

# University of South Carolina Foundations

## Investment Policy Statement

November 2017

### I. DEFINITIONS

#### A. Purpose

The Investment Policy Statement (“Statement”) was adopted by the Directors/Trustees of the University of South Carolina Business Partnership Foundation (USC-BPF), the University of South Carolina Educational Foundation (USC-EF), the Greater USC Alumni Association (USC-AA), and the University of South Carolina Development Foundation (USC-DF) (collectively the “Joint Board”) to direct the prudent investment of the collective Foundations (the “Foundations”) in a manner consistent with the investment objectives stated herein. The Joint Board has delegated management of the Foundations investment portfolio to the Investment Committee (the “Committee”). This Statement recognizes the desire of the participating Foundations to pool assets into one investment portfolio while allowing flexibility for each Board to set a separate asset allocation.

The Joint Board and the Committee recognize the mission of the Foundations to support current needs of the University and to focus on the long-term growth of assets. Long-term asset growth enables the Foundations continued existence for the benefit of future generations of alumni, students, faculty and staff. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the "real" (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundations.

*Goals:*

- 1. Compound the principal of the Foundations assets by appreciating the assets above the rate of inflation for preservation of capital value.*
- 2. Provide funds from the Foundations to meet the fiscal year commitments established to financially aid the University and its respective units.*
- 3. Obtain new and renewed gifts to further expand the Foundations asset base enabling increased financial assistance.*
- 4. Hire professional Investment Managers who have demonstrated an ability to maximize the total return on the Foundations capital while limiting risk.*
- 5. Retain the services of a professional Investment Consultant to assist the Committee with the prudent allocation and management of Foundations assets.*

#### B. Scope

This Policy applies to all assets that are included in the pooled investment portfolio for which the Committee has been given discretionary investment authority.

This Investment Policy Statement shall be used by the Committee in its duty to oversee the investment portfolio and by the Foundations Master Trustee (or Custodian), Investment Managers and Investment Consultant.

### **C. Investment Objective**

The performance objective of the Foundations portfolio is to grow the market value of assets by at least 4.5% net of inflation and assessment, over a full market cycle (generally defined as five years) without undue exposure to volatility. It is also expected that the portfolio will outperform its weighted benchmarks over a full market cycle.

### **D. Fiduciary Duty**

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the South Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA) [S.C. Code of Laws Section 34-6-10]. UPMIFA requires fiduciaries to apply the standard of prudence in investment decision making, stating *“Management and investment decisions about an individual asset must be made not in isolation, but rather in the context of the institutional fund’s portfolio....”* The Committee *“will manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.”* In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundations are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate. All investment actions and decisions must be based solely on the interest of the Foundations. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any conflicts or potential conflicts of interests.

### **E. Description of Roles**

#### **1. Joint Board**

The Board of Directors/Trustees of each Foundation (Joint Board) has the ultimate fiduciary responsibility for the Foundations pooled investment portfolio. The Joint Board ensures that appropriate policies governing the management of the Foundations are in place and that these policies are being effectively implemented. To implement these responsibilities, the Joint Board approves the Investment Policy Statement and delegates responsibility to the Investment Committee for implementation and ongoing monitoring. At least annually the Joint Board will receive a performance report and review of the Investment Policy Statement from the Committee.

#### **2. Investment Committee**

The Investment Committee is responsible for implementing the Investment Policy. This responsibility includes approving investment strategy; hiring and termination of investment managers; monitoring performance of the investment portfolio on a regular basis (at least quarterly); maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy Statement. The Investment Committee will be composed of one representative appointed by each of the Foundation Boards and other members as deemed needed by the Investment Committee and approved by the Foundation Boards.

### 3. **Executive Director / Chief Financial Officer / Director of Investments**

The Executive Director, CFO, and Director of Investments of the University Foundations Office have responsibility for administration of the Foundations pooled investment portfolio and will consult with the Investment Committee and Joint Board on all matters relating to the investment of the Foundations portfolio. These positions will serve as primary contact for the Foundations investment managers, investment consultant and custodian.

