

University of Mississippi Foundation

Investment Policy Statement

Approved May 7, 2010

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I. DEFINITIONS

A. Preamble

The Board of Directors shall approve the Investment Policy Statement and Spending Rate Policy. The Joint Committee shall hire and terminate money managers and consultants and monitor their results, shall review asset allocations, and shall recommend to the Board an appropriate Spending Rate Policy. The President of the Foundation and staff shall implement the policies approved by the Board and Investment Committee, including the Spending Rate Policy as it applies to each individual endowment account. The duties of the Investment Consultant are outlined in the Investment Policy Statement. In essence, policy decisions rest with the Board and Investment Committee and the burden for implementation rests with the Foundation staff with outside auditor's review.

B. Purpose

This Investment Policy Statement was adopted by the Board of Directors of the University of Mississippi Foundation to establish a clear understanding of the University of Mississippi Foundation philosophy and investment objectives.

The Foundation was created to further the wide-ranging educational and support needs of the University of Mississippi. The purpose of the Foundation is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

C. Scope

This Policy applies to all assets that are included in the Foundation's investment portfolio (hereinafter "Fund") for which the Joint Committee on Investments has been given discretionary investment authority.

D. Investment Objective

The primary investment objective of the Fund is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the Fund. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending.

E. Fiduciary Duty

In seeking to attain the investment objectives set forth in the policy, the Joint Committee on Investments and its members shall exercise prudence and appropriate care in accordance with the Prudent Investor Rule. All investment actions and decisions must be based solely in the interest of the Foundation. The Fund will be invested in a manner consistent with Mississippi law, including but not limited to, the Mississippi Uniform Trustees Powers Law and the Uniform Management of Institutional Funds Act and the Foundation's governing instruments. Fiduciaries must provide full and fair disclosure to the Joint Committee on Investments of all material facts regarding any potential conflicts of interests.

F. Description of Roles

1. Board of Directors of the Foundation

The Board has the ultimate fiduciary responsibility for the Fund. The Board must ensure that appropriate policies governing the management of the Foundation are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Joint Committee on Investments for implementation and ongoing monitoring of the Fund. The Board also has the ultimate responsibility for approving the spending rate policy on Foundation endowments as recommended by the Joint Committee on Investments.

2. Joint Committee on Investments

The Joint Committee on Investments of the Board, which shall serve as the Investment Committee for the Foundation, is responsible for implementing the Investment Policy. This responsibility includes approving investment strategy, hiring and firing of investment managers, custodians and investment consultants, monitoring performance of the investment portfolio on a regular basis (at least semiannually), and maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy Statement.

It shall also be the role of the Joint Committee on Investments to recommend to the Board of Directors of the Foundation an appropriate spending rate policy.

3. President of the Foundation

The President of the Foundation has daily responsibility for administration of the Fund and will monitor performance of the investment portfolio on a regular basis (at least quarterly). In addition, the President will consult with the Joint Committee on Investments and Board on all matters relating to the investment of the Fund, and will serve as primary contact for the Foundation's investment managers, investment consultant, and custodian.

The President and staff of the Foundation shall be responsible for implementing the appropriate Spending Rate for each individual endowment account according to the spending rate policy approved by the Board of Directors and in accordance with state law requirements.

4. Investment Consultant

The Investment Consultant is responsible for assisting the Joint Committee on Investments and the President in managing and overseeing the investment portfolio. Responsibilities include, but are not limited to:

- a. Provide proactive recommendations
- b. Supply reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested
- c. Monitor the activities of investment managers
- d. Provide quarterly performance reports
- e. Review this Investment Policy Statement with the Joint Committee on Investments

G. Spending Policy

Income available for spending is determined by a total return system. The amount to be spent in the coming year is calculated at the end of each calendar year (December 31st) and is determined by the President and staff of the Foundation in accordance with the appropriate spending policy as approved by Board of Directors of the Foundation. The calculation is as follows:

- a. A 3-year moving average of the market value per unit is determined.
- b. The amount to be spent will not exceed 5% of the market value calculated in “a” above.

II. INVESTMENT PHILOSOPHY

A. Strategy

The Board and Joint Committee on Investments understands the long-term nature of the Fund and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and diversifying strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Fund, but is a residual to the investment process and used to meet short-term liquidity needs.

B. Asset Allocation

Asset allocation will likely be the key determinant of the Fund’s returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Fund, rather than judging asset categories on a stand alone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Fund, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the asset allocation will be set with the following target percentages and within the following ranges:

<u>ASSET CATEGORY</u>	<u>RANGE</u>
GLOBAL EQUITY	40-85%
<i>Public</i>	
U.S. Equities	
<i>Large Cap</i>	15-55
<i>Mid Cap</i>	5-20
<i>Small Cap</i>	5-20
International Equities	
<i>Developed Large Cap</i>	5-40
<i>Developed Small Cap</i>	0-20
<i>Emerging Markets</i>	0-20
<i>Private</i>	0-15
<i>Hedged Equity</i>	0-15
GLOBAL FIXED INCOME	10-50
<i>Interest Rate Sensitive</i>	
Investment Grade	10-40
Inflation Protected (TIPS)	0-30
<i>Credit</i>	
Publicly Traded	0-10
Private Debt	0-10
Credit Hedge Fund	0-10
REAL ASSETS	0-25
<i>Real Estate (public & private)</i>	0-15
<i>Natural Resources</i>	0-20
Private Energy	0-10
Timber	0-10
Marketable Securities	0-10
DIVERSIFYING STRATEGIES	0-25
<i>Absolute Return Hedge Funds</i>	0-15
<i>Trading Strategies</i>	0-10

1. **Global Equity** – The allocation will consist of public and private equity-oriented funds managed by external investment firms. This is expected to be the highest risk, highest return asset category of the four. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager style.

