Appendix C – Endowment Funds Permitted Investments

Endowment funds with a long-term investment horizon may be invested in an array of sectors and investment types within strategies that balance the risks and duration of investment losses carefully against the long-term potential for appreciation of assets. The investment of funds shall be subject to the Uniform Prudent Management of Institutional Funds Act (Code of Virginia §64.2-1100 et seq.).

When identifying an appropriate investment strategy for endowment funds, investments should be allocated within the following investment categories. These category descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. The categories include:

> "Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes: domestic and international equities or equity funds, private or leveraged equity, certain real estate investments, and hedge funds focused on equity risk mitigation or equity-like returns.

> "Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes: fixed income securities, guaranteed investment contracts, certain real estate investments, and hedge funds focused on interest rate risk mitigation or income investment-like returns.

> "Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return Assets category can include inflation protected securities, commodities, certain real estate investments and hedge funds.

Permitted Investments

I. Domestic Equities. Securities that represent fractional ownership of U.S. based corporations including individual stocks and mutual funds or commingled trusts that invest in individual equities. No more than the greater of 5% or weighting in the Russell 3000 Index of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

II. International Equities. Securities that represent fractional ownership of internationally based corporations including individual stocks and mutual funds or commingled trusts that invest in individual equities. No more than the greater of 5% or weighting in the MSCI ACWI ex-U.S. of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

III. Fixed Income. Fixed rate and variable rate debt instruments including both individual securities and mutual funds or commingled trusts that invest in individual debt securities. No one issuer may exceed more than 5% of the total endowment portfolio at the time of purchase; however, the 5% limitation does not apply to issues of the U.S. government including U.S. Treasury securities and issues of the Federal Agencies or Government Sponsored Enterprises. The weighted average credit rating of the fixed income assets in any endowment portfolio shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

IV. Alternatives. Non-traditional asset classes such as hedge funds, private equity, real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 20% of the overall portfolio and the following guidelines shall also apply:

A. Hedge Funds. The primary objective of any hedge fund shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using a combination of hedge fund strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Hedge funds may also invest across asset classes. The use of direct hedge funds and fund-of-hedge funds are allowed. For purposes of asset allocation targets and limitations, single strategy hedge funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as "Other" in the Growth Assets category while a long/short credit fund will be categorized as "Other" in the Income Assets category. Multi-strategy hedge funds that cannot be easily categorized under one asset class will be included in "Other" under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

B. Private Equity: Private equity is less liquid than publicly traded equity securities and can provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities. For purposes of asset allocation targets and limitations, these funds will be categorized as "Other" under the Growth Assets category.

C. Private Debt: Private debt is less liquid than publicly traded debt and can provide returns that are greater than what is available in publicly traded markets. The private debt portfolio may include investments in a variety of commingled /partnership and direct investment vehicles including, but not limited to, direct lending, distressed debt, multi-asset credit, structured credit, mezzanine debt, real estate debt, and special situations. Due to their higher risk, private debt investments are expected to provide higher long-term returns than publicly traded debt securities. For purposes of asset allocation targets and limitations, these funds will be categorized as “Alternative Assets”.

D. Real Estate: Consists of publicly traded Real Estate Investment Trust (“REIT”) securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. Investments of this type are designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered. For purposes of asset allocation targets and limitations, publicly traded REITs will be categorized as “Other” under the Growth Assets category. Depending on the investment characteristics of a private real estate fund, the fund will be categorized as “Other” under either the Income Assets category, for example, a core real estate fund, or under the Growth Assets category, for example, an opportunistic real estate fund where capital gains are expected to make up a significant portion of the total return.
E. Inflation Hedge: Shall consist of pooled vehicles holding among other assets: Treasury Inflation Protected Securities (“TIPS”), commodities or commodity contracts, index-linked derivative contracts, certain real estate or real property funds and the equity of companies in businesses thought to hedge inflation. Inflation hedge assets will be reported in the Real Return Assets category.

V. Cash equivalents. Mutual funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Prohibited Investments.
Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities; direct commodities or commodity contracts; or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.