### 4. **Investment Consultant**

The investment consultant is responsible for assisting the Investment Committee, Executive Director, CFO, and Director of Investments in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- a. Provide proactive recommendations
- b. Supply the Investment Committee and Joint Board with reports (e.g. asset allocation studies, investment research and education) or information as reasonably requested
- c. Monitor the activities of each investment manager or investment fund
- d. Provide the Investment Committee and Joint Board with quarterly performance reports
- e. Review this Investment Policy Statement annually with the Investment Committee

## **F. Spending Policy**

1. If liquidity is projected to be insufficient, the manager(s) shall be notified by the Committee annually (by April 30) of the minimum current cash requirements for the following fiscal year (July 1) and the manager(s) shall acknowledge receipt of such information.
2. Payout rate to recipients and overhead assessment rate are determined annually by each Foundation Board for payment for the next fiscal year beginning July 1. Spending allocation will be up to the payout rate multiplied by the three-year average market value of the portfolio as of December 31 (or other date specified by each Board), with the preferred minimum being the previous year's spending. Investment returns in excess of those necessary to support spending will be reinvested in the principal balance, with the exception of those funds earmarked as a reserve. The S.C. Code of Laws Section 34-6-40 (A) under 'Appropriation for expenditure or accumulation of endowment fund; rules of construction' states:

*"Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established."*

## **II. INVESTMENT PHILOSOPHY**

### **A. Strategy**

The Committee understands the long-term nature of the Foundations and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic

asset of the Foundations, but is a residual to the investment process and used to meet short-term liquidity needs.

## **B. Asset Allocation**

Asset allocation will likely be the key determinant of the Foundations returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total portfolio, rather than judging each of the asset categories alone. Each Foundation Board will set its own asset allocation percentages and ranges.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundations, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the asset allocation will be set with target percentages and ranges.

*Refer to ADDENDUM I for asset allocation targets and ranges*

## **C. Active vs. Passive Management**

The asset allocation may be implemented using either or both active and passive investment managers.

## **D. Investment Styles**

The Committee understands investment styles (growth and value) are cyclical. Therefore, the Foundations may employ a strategic overweight to a style.

## **E. Rebalancing**

The Executive Director/CFO/Director of Investments will monitor the asset allocation structure of the Foundations and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges or meaningfully away from targets, the Executive Director/CFO/Director of Investments, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the addition of new money or withdrawals for spending will be used to rebalance in a cost-effective manner.

## **F. Liquidity**

A goal of the Foundations is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that, in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

## **G. Illiquid and Semi-Liquid Investments**

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments.

### **1. Private Equity**

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by at least 300 basis points, net of fees. The return premium exists due to the

lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundations should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall private equity allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

**a. Sub-Category**

The target allocations to venture capital, buyout, and special situations (distressed, mezzanine, infrastructure etc.) will serve as a guideline for committing capital. As commitments to private equity are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

**b. Vintage Year**

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

**c. Manager**

Investments should be considered with several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

**d. Stage**

Investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.

**e. Geography**

Investments should be considered across the U.S. and internationally (developed and emerging markets).

**f. Sector**

The portfolio should be diversified by sector, as well as across industries within a sector.

**2. Private Real Estate**

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundations should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular region or property type, but the overall real estate allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Sub-Category**

Private real estate investments should be considered in either value-added or opportunistic funds, which are designed to generate excess return for the overall real estate allocation. These strategies typically require some lease-up, development or repositioning, as well as utilize more leverage than public REITs. As commitments to private real estate are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. **Vintage Year**

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. **Manager**

By combining investments in REITS and several private partnerships (or fund of funds), manager specific, as well as property specific risk, within the real estate allocation can be diminished.

d. **Geography**

Investments should be considered across the U.S. and internationally.

e. **Property Type**

The portfolio should be diversified across property types (e.g. apartments, office, industrial, and retail).

