***The University of Georgia Foundation***

# INVESTMENT POLICY STATEMENT

*Approved October 2, 2015*

*Updated February 26, 2021*

**Appendix A- Revised October 9, 2020**

## I. Description

This Investment Policy Statement (IPS) details the oversight and management of the investments of The University of Georgia Foundation (hereafter referred to as "Foundation"). Investments include the long-term endowment pool (hereafter referred to as the "LT Fund") and operating funds (hereafter referred to as the "ST Fund") of the Foundation.

The Foundation's investment objective is to preserve its purchasing power while providing a continuing and stable funding source to support the current and future mission of the Foundation. To accomplish this objective, the LT Fund seeks to generate a total return that will exceed all expenses associated with managing the LT Fund and the eroding effects of inflation, at least 5% + CPI, over the long term. It is the intention that all total return (interest income, dividends, realized gains, and unrealized gains) above and beyond the amount approved for expenditure or distribution will be reinvested in the LT Fund. The LT Fund will be managed on a total return basis, consistent with the applicable standard of conduct set forth in the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

## II. Asset Allocation

To achieve its investment objective, the LT Fund will allocate across asset classes consistent with its investment objective. Other asset classes may be added to the LT Fund in an effort to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set.

The domestic equity segment is intended to provide long-term growth and offer high expected real returns and liquidity. The international equity segment is intended to enhance return and control risk by reducing the LT Fund's reliance on domestic financial markets. Private equity may provide even higher return potential by focusing on opportunities in less efficient and more illiquid markets. Flexible capital strategies are employed to provide the investment program with differentiated exposures and return characteristics which over the long-term is intended to generate favorable risk-adjusted returns. Fixed income can help provide stability and protection in deflationary environments. Inflation-hedging strategies are utilized to provide a diversified hedge against inflation as well as a strong yield component. Cash provides short-term liquidity and serves as a funding source for capital calls, spending distributions and rebalancing and is not expected to be held opportunistically as a market timing mechanism.

Please see ***Appendix A*** for specific asset allocation targets and ranges.

## III. Investment Liquidity

The LT Fund has a long-term investment horizon with relatively low liquidity needs. For this reason, the LT Fund can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the LT Fund may take advantage of less liquid investments such as private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. To ensure adequate liquidity to meet unfunded capital commitments, to conduct portfolio rebalancing and to meet required funding needs of the Foundation, including the annual spending distribution, liquidity ranges will be set by the investment committee. Investment Staff and the Investment Consultant will continuously monitor liquidity needs of the LT Fund to ensure adherence to the policy.

Please see ***Appendix A*** for specific liquidity ranges.

## IV. Rebalancing

Investment Staff reviews the LT Fund's asset allocation no less than monthly. Staff maintains an asset allocation model and any deviations from asset class policy targets outside of the allowable ranges as set forth by the Investment Committee will be addressed through rebalancing or acknowledgment of a valid reason for remaining outside of stated policy ranges (such as liquidity or short-term transitions between managers). The Investment Committee must approve any tactical deviations from the stated policy ranges if a change to the asset allocation is not undertaken to correct the deviation.

Cash receipts shall be invested as soon as practical according to the current asset allocation policy, unless otherwise designated. When cash flows and subscription dates for new investments are not aligned, ETFs may be used to achieve asset allocation targets.

## V. Gift Policy

The Foundation may receive gifts in the form of marketable securities. In such event, Investment Staff will liquidate the securities as soon as possible. In the event that the securities are restricted from sale for a designated period of time, the Foundation will hold said securities until the restricted period has elapsed and then liquidate the securities as soon as possible thereafter. The Foundation will make no attempt to add value to the LT Fund by holding gifted securities unless specifically instructed to do so by the donor.

## VI. Performance Evaluation Benchmarks

Benchmarks are useful to gauge the performance of the LT Fund. The LT Fund will be compared to the Policy Index, which represents the optimal "Policy Portfolio" selected by the Investment Committee. The Policy Index is defined as the sum total of all the policy target weights for each of the asset classes multiplied by the returns of their respective benchmarks. The Policy Index best reflects the performance objective of the LT Fund over three to five years. Significant performance deviations from the Policy Index will be explained and appropriate actions taken if necessary.

The LT Fund will also be compared to the composite of 70% S&P 500 and 30% Barclays Capital Aggregate Index (70/30). This composite best reflects the performance objective that the LT Fund seeks to achieve over the long term, generally five to ten years.

An additional benchmark for the LT Fund is performance relative to peers. The LT Fund will strive to perform well relative to peers, not falling below median performance, and to consistently perform in the top third of its peer group.

