs accordingly.

Liquid Assets (Cash available within 90 days)

The intent of the investment pool is to maximize return for a given level or risk and to provide funds to satisfy the spending needs of the institution. The investment pool should be liquid enough to provide the cash to meet the entity's spending policy to fund day-to-day operations, debt service or extinguishment, gifts, capital spending or other requirements. In managing the portfolio within the construct of the asset allocation ranges and allowable asset classes, detailed liquidity analysis will be performed on the total portfolio and on a manager-by-manager basis. Particular attention and analysis will be dedicated to managers with investment lock-up periods and/or long-lived investment structures. The results and details of the liquidity analysis will be presented when regular communications are given to the Investment Committee.

Global Liquidity

Global liquidity ([Cash + Liquid Assets] – Obligations) is the overall ability of an organization to meet its obligations or goals over a longer period of time. It is integral for strategic asset allocation purposes or to properly assess the prudent amount of illiquid asset classes to include in a portfolio to understand the matching of liquid financial assets with current and future liabilities, contingent liabilities, capital spending, or gifting. Analysis on global liquidity should be monitored on an ongoing basis.

Reviewed and Approved at VCU Foundation Full Board Meeting

January 14, 1999
January 15, 2004
October 19, 2006
February 19, 2009
February 17, 2011
May 2, 2013
October 29, 2015
May 4, 2017

Appendix I
Recommended Reporting

The following list provides minimal suggested reporting to the Investment Committee. The reports listed may be modified by the Foundation Staff, Investment Committee, or Board to eliminate unnecessary reporting or to add reports deemed helpful in monitoring the Fund's performance.

Monthly
NAV
Estimated Performance
Changes in Asset Allocation and Managers

Quarterly
Performance Report
Ex Ante and Ex Post Risk Estimates for Managers and Programs
Leverage and Net Exposures at the total portfolio level

Annual
Detailed Evaluation of Managers' Consistency and Asset Concentration
Manager Fee Analysis
Asset Allocation Assumptions – e.g., Expected Returns, Risks, and Correlations
Exposure to Extreme Market Conditions
Expected Cash Flows of the Fund & Portfolio
Liquidity Analysis Reports & Global Liquidity

Appendix II
Strategic Asset Allocation and Ranges

The Strategic Asset Allocation specifies risk controls in the form of ranges for Fund asset allocations. The ranges help to ensure adequate diversification, define acceptable degrees of tactical tilts, and constrain absolute risk. Extraordinary market conditions may lead to deviations outside the specified ranges, which will be reported to the Investment Committee with a plan to return to the specified ranges. Readily available benchmarks are provided for each asset class, and the Fund benchmark is a weighted average of each asset class rebalanced annually.

Long-Term Policy Targets and Ranges:

	Min	Target	Max	Benchmark
Global Equity	35%	55%	60%	MSCI ACWI
Fixed Income	10%	10%	35%	Barclays US Aggregate
Alternative Strategies	5%	10%	25%	HFRX Global Index
Real Estate	0%	10%	10%	NCREIF
Real Assets	0%	0%	10%	S&P Goldman Sachs Commodity Index
Private Equity	0%	15%	20%	S&P 500 + 2.5%
Cash	0%	0%	10%	3-Month T-Bill

Interim Policy Targets and Ranges:

	Min	Target	Max	Benchmark
Global Equity	35%	51%	60%	MSCI ACWI
Fixed Income	10%	35%	35%	Barclays US Aggregate
Alternative Strategies	5%	10%	25%	HFRX Global Index
Real Estate	0%	4%	10%	NCREIF
Real Assets	0%	0%	10%	S&P Goldman Sachs Commodity Index
Private Equity	0%	0%	20%	S&P 500 + 2.5%
Cash	0%	0%	10%	3-Month T-Bill

Additional Constraint: No more than 45% of the portfolio may be invested in "hedge funds" (generally including the sum of long/short equity and absolute return strategies).