3. **Natural Resources**

The objective of the natural resources allocation is provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Foundations should seek access to top-quality managers and be diversified. Individual investments may be concentrated in a particular region, production stage, or commodity exposure, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Sub-Category**

The target allocations to energy, timber, and other natural resource investments will serve as a guideline for committing capital. As commitments to natural resources are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. **Vintage Year**

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. **Manager**

Investments should be committed to several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

d. **Geography**

Investments should be spread across the U.S. and internationally.

e. **Stage/Type**

Investments in energy funds may focus on upstream activities (development, production, and exploration) or midstream/downstream (refining, transmission, distribution). Exposure will be gained through private equity investments, working interests, and royalty interests.

Investments with Timber Investment Management Organizations (TIMOs) should be diversified by wood type (hard and softwood, species, etc.). Investing in TIMOs exposes the portfolio to timber prices, providing inflation protection, with the potential to generate additional return through the underlying management of the timberland.

Other investments in Natural Resources may be committed opportunistically (agriculture, minerals, etc.)

4. **Hedge Funds**

The objective of the hedge fund allocation is to diversify the Foundations and provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

Hedge funds are not an asset class, but rather an investment vehicle. The majority of hedge funds will have a “lock-up” period of 1-3 years from the date of investment, during which time money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

For the hedge fund allocation to achieve the expected objectives without unnecessary risk, the Foundations should seek access to skilled managers and be diversified. Individual hedge funds may be concentrated on a particular strategy, market or geographic region, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Strategy**

The hedge fund universe can be divided into two broad categories: Diversifying Strategies and Hedged Equity. Below are the definitions and examples of these strategies.

i. **Diversifying Strategies (Low Volatility / Absolute Return)**

These strategies are generally non-directional (not correlated to the markets) and tend to utilize multiple strategies that seek to exploit idiosyncratic (unique, non-market) risks that are not impacted by broad economic, political, or social events. Examples of these strategies include: Event-Driven, Relative Value Arbitrage, Global Macro, and Multi-Strategy.

ii. **Hedged Equity (Directional)**

These strategies tend to opportunistically invest in a broadly defined market with few constraints. As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds may take both long and short positions and actively manage market exposure.

b. **Manager Diversification**

Due to market, strategy, counterparty, leverage, and manager-specific risks, investments should be diversified among multiple direct funds, multi-strategy or fund-of-funds, or a combination.

### III. **Evaluation & Performance Measurement**

#### A. **Total Fund Benchmarks**

The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Foundations may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years or more).

1. The primary objective of the Foundations portfolio is to achieve a total return, net of fees, equal to or greater than spending plus inflation plus an internal assessment fee.

*For example, the USC Educational Foundations has set the following as a target:*

***Total Return greater than 4.25% (Spending Rate)***

***+ 2.0% (Inflation rate)***

***+ 1.25 % (Assessment)***

***= 7.5% Target Return***

2. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark comprised of each broad asset category benchmark weighted by its target allocation.
3. Another investment objective is to achieve a total return in excess of the Target Weighted Benchmark comprised of each asset category benchmark weighted by its target allocation.

***Refer to ADDENDUM II for benchmark weights***

#### B. **Manager Evaluation**

1. Each investment manager will be reviewed by the Investment Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

- a. Maintaining a stable organization
- b. Retaining key personnel

- c. Avoiding regulatory actions against the firm, its principals, or employees
  - d. Adhering to the guidelines and objectives of this Investment Policy Statement
  - e. Avoiding a significant deviation from the style and capitalization characteristics defined as “normal” for the manager
  - f. Exceeding the return of the appropriate benchmark and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the “Summary of Quantitative Performance Objectives” table
  - g. Exceeding the median performance of a peer group of managers with similar styles of investing
2. Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundations already have invested with the firm.

