

North Carolina State University Foundation, Inc.

INVESTMENT POLICY STATEMENT

SRI Fund

July 2013

Amended December 2016

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I. Introduction

NC State University and the Park Foundation, Inc. (Donor) entered into a Memorandum of Agreement (MOA) regarding the Park Scholarships Endowment that was created by the Donor. In addition, the NC State University Foundation, Inc. (Foundation) entered into a separate Memorandum of Agreement (Foundation MOA) with the Donor to provide guidelines for the investment and administration of the Donor's endowed assets referred to as the "Park Scholarships Endowment" (Endowment).

For investment purposes, the assets of the Endowment contributed by the Donor will be held by the Foundation in a separate restricted fund (SRI Fund) which will be invested in a socially responsible manner. Investment decisions regarding the SRI Fund will be made by the Foundation or its delegates after reviewing investment suggestions submitted by the Park Foundation Investment Advisory Committee (Advisory Committee). There were no stipulations in either MOA placed on the SRI Fund regarding the type of fund, permitted investments, or which Environmental, Social or Governance (ESG) principles should be applied.

This Investment Policy Statement (IPS) has been adopted by the Foundation, and summarizes an investment philosophy and approach designed to meet the SRI Fund's long-term return goals and investment principles with an appropriate level of risk. It is designed to provide a framework to help guide the Foundation Board, investment managers, and other parties involved in advising the portfolio with setting investment objectives, selecting and monitoring portfolio investments, diversifying assets, and evaluating performance.

II. Investment Objectives

A. Rate of Return Objectives

Due to market volatility, there cannot be complete assurance that the return objectives will be realized.

1. Long-term investment objectives:

- a. Preserve the real purchasing power of the SRI Fund's assets while providing a predictable, stable, and constant (in real terms) stream of distributions;
- b. Earn an average annual real total return of at least 5% per year, net of all fees, including manager fees, custody charges, and other investment management services over rolling five- and ten-year periods;
- c. Earn a rate of return, net of all fees, that exceeds the return on a 70/30 benchmark index comprised of 70% MSCI ACWI/30% Barclays Aggregate Index, over rolling five- and ten-year periods;
- d. The SRI Fund will also be measured against a composite benchmark that mirrors the target allocations of investments within the portfolio.

2. Short-term investment objectives:

- a. The SRI Fund shall maintain sufficient liquidity to meet the annual operational spending requirements.

B. Risk Tolerance

In order to try to achieve its long-term objectives, as described above, the SRI Fund assumes various investment risks inherent in global financial markets. Given the SRI Fund's objective of providing sufficient long term growth to meet spending needs, the SRI Fund will allow for significant short-term volatility consistent with the benchmark. The SRI Fund's primary long-term risk is 'shortfall risk' – the risk of not maintaining the purchasing power of the SRI Fund's assets by not earning a real return sufficient to cover spending distributions.

Portfolio level risk is targeted to fall at or below the volatility and draw-down characteristics associated with a global portfolio as measured specifically by the 70% All Country World Index (ACWI)/30% Barclays Aggregate.

The primary risk management tools employed by the SRI Fund are:

1. Diversification within the SRI Fund's portfolio, both among and within asset classes and managers.
2. An investment decision making and implementation process that relies on:
 - a. Extensive due diligence on investment managers prior to their addition to the SRI Fund
 - b. A set of disciplined policies and procedures regarding the monitoring and evaluation of the SRI Fund's existing investment managers
3. Use of independent services providers including the SRI Fund's custodian

III. Governance and Oversight

A. NC State Foundation, Inc. Board of Directors (Board)

The Board delegated authority by Board Resolution to the Foundation's Treasurer and Assistant Treasurer, jointly, (Treasurer's Office) for full SRI Fund management and oversight, including investment decisions, with updates to be provided to the Board at regularly scheduled meetings. All actions taken by the Board will be consistent with the standards specified under the Uniform Prudent Management of Institution Funds Act (UPMIFA), or such future law as may be applicable.

