THE UNIVERSITY SYSTEM OF MARYLAND FOUNDATION, INC.

STATEMENT ON THE ENDOWMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

This Statement describes the way in which the University System of Maryland Foundation, Inc. (the "Foundation") addresses environmental, social and governance factors that pose material risks to the Endowment ("*material ESG risk factors*").

The primary purpose of the Endowment is to serve as a vehicle for donors and others to contribute to the on-going achievement of one of life's most powerful accomplishments: a higher education. Assuming a four percent spending rate, the Endowment would have generated an average of over $45 million per year for the last five years to support higher education within the State of Maryland. In actuality, a substantial portion of the annual spending from the Endowment is done by University System of Maryland institutions and Maryland community colleges whose foundations invest in the Endowment. Consistent funding from the Endowment is a critical component of the financial health of many Maryland public higher education institutions.

The investment horizon of the Endowment is perpetuity, and its investment objective is two-fold: to generate steady current income to support spending each year on student scholarships, faculty and staff, and facilities; and to generate long-term growth in order to preserve the purchasing power of the Endowment over that investment horizon.

The Endowment is managed to earn a return at least equal to the applicable spending rate plus inflation, net of expenses. If the Endowment does not meet this objective, then spending would have to be curtailed in order to protect the long-term health of the Endowment. The expectations of donors would not be satisfied, and scholarship recipients, faculty and staff, and facilities would not receive necessary financial support.

Non-financial factors such as the physical environment ("E"), the nature of social behaviors and interactions ("S"), and the way in which entities and political systems are governed ("G") influence the economic activities represented by the Endowment's investments in a myriad of ways. If that influence represents a material risk that the Endowment would not be able to meet its return objective, then that *material ESG risk factor* would have to be considered in an analysis of the investment.

The Foundation maintains its 2016 commitment not to make any direct investments in companies on the Carbon Underground 200 (also known as the Carbon Tracker 200) list, which is a list of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, as ranked by the potential carbon emissions content of their reported reserves. In addition, effective starting in February 2020, the Foundation ceased allocating capital to managers that invest primarily in fossil fuel extraction, and it will allow existing investments in existing managers to run off. The Foundation may, consistent with its fiduciary duty, continue to make tactical investments in managers pursuing resource-related strategies which, in the Foundation's judgment, do not pose a material risk to the Endowment. The Foundation will continue to pursue investments in renewable and alternative energy sources and related activities that it believes will meet the long-term risk and return objectives of the Endowment.

Scholarship recipients, faculty and staff at institutions served by the Endowment will continue to change communities, industries and society for the better in ways large and small. The purpose of the Endowment is to serve as a source of perpetual financial support to them and to the facilities that they require in pursuit of the knowledge, skills and tools necessary to make those changes. To make investment decisions for the Endowment in the furtherance of some other goal or impact would be an abrogation of the Foundation's responsibility to those institutions and to Endowment donors.

It goes without saying that an economic activity conducted without due regard for risks such as conflicts of interest, inadequate compliance programs, vendor vulnerabilities, or accounting and control weaknesses will not be able to create the long-term value that the Foundation requires from an Endowment investment. The Foundation's due diligence process is intended to identify and avoid managers that lack their own robust and dynamic governance systems, or that do not ensure that those systems are implemented and maintained by their investments.

ESG factors are many, and reasonable minds will differ on whether a particular factor may or may not present a material risk to the Endowment. There may not be one, correct response to challenges created by a *material ESG risk factor*, and different responses will have their own costs, benefits and risks. Technological, behavioral and legal developments may alter or eliminate the effect of an ESG factor. And, the effects of a *material ESG risk factor* may be of such a scope or magnitude that making, or not making, a particular investment may not be an effective response at all. The Foundation, in the exercise of its fiduciary duty, will continue to educate itself on ESG factors, to consider whether a particular ESG factor presents material risks to the Endowment, and if so, to mitigate those risks sufficiently or not make an investment.

This Statement has been approved by the Executive Committee and the Investment Committee of the Board of Directors of the Foundation. The Foundation will revise this Statement as necessary in response to future developments. This Statement supplements the Endowment Fund Investment Policy Statement dated June 2018. This Statement supersedes the "Statement from the Ad Hoc Committee for Socially Responsible Investing," dated August 24, 2017.

Adopted: July 14, 2020