### **C. Summary of Quantitative Performance and Risk Objectives**

#### **1. Liquid and Semi-Liquid Active Managers**

Active managers are expected to outperform their primary benchmark and the median of their peer universe. Equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager’s personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

#### **2. Public Liquid Passive Managers**

Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

#### **3. Private Illiquid Managers**

Performance of private, illiquid managers will be measured utilizing internal rate of return (IRR) calculations and will be expected to exceed the median of an appropriate peer benchmark and public market equivalents (PME) over the life of the fund. Private equity, private real estate, and natural resource funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Foundations may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years, and new investments may create a drag on fund performance until these investments begin to mature.

## **IV. GUIDELINES & RESTRICTIONS**

### **A. Overview**

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable in the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner

in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Foundations investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundations. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Exceptions to these guidelines, such as concentrated or niche strategies, may be appropriate in context of the broader portfolio; any such exceptions should be approved and noted by the committee in writing. Each traditional equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement,
2. Immediately notify the Executive Director/CFO/Director of Investments and consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel,
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management.

## **B. Public Equity Manager Guidelines (including REITs)**

Each active equity investment manager shall:

1. Assure that no position of any one company exceeds 8% of the manager's total portfolio as measured at market,
2. Vote proxies and share tenders in a manner that is in the best interest of the Foundations and consistent with the investment objectives contained herein,
3. Maintain a minimum of 20 positions in the portfolio to provide adequate diversification,
4. Maintain adequate diversification among economic sectors by investing no more than 50% of the portfolio in any one sector, as defined by the relevant benchmark,
5. U.S. equity managers should have no more than 20% of the total portfolio invested in foreign stocks or American Depository Receipts (ADRs).

## **C. Public Fixed Income Manager Guidelines**

1. Each investment grade fixed income investment manager shall:
  - a. Maintain an overall weighted average credit rating of "Aa" or better by Moody's or "AA" or better by Standard & Poor's,
  - b. Hold no more than 25% of the portfolio in below investment grade (Baa/BBB) securities. Split rated securities will be governed by the lower rating,
  - c. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers),
  - d. Assure that any one issuer does not exceed 8% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies.

2. Each high yield/bank loan investment manager shall:
  - a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's,
  - b. Hold no more than 20% of the portfolio in investments rated below B. Split rated securities will be governed by the lower rating,
  - c. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies.
3. Multi-strategy managers may utilize guidelines in both categories above; these managers will be monitored closely to ensure they do not take excessive risk.

#### **D. Cash Equivalent Guidelines (for separately managed accounts only)**

Each separately managed cash equivalent account manager shall:

- a. Maintain a maximum weighted average maturity of less than one year,
- b. Invest no more than 5% of the manager's portfolio in the commercial paper of any one issuer. All commercial paper must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively,
- c. Invest no more than \$250,000 in FDIC insured Bank Certificates of Deposit of any single issuer, unless the investments are fully collateralized by U.S. Treasury or agency securities. Any Certificates of Deposit purchased must have the highest credit quality rating from a nationally recognized rating,
- d. Assure that no position of any one issuer shall exceed 8% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.

#### **E. Illiquid and Semi-Liquid Investment Guidelines**

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundations may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Foundations are a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Foundations, potential tax ramifications must be considered during the investment analysis and selection process. The Foundations shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Foundations.

#### **F. Derivative Security Guidelines**

1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Derivatives may be employed by various strategies, generally to control risk or gain market exposure. Leverage, counter-party and other risks should be carefully monitored to avoid

excessive or inappropriate risks. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:

- a. Manager's proven expertise
- b. Value added by utilizing derivatives
- c. Liquidity of instruments
- d. Amount of leverage
- e. Management of counterparty risk
- f. Manager's internal risk controls and procedures

## **V. MONITORING AND REPORTING**

### **MASTER TRUSTEE / CUSTODIAN**

The master trustee / custodian is an integral part of managing and overseeing the Foundations portfolio. Open communications with the Foundations, investment managers and consultant will ensure accurate and timely reporting, and may provide early detection of any unexpected compliance or reporting problems.