B. Park Investment Advisory Committee (Advisory Committee)

The Advisory Committee consists of three members appointed by the Park Foundation, Inc. This committee will act solely in an advisory role to the Foundation through communication with the Treasurer's Office regarding the investment of the SRI Fund.

C. Foundation Treasurer & Assistant Treasurer (Treasurer's Office)

The Treasurer's Office will report to the Board on matters pertaining to the investment of the SRI Fund's assets, and will report the SRI Fund's performance and compliance, consistent with this IPS.

In all investment decisions including, without limitation the purchase, sale, exchange or retention of assets, the determination of asset allocation, and the exercise of rights, options, and privileges incident to asset ownership, the Treasurer's Office shall have full authority to act solely as delegated by the Board.

The Treasurer's office shall provide investment management services to the SRI Fund. Such services shall include, without limitation:

1. Evaluating the performance of the SRI Fund's investment managers by: a) monitoring the portfolios of securities and investments allocated to such managers; b) from time to time recommending additional allocations to, or withdrawals from, such managers; and c) performing due diligence reviews of managers;
2. Providing summarized quarterly performance reports from individual managers and providing quarterly investment reports to the Board;
3. Providing monthly SRI Fund investment returns to the Advisory Committee via electronic means;
4. Reviewing the monthly report of the SRI Fund's performance and assets; and
5. Reporting in a timely manner any substantive developments that may affect the management of the SRI Fund's assets.

D. Custodian

A custodian bank may be selected by the Treasurer's Office to perform standard custodial functions including security safekeeping, payment of investment management or other operating fees, and distribution of income. The Custodian shall provide monthly account statements and other reports as requested by the Treasurer's Office.

IV. Fund Structure

- A. The SRI Fund's assets will be managed by external investment managers utilizing commingled vehicles (i.e. mutual funds), separate accounts, and direct partnerships within the SRI Fund's investment portfolio.

The SRI Fund's investments are diversified in a variety of ways including, but not limited to:

1. Asset Class
2. Sub-Asset Class
3. Geography
4. Size
5. Industry
6. Manager

- B. In general, the SRI Fund will seek to achieve a competitive total return through a portfolio of stocks, bonds, privately held companies, real assets, and money market instruments which offer income and capital growth opportunity and which satisfy the investment criteria including financial, SRI factors, and ESG principles.

V. Portfolio Composition

- A. The SRI Fund will be broadly diversified with an asset allocation that is intended to achieve stated return objective of inflation plus 5% (net of fees). Asset allocation guidelines reflect a diversified portfolio and emphasize equity-related investments to help achieve the SRI Fund's long-term return objective. In accordance with the current strategic asset allocation, the SRI Fund targets approximately:

- 70% of its capital to equity-oriented strategies
- 25% of its capital to fixed income investments
- 5% of its capital to other investment strategies designed to have relatively low correlations to equity and fixed income instruments and provide general price inflation protection

The SRI Fund's actual asset allocation may temporarily fall outside of these guidelines due to market conditions. Tactical asset allocation ranges provide flexibility to take advantage of market conditions. The Board may determine that deviation from the established ranges is appropriate under certain circumstances and will seek to rebalance as prudent and necessary. The Strategic Target Allocation Percentages and Tactical Ranges are provided below.

Asset Class	Target Allocation	Tactical Range	Benchmark
Long Biased Equity	50%	45% - 85%	MSCI ACWI
<i>Domestic Equity</i>	<i>25%</i>	<i>10% - 40%</i>	<i>Russell 3000</i>
<i>Global Equity</i>	<i>20%</i>	<i>5% - 35%</i>	<i>MSCI ACWI</i>
<i>Emerging Mkts Equity</i>	<i>5%</i>	<i>0% - 10%</i>	<i>MSCI Emerging Markets</i>
Fixed Income	25%	10% - 40%	Barclay's Aggregate
Private Equity	20%	10% - 25%	MSCI ACWI +4%
Real Estate	5%	0% - 10%	90% NCREIF/10% NAREIT
Cash	0%	0% - 10%	Barclays Treasury 1-3 Month

- B. The Board may change the Strategic Target Percentages and Tactical Ranges at any time.
- C. Decisions regarding allocations among investment managers within each asset class, or the addition of new investment managers will be made when such actions are expected to produce incremental return, reduce risk, or both.