Benchmarks for each of the broad asset classes are established and reviewed by the Investment Committee with the assistance of Investment Staff and the Investment Consultant. In addition to the LT Fund and asset class benchmarking, all managers within each asset class will be compared to their own relevant style index benchmarks.

## VII. Roles and Responsibilities

Various parties contribute to the successful management of the LT Fund's assets. The Board has ultimate responsibility for the LT Fund but delegates specific duties to the Investment Committee as described in the Investment Policy Statement. The Investment Committee is responsible for setting strategic direction and for ensuring that the Investment Staff implements policy. Investment Staff is the primary communication channel to the Investment Committee and oversees the day to day responsibilities of managing the LT Fund. The Investment Consultant (if retained) provides advice to Investment Staff and, if appropriate, the Investment Committee regarding investment strategy and manager selection and assists in the performance evaluation process. More specifically, the parties have the following responsibilities:

**a. Investment Committee**

The Investment Committee is to advise the Board on all matters related to the investment policy and investment guidelines, the selection of appropriate asset classes and investment managers and allocating funds to them, setting and changing the weighting of asset classes, establishing investment performance benchmarks, and appraising investment manager performance. The Investment Committee will review and evaluate investment results and take whatever action is deemed prudent when an investment manager fails to meet performance standards or violates the investment guidelines. The Investment Committee will review investment management and investment related costs affecting the LT Fund at least annually.

**b. Investment Managers**

Investment managers retained by the Committee are expected to manage assets in a style and manner consistent with the expectations set at time of hire. It is expected that the managers will communicate directly with Investment Staff and the Investment Consultant in a timely fashion and notify these groups of any material changes to the firm, staff, or strategy. Managers should utilize the same care, skill, prudence, and due diligence as prevailing practices that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in comparable investing scenarios and in compliance with applicable local, state, and federal laws, rules, and regulations, including but not limited to, those pertaining to fiduciary duties and responsibilities. Each equity manager will be responsible for the voting of proxies with respect to the issues of all securities in which assets of the LT Fund is invested. Voting of proxies should be made solely in the best interests of the LT Fund.

**c. Investment Consultant**

The Consultant is selected by the Investment Committee and will be responsible for providing proactive advice and education to the Investment Committee on investment guidelines, asset allocation, and manager structure. The Consultant will assist in the selection of new investment managers and will alert both the Investment Staff and the Investment Committee to any important developments at the current managers' firms. In addition, the Consultant will provide performance evaluation reports to Staff and the Investment Committee on a monthly and quarterly basis. Reports will include the performance of each of the investment managers and the total fund compared to appropriate market indices and peer groups. Quarterly reports will contain significant details of the portfolio's holdings, risk exposures, and performance. The Consultant will meet with the Investment Committee at least three times to discuss fund performance and other pertinent matters and other times as needed. The Consultant will meet with Investment Staff on an as needed basis for advice on both ST and LT Fund assets.

**d. Investment Staff**

The responsibility of the Investment Staff is to manage the daily investment operations of the LT Fund per the asset allocation, rebalancing and manager guidelines expressed in the investment policy statement and as directed by the Investment Committee. Staff is also responsible for managing the consultant and custodian relationships with the Foundation and may recommend changes to the Investment Committee if deemed necessary for the betterment of the LT Fund. Staff may source, research and recommend investment managers, working with the investment consultant to ensure the LT Fund gains access to the top performing investment managers. Investment Staff will monitor existing manager relationships via newswires, on-site visits, annual meetings and conference calls to ensure mandates are adhered to and no material changes are made to the organization, key personnel, investment philosophy and investment processes of the manager. Investment Staff is also responsible for managing the Foundation's ST Fund investment program and reporting the results to the Investment Committee quarterly.

**e. Custodian**

The Custodian is selected by the Investment Committee. The Custodian's role is to receive, hold, manage, and invest, to the extent directed by the Investment Committee, the LT Fund's assets. The Custodian will make payments from the funds to such persons or organizations as designated in writing by authorized Foundation personnel. It will keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions and will provide the Investment Staff and the Investment Consultant with a written account of all holdings and transactions on a monthly basis.

## VIII. Manager Selection and Monitoring

The Investment Committee will select external managers to invest the assets of the LT Fund and will monitor the performance of the selected managers. The Investment Committee may delegate certain selection and monitoring functions to the Investment Consultant, Investment Staff and/or a designated Subcommittee consisting of Investment Committee members with expertise in a given asset class. The Investment Committee will report on the status and performance results of the LT Fund to the Board at their regular Board Meetings.