The master trustee / custodian shall:

1. Provide monthly transaction reports no later than the tenth business day following month end, and monthly asset reports no later than the tenth business day following month end.
2. Provide the Foundations, its investment managers and consultant special reports as reasonably requested; and
3. Communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

### **INVESTMENT MANAGERS**

Open communication between the investment managers, the Foundations and its consultant are critical to the success of the Foundations. The manager shall provide the following to the Committee as needed.

1. A written review of key investment decisions, investment performance and portfolio structure.
2. An organizational update, including a report on any and all changes in organizational structure, investment personnel and process.
3. A review of the manager's understanding of investment guidelines and expectations and any suggestions to improve the policy or guidelines.

In addition, the following is required of each investment manager:

1. Monthly transaction and asset statements shall be provided to the Foundations, its consultant and custodian (if the manager's securities are held by the Foundations custodian) no later than the tenth business day following month end where possible;
2. Quarterly performance reviews;
3. Immediate notification to the Foundations and its consultant of any exceptions to this investment policy statement with a recommended plan of action to correct the violation;

4. Annual summary of proxy voting and soft dollar brokerage as defined in the respective sections of this Investment Policy Statement;
5. The Foundations, consultant or custodian may reasonably request other reports or information.

## **CONSULTANT**

The Investment Consultant is responsible for assisting the Investment Committee in all aspects of managing and overseeing the Foundations investment portfolio. On an ongoing basis the consultant will:

1. Provide quarterly performance reports within 45 days following the end of the quarter;
2. Meet with the Committee at least quarterly in person or by phone as needed;
3. Perform sufficient due diligence on current managers to obtain reasonable assurance of their ongoing appropriateness as a service provider and fiduciary;
4. Monitor the activities of each investment manager or investment fund;
5. Provide the Investment Committee with an annual review of this Investment Policy Statement, including an assessment of the Foundations current asset allocation, spending policy and investment objectives; and
6. Supply other reports or information as reasonably requested.

## **VI. ACKNOWLEDGEMENT**

We recognize the importance of adhering to the philosophy and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to this Investment Policy Statement or the manner in which investment performance is reviewed are welcome.

**ADDENDUM I – ASSET ALLOCATION**

**UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION, ALUMNI FOUNDATION,  
AND BUSINESS PARTNERSHIP FOUNDATION**

<b><u>Asset Category</u></b>	<b><u>Target</u></b>	<b><u>Range</u></b>
<b>GLOBAL EQUITY</b>	<b>65.0%</b>	<b>45-85%</b>
<i>Public</i>	<b>65.0%</b>	<b>45-80%</b>
U.S. Equities	45.0%	30-60%
<i>Large / Mid Cap</i>	35.0%	25-55%
<i>Small Cap</i>	10.0%	5-15%
International Equities	20.0%	15-30%
<i>Developed</i>	15.0%	10-20%
<i>Emerging Markets</i>	5.0%	0-10%
<i>Hedge Funds - Directional</i>	<b>0.0%</b>	<b>0-10%</b>
<i>Private</i>	<b>0.0%</b>	<b>0-10%</b>
<b>GLOBAL FIXED INCOME</b>	<b>15.0%</b>	<b>5-25%</b>
<i>Interest Rate Sensitive</i>	<b>15.0%</b>	<b>5-25%</b>
Investment Grade / TIPS	15.0%	5-25%
<i>Credit</i>	<b>0.0%</b>	<b>0-15%</b>
High Yield, Bank Loans	0.0%	0-15%
<b>REAL ASSETS</b>	<b>5.0%</b>	<b>0-10%</b>
<i>Real Estate</i>	<b>2.5%</b>	<b>0-10%</b>
Public (REITs), Private	2.5%	0-10%
<i>Natural Resources</i>	<b>2.5%</b>	<b>0-10%</b>
Natural Resources, Commodities	2.5%	0-10%
<b>DIVERSIFYING STRATEGIES</b>	<b>15.0%</b>	<b>5-20%</b>
<b>CASH</b>	<b>0.0%</b>	<b>0-5%</b>