- D.** Each asset class above has a defined role within the overall SRI Fund asset allocation structure. These roles are defined below:

Long Biased Equity: Provides long term capital appreciation and protects against the impact of inflation. The SRI Fund invests its Long Biased equity category on a global basis, investing in U.S. Equities as well as non-U.S. equities, in developed and emerging markets, as well as passive indices to enhance return and increase diversification. Within the Long Biased Equity category, the allocation is expected to be approximately 50% domestic, 40% global, and 10% emerging markets.

Fixed Income: Provides principal protection during periods of deflation, provides a source of current income, and reduces overall SRI Fund volatility. These portfolios are primarily domestically focused, but may also include exposure to international and emerging markets debt, passive, and credit strategies. Investments in the category may include but are not limited to core offerings, opportunistic strategies, and private credit mandates.

Private Equity: Provides high real returns and controls overall SRI Fund volatility.

Real Estate: Serves as a hedge against general price inflation, and as a source of current income. Investments in this area include private portfolio investments, which typically focus on specific niche markets within the real estate sector and public REIT investments, which provide a more liquid means of gaining exposure to the asset class.

Cash: Serves as a hedge during periods of economic contraction, deflation, or flight to quality.

Within each of the above asset classes, the SRI Fund will source external managers that adhere to the Principles of Socially Responsible Investing, integrate ESG factors through positive/negative screens, and/or execute an Impact Investing mandate, commonly referred to as Mission-Related Investing.

- E.** In seeking out new investment opportunities, the Treasurer's Office will focus on companies and managers who have demonstrated significant capacity for performance using ESG, or SRI principles. The characteristics of an investment vehicle including expected return, risk, correlation, and its overall role in the portfolio will be analyzed when making such decisions.
- F.** In order to achieve the Strategic Asset Allocation Target percentages over time, particularly in the private asset classes, it is generally necessary to make commitments (unfunded commitments) that, when added to the SRI Fund's existing exposure to these asset classes, exceed the relevant asset allocation targets. This is necessary because these unfunded commitments are typically drawn down over a period of three to five years, and distributions from private investment funds often begin before the commitments are fully drawn down.
- G.** In recognition of the globalization of equity and fixed income markets, investment vehicles may hold foreign as well as domestic securities and derivative instruments in their portfolios, subject to any constraints outlined in the investment vehicle's guidelines.
- H.** Portfolio management decisions such as individual security selection, position size, quality, number of industries and holdings, yield, turnover, and use of derivative securities, commodities, and currencies are left to manager discretion, may be provided by the Board, or could refer to those contained in the fund's prospectus.
- I.** Investment firms managing SRI Fund assets are expected to act in an ethical manner and with integrity in all phases of the investment process.
- J.** Firms that provide separate account management of the SRI Fund assets will be provided with a statement of investment objectives and guidelines that will govern the management of those portfolios. These guidelines will address performance benchmarks, risk parameters, industry or single holding limitations and other relevant portfolio management restrictions.

VI. Other Investment Considerations

A. Liquidity

Annual liquidity needs are expected to be moderate. The SRI Fund maintains liquidity both for investment purposes and to meet withdrawal requirements. Liquidity needs for investment purposes include the ability to meet capital calls on unfunded commitments and to rebalance the portfolio's asset allocation on a timely basis. Sources of liquidity include contributions and the sale of existing investments within the SRI Fund. The SRI Fund is responsible for managing liquidity in a manner that balances the short-term liquidity needs with the SRI Fund's longer-term objectives. In certain circumstances, it may be prudent to seek external liquidity in order to avoid liquidating investments such that the SRI Fund would incur a realized loss. In those cases, the SRI Fund should seek liquidity and encumber only those funds with little or no restrictions.

B. Time Horizon

The SRI Fund has a long-term horizon which is typical for most endowments. The horizon extends well beyond a normal market cycle, and for the purpose of investment strategy can be considered to be in "perpetuity."