The Investment Committee seeks managers who demonstrate effective strategies, sustainable advantages, and high-quality organizational structures. The Investment Committee expects its active managers to generate superior relative risk-adjusted performance, net of all expenses. Passive mandates may be used in more efficient (occasionally, in less efficient) segments of the capital markets for the purpose of gaining market exposure. The Investment Committee shall determine the respective maximum allocations to single active managers. Currently, the maximum allocation is normally 6% at cost and 10% of market value of the LT Fund. Staff and the Investment Consultant will conduct extensive due diligence prior to recommending each external manager to the Investment Committee. Evaluations include meetings with key personnel and typically include at least one on-site visit to the principal office. Research also includes reviews of audited financial statements, reference checks with other clients and business associates, and comparison to competitors. The Staff and Consultant will use their respective networks of contacts to gain further confirmation of a manager's abilities and business practices. New firms have additional business risk and are subject to a more rigorous level of due diligence and more stringent ongoing monitoring. Selection of investment managers is not geographically restricted.

When putting forth a replacement or new investment manager or fund, the Foundation's percentage ownership level in the proposed fund will be identified. The Foundation will seek to invest in products where the Foundation's ownership will normally be less than 5%. However, opportunities may present themselves where a larger ownership is beneficial. In these circumstances, the Foundation will not generally exceed 10% ownership.

The Investment Committee has the discretion to take corrective action by replacing a manager if deemed appropriate at any time. Corrective action typically occurs as a result of meaningful organizational or process-related change, and, in some cases, sustained relative underperformance. Significant short-term underperformance will also trigger a review. Each quarter the Investment Committee will review each manager and evaluate organizational changes and performance as it relates to managers stated investment goals and peer results.

## IX. Environmental, Social, Governance (“ESG”)

The duty of The University of Georgia Foundation (“UGAF”) is to maximize the long-term, risk-adjusted returns of the UGAF endowment to support UGAF’s mission and objectives, consistent with the mission and values of UGAF and The University of Georgia.

A key aspect of UGAF’s ongoing investment processes and procedures is to partner with investment managers that maintain appropriate risk identification and control procedures of underlying investments in their portfolios. As a long-term investor, UGAF believes that risk management is critical to the investment process and our due diligence therefore includes a manager’s consideration of all material factors, including Environmental, Social, Governance (“ESG”) factors, that may impact their performance and/or risk profile over the long term.

Regular written and verbal reviews of the ESG policies of potential and existing investment managers to understand how their considerations align with those of UGAF therefore is one part of our due diligence investment process. We also maintain an active dialogue with all of our investment managers about material investment issues, including ESG. Should UGAF find that a manager’s ESG policy (or lack thereof) conflicts with UGAF’s ESG considerations, UGAF will engage with the manager and may seek to remedy any difference through the terms of the investment (e.g., a side letter, investment management agreement, etc.) or take other appropriate action.

## X. Spending and Distribution Policy

Spending is guided by several factors; most important is the value of the LT Fund.

Investment Staff reviews the Foundation’s spending policy annually and makes a recommendation on the existing policy to the Investment Committee each February. The Foundation’s spending policy is determined annually based on the preceding calendar year by multiplying (80% x ((1+CPI) x prior year spending amount)) + (20% x (4% x Current Endowment Market Value)). CPI is limited to a 0% minimum and a 6% maximum. The spending calculation will be performed after the market adjustments are made for the calendar year end quarter (or after the month of December). The amount calculated will establish the spending budget for the next fiscal year which begins on July 1. On an individual fund basis, each individual fund must be invested for one full year, have positive investment appreciation and have met the minimum required balance for the gift before a spending budget is calculated.

Furthermore, in recognition of UPMIFA, spending shall comply with the evolving “prudent spending” guidelines of UPMIFA. This policy will be reviewed annually as part of the budgeting process. Investment managers should be given ample notice of the required withdrawal schedule. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process.

## XI. SHORT-TERM INVESTMENTS

The goal of the investment program for the short/midterm investments is to provide support for the operational needs of the Foundation while maintaining low risk of principal. The Investment Committee directs the management of short-term investments to the Chief Financial Officer based on the asset allocation outlined in **Appendix B**. The Investment Committee will approve all managers selected.

### A. Investment Objective

The investment policy for short-term investments uses a three-tier investment structure designed to protect principal while maintaining liquidity with a secondary focus on optimizing investment yield. Investment returns from the Tier structure are used to support the annual operating budget of the Foundation.

