



# **NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY**

SEC. VI – ENDOWMENT 1.0

## **INVESTMENT AND SPENDING OF THE ENDOWMENT PORTFOLIO**

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## **I. INVESTMENT**

### **A. Statement of Objectives and Policy**

The purpose of North Carolina Agricultural and Technical State University's endowment is to support the mission of the University. The endowment is to provide a reliable source of funds for both current and future use. The endowment is the property of the University and is held for its exclusive use, benefit and purpose.

The Endowment Committee of the Board of Trustees of the Endowment Fund of NC A&T State University (Endowment Board; Board) has the responsibility for the prudent investment of the Fund in the exercise of sound discretion. The Board has delegated the responsibility for the operations and investment activities of the Fund to the Investments Committee of the University (Committee) under the direction of the Vice Chancellor for Business and Finance. The Committee is charged with carrying out the mandates of the Board, which establishes investment objectives and policies, and monitors their implementation and the performance of the investments.

The endowment is to be invested to maximize long term total returns consistent with prudent levels of risk. Returns are expected to preserve or enhance the real value of the endowment after funds are released for current use. Broadly diversified, the portfolio should include investments in cash and cash equivalents, equities, and fixed income securities. The Committee and the Board may consider alternative investments in the asset allocation, including but not limited to, real estate and venture capital. Investment risks are to be considered within the context of the entire endowment portfolio and the need to sustain its long-term purchasing power.

### **B. Statement of Investment Philosophy**

The intent of the Committee is to allow its investment managers the opportunity to practice their art without undue interference from the Committee. Because different asset classes will perform at different rates, the Committee will monitor asset allocation shifts caused by performance.

The University's philosophy is to use a complementary investment structure that leads to a diverse portfolio. The goal of utilizing a varied portfolio mix is to generate optimal returns with a minimum of risk.

### **C. Investment Policies**

#### **1. Target Allocations**

The return objective of the Endowment is to increase the annual transfer to the operating budgets by at least the rate of inflation. To ensure that the annual transfer does not endanger the future value of the Endowment, the long term goal is to have

an annualized total return of at least the CPI plus the spending level. To ensure real returns sufficient to fund the level of spending, the endowment portfolio will be invested with the following long term target allocations.

- 40 percent in equities
- 25 percent in fixed income securities
- 5 percent in cash or cash equivalents
- 30 percent in alternative investments

Actual allocations will vary within ranges depending on allocation decisions relative to the performance of the asset classes and the availability of high quality investment opportunities.

These ranges are as follows:

- 20 to 70 percent in equities
- 10 to 50 percent in fixed income securities
- 0 to 50 percent in cash or cash equivalents
- 0 to 50 percent in alternative investments

The Committee will review the relative market value of the asset classes and generally place new money under investment in the category(ies) which are furthest below their target allocation in this policy. Rebalancing will typically occur semi-annually as the allocations reach a point where they are out of the target ranges in excess of five percent (5%).

## 2. Unallocated Cash

Cash and cash equivalents should be maintained at a level necessary to meet the immediate cash needs of the endowment relative to expected expenses. The Committee will generally attempt to see that the University's assets include a cash reserve sufficient to pay annual distributions and expenses due within a reasonable future period.

## 3. Equities

The equities portion of the portfolio will be invested in marketable securities of both the broad U.S. domestic market and of foreign developed and emerging markets. Within this combination of strategies, the fund may diversify further with respect to investment style, capitalization size, etc. The goal of the equity portfolio is to provide long-term capital appreciation. Appropriate indices will be used to benchmark equity performance.

## 4. Fixed Income Securities

The fixed income portion of the portfolio will be invested to provide diversification to the portfolio, to provide a predictable and dependable source of income, and to reduce portfolio volatility. To meet this goal, the University will invest in high quality, medium to long term instruments or in investments backed by the U.S. Government. The Committee may allow managers to adjust bond credit quality as

economic circumstances warrant. Fixed income investments may include short term money market securities to meet short term liquidity requirements. Appropriate indices will be used to benchmark fixed income performance.

#### 5. Other Investments

The Committee may authorize the use of alternative investment strategies that may include, but are not limited to market neutral funds, real estate, special sector funds, hedge funds, and managed commodities. The primary purpose of these investments is to provide additional diversification benefits to the overall portfolio and good risk adjusted returns.

#### D. Performance Measurement

The performance of the endowment and its components will be measured against benchmark returns of appropriate indices over rolling three to five-year time horizons. In addition to absolute performance, an important factor in evaluating the success of the fund is the pattern of returns generated by the fund within the context of financial market returns and other educational endowments having similar investment objectives. Returns should be in the top quartile of performance relative to other public university endowment funds. Benchmark indices could include the S&P 500, the MSCI EAFE (Europe, Asia, Far East) and World Indexes, the Lehman Long-Term Government/Corporate Bond Index, a 70/30% benchmark (S&P 550/Lehman Aggregate Bonds), and the Strategic Investment Policy Portfolio (SIPP).