C. Standard of Care and Prudence

The standard of conduct applicable to the investment management of the SRI Fund is one of ordinary business care and prudence under the prevailing facts and circumstances. The Board will consider the long- and short-term needs as well as present and anticipated financial requirements of the SRI Fund, expected total return on investments, price level trends and general economic conditions.

VII. Manager Selection and Performance Evaluation

A. Manager Selection Criteria

The assets in the SRI Fund will be managed externally, primarily using strategies which shall be approved by the Treasurer's Office, as delegated by the NCSU Foundation.

SRI Fund managers must have a demonstrated commitment to socially responsible investing. Each manager should communicate openly about implementation of environmental, social and governance criteria.

In addition to evaluating a manager's historical performance, emphasis will also be placed on professional and ethical values, investment philosophy, financial viability, organizational structure, and experience of key personnel.

Managers should have a minimum track record of at least three years in this investment space for initial consideration, although a longer history is preferable.

B. Performance Evaluation

The Treasurer's Office staff will summarize performance results and provide quarterly investment reports for review by the Board during their meetings.

Performance shall be measured on a total return, time-weighted basis and presented for the most recent quarter, year-to-date, and the trailing one-, three-, five-, and ten-year periods (if available) in a compound annual return format. In order to facilitate performance comparisons, investment results are shown net of fees, including but not limited to custodian and investment management services. Time-weighted total returns will be compared to the appropriate market benchmarks and the policy benchmark established for the SRI Fund.

C. Return Benchmarks

Rate of return objectives will be evaluated, both on an absolute basis and relative to appropriate benchmarks, as noted above in section V.A., on a cumulative basis over rolling three-, five-, and ten-year time horizons. Individual investment managers will be evaluated relative to their specific benchmarks.

VIII. Monitoring of Objectives and Results

A. Review of Investment Objectives

All SRI Fund objectives and policies remain in effect until modified by the Board. The Board will periodically review the policies in conjunction with the strategy to determine that they are in agreement and remain appropriate. While modifications are not expected to be frequent, changing market conditions, new product developments, and other circumstances may require policy updates or alterations. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

B. Monitoring Risk

The SRI Fund utilizes various methods to monitor risk in the portfolio such as concentration levels, volatility, correlation and other quantitative measures. The Board will tolerate volatility as measured against the risk/return analysis of the appropriate portfolio objective as compared to appropriate benchmarks.

C. Guidance for Corrective Action

Corrective action could be taken as a result of the on-going due diligence review process by the Treasurer's Office of the Investment Manager(s). While there may be unusual occurrences at any time, the following are instances where corrective action or termination may be in order:

1. Major organizational changes at a firm may require a new contract and interview process. Failure on the part of the manager to notify the Board of such changes is grounds for termination. At all times communication with the manager should be easy and informative.
2. Violation of terms of contract constitutes grounds for termination.
3. It is critical that the investment manager adhere to the original intent of the Board at the time they are engaged. Should either the Board or the Treasurer's Office staff ascertain that significant changes in investment approach have occurred, this may be grounds for termination.
4. The Board will not, as a rule, terminate the manager(s) on the basis of short-term performance. If the organization is sound and the firm is adhering to its style and approach, the Board will allow a sufficient interval of time over which to evaluate performance. The manager's performance will be viewed in light of the firm's particular style and approach, keeping in mind at all times the SRI Fund's diversification strategy, as well as the overall quality of the relationship.
5. Manager(s) may be replaced at any time as part of the overall restructuring of the SRI Fund.

IX. Other Guidelines

- A. As a matter of policy, the investments of the SRI Fund are first selected for financial soundness and then evaluated according to socially responsible ESG factors.
- B. In general, external investment managers employed by the SRI Fund are authorized to vote proxies on the SRI Fund's behalf. In cases in which the SRI Fund desires to vote proxies related to specific topics, it will so notify the managers in writing.
- C. The Board will periodically review the services provided to the SRI Fund (e.g., custody, performance evaluation, consulting, etc.)

X. Effective Date

This investment policy statement was approved by the NC State Foundation, Inc. on December 9, 2016.