UNIVERSITY OF SOUTH CAROLINA DEVELOPMENT FOUNDATION

<b><u>Asset Category</u></b>	<b><u>Target</u></b>	<b><u>Range</u></b>
<b>GLOBAL EQUITY</b>	<b>80.0%</b>	<b>45-90%</b>
<i>Public</i>	<b>80.0%</b>	<b>45-90%</b>
U.S. Equities	57.5%	30-60%
<i>Large / Mid Cap</i>	45.0%	35-65%
<i>Small Cap</i>	12.5%	7.5-17.5%
International Equities	22.5%	15-30%
<i>Developed</i>	17.5%	12.5-22.5%
<i>Emerging Markets</i>	5.0%	0-10%
<i>Hedge Funds - Directional</i>	<b>0.0%</b>	<b>0-10%</b>
<i>Private</i>	<b>0.0%</b>	<b>0-10%</b>
<b>GLOBAL FIXED INCOME</b>	<b>0.0%</b>	
<i>Interest Rate Sensitive</i>	<b>0.0%</b>	
Investment Grade / TIPS	0.0%	
<i>Credit</i>	<b>0.0%</b>	
High Yield, Bank Loans	0.0%	
<b>REAL ASSETS</b>	<b>5.0%</b>	<b>0-10%</b>
<i>Real Estate</i>	<b>2.5%</b>	<b>0-10%</b>
Public (REITs), Private	2.5%	0-10%
<i>Natural Resources</i>	<b>2.5%</b>	<b>0-10%</b>
Natural Resources, Commodities	2.5%	0-10%
<b>DIVERSIFYING STRATEGIES</b>	<b>15.0%</b>	<b>10-20%</b>
<b>CASH</b>	<b>0.0%</b>	<b>0-5%</b>

## ADDENDUM II - BENCHMARKS

### UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION, ALUMNI FOUNDATION, AND BUSINESS PARTNERSHIP FOUNDATION

*The current Broad Policy Benchmark is:*

WEIGHT	INDEX	ASSET CATEGORIES
50%	Russell 3000	U.S. Equity
20%	MSCI AC World ex-US	International / Emerging Markets Equity
30%	Barclays US Aggregate Bond	Fixed Income / Diversifying Strategies

*The current Target Weighted Benchmark is:*

WEIGHT	INDEX	ASSET CATEGORY
35%	Russell 1000	U.S. Large / Mid Cap
10%	Russell 2000	U.S. Small Cap
15%	MSCI EAFE	International Developed
5%	MSCI Emerging Markets	Emerging Markets
5%	CPI + 3%	Real Assets
15%	Barclays US Aggregate Bond	Fixed Income
15%	DJ/CS HFI Multi-Strategy	Diversifying Strategies

**UNIVERSITY OF SOUTH CAROLINA DEVELOPMENT FOUNDATION**

*The current Broad Policy Benchmark is:*

<b>WEIGHT</b>	<b>INDEX</b>	<b>ASSET CATEGORIES</b>
62.5%	Russell 3000	U.S. Equity
22.5%	MSCI AC World ex-US	International / Emerging Markets Equity
15.0%	Barclays US Aggregate Bond	Fixed Income / Diversifying Strategies

*The current Target Weighted Benchmark is:*

<b>WEIGHT</b>	<b>INDEX</b>	<b>ASSET CATEGORY</b>
45.0%	Russell 1000	U.S. Large / Mid Cap
12.5%	Russell 2000	U.S. Small Cap
17.5%	MSCI EAFE	International Developed
5.0%	MSCI Emerging Markets	Emerging Markets
5.0%	CPI + 3%	Real Assets
15.0%	DJ/CS HFI Multi-Strategy	Diversifying Strategies