### B. Structure:

To achieve the investment objective, the short-term investments may be moved among a three-tier investment structure, while always maintaining cash sufficient for annual operations.

1. The primary investment objective of tier one investments is to be able to meet the daily operational needs of the Foundation at an optimal yield while protecting the safety of the principal at an appropriate investment risk.

   Tier 1 will be maintained in cash and cash equivalents to fund one year of operating expenses of the Foundation. This includes: a) endowed cash available for spending b) unrestricted funding in support of the annual budget c) 12 months of non-endowed expenditures in excess of 12 months of new revenues and d) non-endowed funds that support current facilities construction and maintenance. These assets will not be put at investment risk.

2. Tier 3 is set as a fixed percentage of the total of Tier 2 and Tier 3 assets. The fixed percentage is set by the investment committee and is currently a target of 25%. The unrestricted quasi-endowment fund is the source to replenish Tier 3 losses and make the Tier whole. As such, total Tier 3 assets should not exceed the balance of the unrestricted quasi endowment fund. Tier 3 assets will be invested in the UGA Foundation long-term investment pool on a commingled basis with a primary goal of capital appreciation.

3. Tier 2 is the remaining funds after the Tier 1 and Tier 3 allocations have been calculated and funded and would include facility funds not committed to construction or where the project has not been approved by the Board of Regents as well as funds not meeting the guidelines for inclusion into Tier 3. The investment objective of Tier 2 is to optimize yield and replenish Tier 1 funds as they become due. This is done by extending maturities beyond a twelve-month investment horizon at low to moderate levels of risk while protecting the safety of the principal.

The Asset allocation model adopted by the Board is outlined in **Appendix B**.

## XII. Conflict of Interest

If any member of the Investment Committee, Staff, or the Investment Consultant shall have, or appear to have, a conflict of interest that impairs or appears to impair the respective member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts prior to meaningful discussion.  All parties must also comply with any other conflicts of interest policies adopted by the Foundation.

## XIII. Investment Policy Statement Review

The Investment Committee will review the Investment Policy Statement and submit any changes for ratification by the full board on an annual basis.

**Appendix A-** Revised October 9, 2020- *Policy Ranges Approved by Full Board*

## Asset Allocation

The following asset allocation policy has been established. The expectation is that this policy will provide the highest probability over time of meeting or exceeding the LT Fund's objectives, while avoiding excessive risk.

| Asset Class | Policy Target | Policy Range |
|---|---|---|
| Long Only Public Equity | 50.0 | 35.0 – 65.0 |
| Fixed Income | 10.0 | 0.0 – 20.0 |
| Private Equity | 20.0 | 7.0 - 25.0 |
| Flexible Capital | 15.0 | 10.0- 20.0 |
| Inflation Hedging | 5.0 | 5.0 – 10.0 |
| Cash | 0.0 | 0.0 –10.0 |

## Liquidity Ranges

| Liquidity Ranges Per Redemption Terms | | |
|---|---|---|
| | Lower % | Upper % |
| **Daily** | | |
| **Monthly** | | |
| **Quarterly** | | 30% |
| **Annually** | | 15% |
| **Illiquid** | | 25% |

**Appendix B**

## Short-term Investments

- **First Tier**

| | |
|---|---|
| Investment Purpose: | Support the day-to-day operational needs of the Foundation. To cover all near term (less than twelve months) cash requirements. |
| Investment,Duration and Risk Profile: | Safety of principal, appropriate investment risk, optimal yield. Duration profile of 12 months or less. 90% or more of investments will be investment grade. |
| Investment Funds: | Institutional Money Market Funds<br>Short-term U.S. Treasuries<br>Fixed Income Ultra-Short Funds<br>Enhanced Cash |

- **Second Tier**

| | |
|---|---|
| Investment Purpose: | To be available to replenish the First Tier/day-to-day cash needs of the Foundation. |
| Investment,Duration and Risk Profile: | Optimal yield, safety of principal, capital appreciation. Duration profile of 3 years or less. 80% or more of investments will be investment grade. |
| Investment Funds: | Low Duration Fixed Income Funds, Fixed Income Broad-Market Funds, Money Market Instruments, Tier 1 Instruments |

- **Third Tier**

| | |
|---|---|
| Investment Purpose: | Excess operating cash. Must be available to replenish Second Tier. |
| Investment Profile: | Long-term oriented. Total return. |
| Investment Funds: | Utilize the Foundation's long-term investment structure. |
| Manager: | UGA Foundation |