#### E. Investment Managers

The Committee and the Board will meet with the investment managers twice each year to review their performance.

During the reviews, the managers will be evaluated on a basis of their performance compared to relevant market indices and other managers with similar investment philosophies and styles under the same market conditions. In addition, they will be reviewed for adherence to the University's Investment policy. Any changes within the investment manager's organization and their investment philosophy will be reviewed for changes that may materially affect their performance. Any significant changes in personnel that can affect future performance of the manager will also be reviewed.

#### F. Reporting

On a monthly basis, the committee should receive from the investment managers reports on the portfolio's position, a summary of assets, percentage of the account the assets hold, maturities schedule, diversification schedule, list of account assets, current yield of the assets, and cost and market values.

Semiannual and Annual Reports and their investment history will be used during the performance reviews of the managers.

## **II. SPENDING POLICY**

### A. General Policy

The University's Endowment spending policy governs the rate at which funds are released to the operating budgets from the endowment. The University is to use a disciplined spending rate with a long term spending rule. The target rate for spending is to be determined by the Committee prior to the beginning of the University's fiscal year. The target rate for spending is to be set at no more than five percent (5%) of the endowment's twelve-quarter average fiscal year end market value with consideration for the real rate of inflation. Regulatory guidelines such as UPMIFA and Title III shall also govern the distribution rate.

The distributions from the Endowment to the University shall be made without regard for whether its return was greater or less than the agreed upon spending level. No distinction shall be made between income, realized appreciation, or unrealized appreciation. However, distributions that may invade the corpus of any endowment must first follow the steps of prudence detailed in the "Administration of Underwater Endowments" section of this policy.

### B. Administration of Underwater Endowments

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance and authority to institutions within its scope concerning the management, investment, and expenditures of institutional funds, the delegation of investment authority, and the release of donor-imposed restrictions on the use or investment of institutional funds.

Significantly, UPMIFA allows the invasion of principal of an underwater endowment fund under certain circumstances. An "underwater endowment fund" is one in which the total market value is less than the historic book value, or principal (the corpus) – i.e., the actual dollars contributed to the fund. Though the NC A&T State University endowment has experienced relatively few underwater funds - primarily funds that have been recently established – inclusion of underwater spending guidelines is a prudent and responsible management philosophy.

The endowment spending rules contained in UPMIFA require an endowment, foundation or other charitable organization to act in good faith, with the care that a prudent person would ordinarily exercise under similar circumstances and consider, if relevant, the following seven factors:

- The duration and preservation of the endowment fund
- The purpose of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution

Because the position of NC A&T is that implementing the flexibility afforded by UPMIFA to invade principal should be an option of last resort, the University has prioritized steps that shall be taken as spending from an underwater fund is being considered. Underwater status will be determined as of fiscal year-end, June 30.

C. Required Steps Prior to Enacting Underwater Spending

The position of North Carolina A&T State University is that implementing the flexibility afforded by UPMIFA to invade principal should be an option of last resort. The following steps must first be followed to evaluate possible spending options with an underwater fund:

- First, examine the activity supported by each underwater endowment to determine if it is essential to continue in the upcoming fiscal year or if it can be deferred.
- If it is determined that continuing the activity is essential, pursue the following funding option in the order listed:
  - Use any income from the prior year's distribution remaining in the endowment's spending account;
  - Seek other institutional funds to support the activity.
- If, after considering the funding options described above and reviewing the applicable endowment agreement, it is determined that invading the principal of an endowment fund may be prudent, contact the donor and discuss the following alternatives:
  - An expendable gift equal to or in excess of the amount needed to avoid invading principal; or
  - Subject to prudent limitations on expenditures, expend from the principal as an option of last resort, but such spending shall not cause the principal to fall below 5% of the historic value of the subject endowment fund.
- After discussion of the above alternatives, if the election is made to expend from the principal, then written confirmation describing the nature and amount of this funding option shall be provided to the donor within 30 days of the date of execution.
- In the event that a donor cannot be contacted, the terms and intent of the applicable endowment agreement will be followed.
- Because awards, scholarships, and salaries for the year will be budgeted and can't be rescinded, funds will not have their distributions suspended mid-year if they go underwater during the year.

Adherence to this evaluation process demonstrates NC A&T's commitment to the highest levels of stewardship of our endowment funds.

**IV. ENDOWMENT MANAGEMENT FEE**

The University will collect an annual endowment management fee of 1%, computed on the prior June 30 fiscal year-end endowment balance. Funds from the management fee will be used to further the efforts of the University to develop and grow the endowment and scholarships.

Date amendment is effective: upon approval

Approved by the Board of Trustees

First approved: prior to November 2016

Revised: November 18, 2016

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Harold L. Martin, Sr.  
Chancellor

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Date signed for final posting

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Robert Pompey, Jr.  
Vice Chancellor for Business Finance

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Date signed for final posting