

# Radford University Foundation, Inc.

## Investment Policy

**Policy:** The Radford University Foundation, Inc. (the “Foundation”) will have a sound and well-managed investment program to manage its endowed assets.

**Approved:** September 12, 2018

### **I. PHILOSOPHY**

At the core of this investment policy statement is a set of fundamental investment beliefs which is the underpinning for the Foundation investment policy:

- Endowment funds are by definition perpetual funds. The Investment Committee can afford to take a very long-term view in setting investment policy.
- Taking into account the long-term nature of endowment funds, the Foundation should maintain a bias toward equity investments, which have historically produced higher long-term returns.
- Diversification can reduce risk and increase return.

### **II. INVESTMENT OBJECTIVES**

The primary investment objective of the Foundation’s endowment is to earn an average annual real total return of at least five percent (5%) over a 5-year period, in connection with expected endowment spending that is calculated using a 5-year market average. Attainment of this objective should enable the Foundation to maintain the purchasing power of endowment assets in perpetuity and meet its current spending policy.

A secondary investment objective of the endowment is for each of the investment managers, specifically Spider Management and Radford University’s Student Managed Investment Portfolio Organization (“SMIPO”), to outperform the blended custom benchmarks that have been established for their respective portfolios.

### **III. SPENDING OBJECTIVES**

The Foundation aims to balance a long-term strategy to increase the value of its endowment while providing capital in the short-term for the intended purposes of the endowment funds. With that said, the goal of endowment spending is an effective rate of less than five percent (5%) per year, which constitutes the total funds withdrawn or expended from the endowed funds on an annual basis, including those for operating cost coverage. The Foundation’s Spending Policy (Adopted March 16, 2012 revised September 14, 2016) is maintained as a separate document and should be considered to fully understand the Foundation’s spending objectives.

### **IV. INVESTMENT MANAGERS**

The Foundation has contracted with several Investment Managers, who each serve an individual purpose within the Foundation’s invested assets and, therefore have varying levels of related policies.

- **STIFEL NICOLAUS:** Stock and electronically-transferred cash gifts are deposited into the Foundation’s account with Stifel Nicolaus. Once received and processed, stock is immediately sold and held as cash. At least quarterly a cash analysis will be conducted to determine the short term cash needs of the Foundation. The cash can be invested in short-term, low risk or “cash like” interest-bearing instruments or accounts for up to six months based on cash needs. Excess cash will be transferred to either a Foundation bank account

for current spending requirements or to one of the other Investment Managers within the investment pool. FDIC limits should be considered during this cash review.

- **SPIDER MANAGEMENT:** The Foundation has adopted Spider Management’s University of Richmond Endowment Fund Investment Policy Statement (Adopted May 26, 2011) for the respective investment. The Foundation’s Investment Committee will review all subsequent changes to that policy as they occur (most recently amended June 28, 2016). A large majority of the Foundation’s invested assets reside in the Richmond Fund, which invests in many of the asset classes discussed in Section V (“Asset Allocation”) of this policy. Additional investments in the Richmond Fund are approved by the Foundation’s Board of Directors (“the Board”) unless the additional investment is the result of the excess cash analysis for Stifel Nicolaus (which is considered a transfer within the investment pool).
- **SMIPO:** The Foundation has adopted the SMIPO Investment Policy (Approved November 3, 2011) for the respective investment. The Foundation’s Investment Committee will review all subsequent changes to that policy as they occur. Additional investments in SMIPO are approved by the Board.
- **THIRD SECURITY:** The Foundation has also invested with several of the New River Management limited partnerships (“NRM Funds”) managed by Third Security, LLC. Each of the NRM Funds are managed by a separate partnership agreement that covers the investment guidelines for the NRM Funds’ underlying assets. The Foundation invests cash over the investment period of each of the NRM Funds, after making an initial commitment, which is approved by the Board. Investments in additional NRM Funds are approved by the Board.
- **HARVEST CAPITAL STRATEGIES:** The Foundation has also invested in a limited partnership managed by Harvest Capital Strategies, known as the Harvest Intrexon Enterprise Fund I. This fund is managed by a separate partnership agreement that covers the investment guidelines for the underlying assets. The Foundation invests cash over the investment period of the fund, after making an initial commitment, which is approved by the Board. Investments in additional Harvest Capital Strategies funds are approved by the Board.

