

# **VIRGINIA COMMONWEALTH UNIVERSITY FOUNDATION**

## ***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 funds, equity, fixed income and specialty equities. Within these basic categories, investments are divided into various styles of equity and fixed income management. Domestic equity, international equity and fixed income investments are included as asset categories.

### ***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 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 Universe of International Managers. Index funds will be measured against the respective indices they represent. Equity managers are encouraged to be fully invested in common stocks. Should a manager's style or philosophy dictate the need for cash 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 an all-equity fund. 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 managers will be measured against the respective indices they represent.

### ***Specialty Equities Fund***

The Specialty Equities Fund is to provide, in exchange for illiquidity and higher risk, high long-term rates of return and diversification of the investment pool. The Specialty Equities Fund may include venture capital investments, leverage buy-out investments and other similar investments. It should normally represent no more than five (5) percent of the investment pool.

### ***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. Assets of the Specialty Equities Fund may include participation in limited partnership agreements, mutual funds, closed end investment funds, trust agreements, etc., as may be approved by the Investment Committee.

### ***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 Specialty Equities Fund should provide a long-term return that exceeds the Total Fund.

### ***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 five (5) percent of the eight-quarter average market value of endowment fund units as of December 31 of the preceding calendar year. Distribution shall be made on an annual basis, as of July 1, as directed by the University official responsible for the individual fund. Total return in excess of the actual distribution shall be reinvested and shall be considered principal for all future distribution computations.

Reviewed and approved at VCU Foundation Full Board Meeting October 17, 2002.