## **V. ASSET ALLOCATION**

The single most important investment decision is the allocation of endowment funds to various asset classes. The primary objective of the Foundation’s asset allocation policy is to provide a strategic mix of asset classes which produces the highest expected investment return within a prudent risk framework. Each asset class should not be considered alone, but by the role it plays in a diversified portfolio. Diversification among asset classes has historically increased returns and reduced overall portfolio risk. How asset classes relate to each other is the key to making asset allocation decisions within the context of overall endowment risk and return.

As stated earlier, the Foundation has contracted to invest with investment managers who, combined within the Foundation’s investment pool, achieve this investment philosophy. The investment policies of Spider Management and SMIPO and the partnership agreement for the New River Management and Harvest Capital Strategies partnerships govern the asset allocations of those investments. The Stifel Nicolaus account’s purpose allows for the cash flexibility needed to manage the investment pool as a whole.

A core fundamental investment belief of the Foundation is to maintain a bias toward equity investments, which produce higher long-term returns. In addition, the endowment’s long time horizon is well suited to exploiting illiquid, less efficient markets that offer higher potential returns.

With these basic tenets in mind:

- equity bias, which increases long-term returns,
- diversification, which balances, and therefore reduces, portfolio risk, and
- long time horizon

The Foundation, through its investment managers, is invested in the following asset classes (primarily Spider Management unless otherwise noted):

- **GLOBAL EQUITIES:** The asset allocation policy reflects the broad opportunity set available to public equity managers. As such, will strive to invest with managers who will yield superior risk-adjusted returns, regardless of their capitalization and/or geographic orientation. Equity investments provide an opportunity to participate in the growth of public companies and the global nature of the portfolio allows the endowment to profit from a diversified set of economies around the world. The global equity portfolio follows a variety of strategies including long-only and long/short. Each is designed to provide long term equity returns, but with different risk and liquidity profiles.
  - ⊖ **GLOBAL EQUITY LONG-ONLY:** The objective of the Global Long-Only portfolio is to generate investment returns with adequate liquidity through consistent exposure to common stock investments. The Global Long-Only Equity portfolio will contain both passive and active investment components. The passive strategy is meant to provide low-cost exposure to the public equity market and will primarily be achieved through the use of, but not limited to, swaps, ETFs and other derivative products, utilized from time to time to add or reduce the directionality of the portfolio. The portfolio seeks to generate incremental returns (alpha) through its active investment strategy. The primary benchmark used by Spider Management for the Global Long-Only is the MSCI ACWI index. The primary benchmark used by SMIPO is the Morningstar Small-Mid Value Total Return index.
  - ⊖ **GLOBAL EQUITY LONG/SHORT:** The Global Long/Short portfolio consists of managers with a long equity portfolio offset by a portfolio of short equity holdings. While the long/short portfolios tend to be directionally exposed to the market, it is to a much lesser extent than the long-only portfolio. The short portfolio serves as a hedge against market declines, and importantly provides additional value through selecting stocks that are likely to underperform. The Global long/short portfolio is expected to produce equity-like returns over the long term, with less volatility and liquidity than the Long-Only portfolio. The primary benchmark for the Global Long/Short portfolio is 50% of the MSCI ACWI +300 bps.
- **PRIVATE EQUITY/VENTURE CAPITAL:** Includes illiquid investments in both private and public companies both domestically and internationally. These investments include venture capital, buyouts, high yield, and subordinated debt. The private equity/venture capital portfolio's objective is to earn higher returns than the public equity markets over the long term. This portfolio invests in highly illiquid positions and should generate higher returns as compensation for that illiquidity. A secondary objective of these investments is to provide diversification. The portfolio's strategy is to invest in a select number of funds managed by the highest quality management teams usually organized as limited partnerships. Managers are sought which have proprietary deal flow and whose experience enables them to bring strategic, operational, or technical expertise to a transaction in addition to financial acumen and capital. The portfolio is diversified across categories and investment stage. The private equity/venture capital portfolio's primary benchmark used by Spider Management is the Burgiss Private Equity and Venture Capital benchmarks weighted 60% Private Equity and 40% Venture Capital.
- **REAL ASSETS:** Real Assets represent claims on future streams of inflation-sensitive income, supplying protection against unanticipated inflation and playing an important diversifying role in the portfolio. Real assets are comprised of investments in oil and gas, commodities, timber, and inflation-linked bonds. The primary benchmark is Burgiss Real Assets.
- **REAL ESTATE:** The long-term objective of the Real Estate portfolio is to provide equity-like returns while providing a partial hedge against inflation. In addition, real estate is an extraordinary diversifier within the overall endowment due to its low correlation with other asset classes. The portfolio is directed largely to illiquid investments with a long time horizon. The primary benchmark is the Burgiss Real Estate.

- **MULTI-STRATEGY:** Includes managers specializing in asset allocation across multiple investment strategies that have low correlations and/or market exposure to other asset classes. The objective of this asset class is to generate equity-like returns with less volatility and market exposure than global equities. Diversification across strategies and positions will be wide in order to dampen portfolio volatility. The portfolio's liquidity will be moderate, less than that of the traditional public equity portfolios, but more liquid than the private equity/venture capital portfolio. This portfolio will focus on areas and strategies where value added by active management can contribute a substantial portion of the return. The portfolio may utilize swaps, derivatives, ETFs or other instruments in order to manage risk. The primary benchmark for this asset class is 30% ACWI + Treasury Bills + 300 bps.
- **CREDIT:** Includes investments in publicly and privately traded credit and credit related securities. The portfolio can hold a mix of traditional benchmark relative strategies and absolute return strategies. It is expected that many types of securities could be considered credit sensitive and the portfolio will contain, but not be limited to, bonds, equities, derivatives, currencies and private securities. The portfolio will be diversified across credit asset classes and hold a mixture of investment grade and high yield securities of performing and non-performing debt. Liquidity and volatility will vary by strategy. The portfolio will focus on capital appreciation rather than current income and will not be managed to specific duration guidelines. The primary benchmark is the Merrill Lynch High Yield Master II Index.
- **CASH/FIXED INCOME:** It is considered prudent to minimize the use of cash in the overall endowment given its low return characteristics. Outside of extraordinary market dislocation periods, cash will exist from time to time for transaction and/or rebalancing needs only. High quality fixed income can be used as a deflation hedge and as a source of cash during periods of market dislocation. The primary benchmark for cash/fixed income is Barclays 3-5 Year Treasury Index.

With the above serving as the approved asset classes, the Foundation will rely on its investment managers to determine the optimal asset allocation policy for their investments. The Foundation will monitor, and periodically report on, how the managers perform compared with those policies. The Foundation has developed the following maximum allocation guideline, which should be considered when investing and divesting endowment funds. The Board should be notified when actual experience differs from these guidelines.

<u>Asset Class</u>	<u>Desired Allocations Range</u>
GLOBAL EQUITY	
Long Only	10-40%
Long/Short	10-40%
PRIVATE EQUITY/VENTURE	10-25%
REAL ASSETS	0-15%
REAL ESTATE	0-15%
MULTI-STRATEGY	5-20%
CREDIT	0-20%
CASH	0-10%

## **VI. PORTFOLIO REBALANCING POLICY**

The Foundation will rely on its investment managers to rebalance their respective investments according to their investment policies, except for Stifel Nicolaus, which will be managed as described in Section IV (“Investment Managers”) of this policy.

Additionally, any new investments will be approved by the Board and the anticipated impact on the total Endowment's Asset Allocation will be considered.

## **VII. SHORT TERM CASH ANALYSIS**

The Foundation shall establish such short-term cash accounts as necessary to provide liquidity sufficient to meet short-term withdrawal needs of the Foundation.

Short-term cash accounts may receive earnings from those accounts, gifts from donors, property income, and other miscellaneous income and disburse spending according to the policies of the Foundation.

Foundation assets held in short-term funds should be sufficient so that requests for withdrawals from investment accounts are infrequent.

FDIC limits should be considered with regards to managing short-term cash accounts. In general, the short-term account shall be well diversified with respect to type and issuer in order to minimize risk exposure. However, obligations issued or guaranteed by the U.S. Government may be held without limitation.

## **VIII. INVESTMENT DOCUMENTATION & REPORTING**

Statements will be provided quarterly to the Foundation from each of the Investment Managers. Analytical data will be provided at least annually to the Investment Committee, and additionally as requested, summarizing:

- time-weighted rates of return for the quarter and trailing periods for the total investment pool portfolio and individual investment manager holdings
- market value reconciliation for the period for the total portfolio
- rollforward of the investment pool broken down by restriction and fund type
- asset allocation of total portfolio
- cash in bank analysis
- asset composition for the Foundation
- annual effective spending rate of the endowed assets
- annual calculated rates of return for 1, 3, 5 and 10 years to determine if long term objectives are being met.

Spider Management and Third Security will provide audited financial statements for their respective investment funds annually, which are provided to the Foundation's auditors during the audit process.

Spider Management, SMIPO, and to the extent applicable, other investment managers and partnerships, will assume responsibility for voting proxies associated with the respective accounts.

Spider Management, SMIPO, Third Security and Harvest Intrexon will meet periodically with the Investment Committee, either in person or by conference call, to review the portfolio and its investments results.

The Foundation will participate in the NACUBO Commonfund Study of Endowments (NCSE) on an annual basis and present pertinent results to the Investment Committee.

## **IX. DUE DILIGENCE**

The Foundation's asset allocation and manager selection process has allowed it to protect the portfolio on the downside and outperform traditional stock/bond portfolios over the long term. Risk management is an important part of this process. To mitigate risk, the Foundation performs both pre-selection due diligence and annual monitoring of investment managers.

### **Investment Selection and Evaluation Process**

Once a manager is identified, the due diligence process typically consists of the collection of public information, including 13-F filings (if available), new searches, and other information that may be available and relevant. Initial contact with the manager will typically involve the manager sending a package that includes a marketing presentation and financial and historical information. This information is analyzed by Management of the Foundation and upon

their recommendation, presented to the Investment Committee for their review. If found appropriate by the Investment Committee the next step would be to hold a meeting(s) with the manager which would include significant lines of questioning regarding the manager's investment process, trading, and non-investment related systems. Additionally, reference checks may be performed at the discretion of the Investment Committee.

### **Ongoing Investment Monitoring**

Most managers provide quarterly portfolio updates, which can include significant detail on holdings, concentration, attribution, and exposures. Most managers also write some form of quarterly letter, which provides insight as to the thought process employed by the manager in the previous quarter as well as the positioning of what the Foundation can expect from the manager in the future. This information is provided quarterly to the Investment Committee for their review. Any negative trends or positioning found to be unfavorable by the Investment Committee would be discussed at this time so the appropriate course of action could be performed in a timely manner.

Annually, the managers meet with the Foundation's Board of Directors, either in person or by conference call, to offer insight into their view of the overall markets and sectors within the markets, as well as individual positions, and any themes or overlays that may exist in their portfolios. Any negative trends or positioning found to be unfavorable by the Foundation's Board of Directors would be discussed at this time so the appropriate course of action could be performed in a timely manner.

### **X. REQUEST FOR PROPOSAL**

In accordance with sound due diligence, the Foundation has determined that it will send out a request for proposal (RFP) at least every five years concerning the management of pooled investments. The appropriate number of potential managers to whom RFPs will be sent will be discussed by the Investment Committee. Bid proposal information will be reviewed and discussed by the Investment Committee who have the responsibility of making a recommendation to the Foundation Board of Directors. The Foundation Board of Directors will vote on and approve the decision to change or remain with the Foundation's Investment Manager(s).