2. **Global Fixed Income** – The allocation will consist of two broad categories: 1) interest rate sensitive and 2) credit sensitive. The rate sensitive bonds provide equity risk mitigation, deflation protection and liquidity to the portfolio. The credit sensitive allocation provides investment opportunities to generate a substantial real return.

3. **Real Assets** – the allocation will consist primarily of real estate and natural resources. These investments are expected to provide inflation protection as well as generate positive real rates of return.

4. **Diversifying Strategies** – the allocation will consist of investments whose primary source of risk and return is not a constant allocation to one of the three asset classes listed above. This includes, but is not limited to “absolute return” hedge funds, multi-strategy funds, and equity market-neutral hedge funds.

C. Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies due to the low probability of traditional active management outperforming an appropriate benchmark.

D. Rebalancing

The President will monitor the asset allocation structure of the Fund and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the President, with advice from the investment consultant, will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

E. Liquidity

A goal of the Fund is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Joint Committee on Investments understands that in many instances, investment opportunities come with liquidity constraints. The tradeoff between opportunity and liquidity will be considered throughout the portfolio construction process. As a practical matter, liquidity will be measured in a 3 tiered system detailed below:

1. Liquid = available in 90 days or less
2. Semi-Liquid = available in greater than 90 days but less than 2 years
3. Illiquid = not available for several years (private capital)

The maximum allocation to illiquid investments will be 30% of the total fund. Additionally, a minimum of 10% of the fund will be invested in liquid “core” (investment grade) fixed income.

F. Illiquid and Semi-Liquid Investments

Illiquid investments include private equity, private debt, and real assets. Hedge funds are considered semi-liquid due to lock-up periods, redemptions, restrictions, and in some cases, illiquidity of the underlying investments. These investments are commonly referred to as “alternative investments”. Below is the role each play with the portfolio.

1. Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

2. Private Debt

The objective of the private debt allocation is to outperform, over the long-term, the public debt markets by 3-5% points, net of fees. The return premium exists due to the higher risk (i.e. distressed debt), lack of liquidity, scarcity of capital, and the uneven distribution of information and access inherent in private markets.

3. Real Assets

The objective of the natural resources allocation is to serve as an inflation hedge. These investments may be in both the private markets, which offer inefficiencies that can be

exploited, as well as in the public markets which offer both liquidity and immediate access (for example, REITs or commodity future contracts).

4. **Hedge Funds**

Hedge funds are not an asset class, but rather an investment vehicle. Funds will be included, therefore, in one of the four broad asset categories based on the primary risk/asset class within the fund. The general types of hedge funds that will be included in each asset category are listed below:

- a. Global Equity – long/short equity hedge funds with a net long bias.
- b. Global Fixed Income – long/short credit and distressed debt focused funds.
- c. Real Assets – commodity, REIT or master limited partnership (MLP) focused funds.
- d. Diversifying Strategies - Opportunistic allocators of capital that will, at times, invest in all three asset categories above. These funds will also employ arbitrage strategies (such as merger arbitrage and convertible arbitrage) in which the primary source of risk and return is not asset class exposure.

III. Evaluation & Performance Measurement

A. Total Fund Benchmarks

The Joint Committee on Investments seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Joint Committee on Investments recognizes that over various time periods, the Fund may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

1. The primary objective of the Fund is to achieve a total return, net of fees, equal to or greater than spending, administrative fees, and inflation. The primary objective of the Fund is:

Total Return greater than Consumer Price Index + Spending Policy + Administrative Fees

2. A secondary investment objective is to achieve a total return in excess of the Target Weighted Benchmark comprised of specific benchmarks weighted by target allocations. This benchmark will vary depending upon the managers selected and the current allocation to private capital investments which cannot be precisely managed. The specific benchmarks and weightings will be listed in the performance report.

B. Manager Evaluation

1. Each active manager will be reviewed by the Joint Committee on Investments on an ongoing basis and evaluated upon the criteria listed below. The Joint Committee on Investments expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Joint Committee on Investments does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:
 - a. Maintaining a stable organization
 - b. Retaining key personnel
 - c. Avoiding regulatory actions against the firm, its principals, or employees
 - d. Adhering to the guidelines and objectives of this Investment Policy Statement

- e. Avoiding a significant deviation from their stated style
 - f. Exceeding the return of the appropriate benchmark
 - g. Exceeding the median performance of a peer group of managers with similar styles of investing
2. Although there are no strict guidelines that will be utilized in selecting managers, the Joint Committee on Investments will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Fund already has invested with the firm.

C. Summary of Quantitative Performance and Risk Objectives

1. Long-Only Active Managers

Managers are expected to outperform their primary benchmark and rank in the top 50% of their peer universe. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

2. Hedge Funds

Most hedge funds do not have good benchmarks to measure performance, especially over short time periods. Managers will be measured relative to peer benchmarks such as the various style indices tracked by HFRI. Secondary benchmarks will also be used, including relevant asset class benchmarks (such as the S&P 500 for the U.S. focused long/short equity fund) and absolute return measures (t-bills + X%).

3. Private Capital Managers

The majority of private equity, private debt, and real asset funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Fund may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on fund performance in the early years (3-5 years) until these investments begin to mature. This drag on performance is often referred to as the J-curve, due to the shape created by plotting a line graph with performance on the y-axis and time on the x-axis. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations and compared to an appropriate peer group. An IRR calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private capital managers. Performance will be measured relative to the best available benchmark, understanding that some investments may not have entirely comparable indices.

IV. GUIDELINES & RESTRICTIONS

A. Overview

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall

manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Fund's investments. Each investment manager shall have full investment discretion with regard to security selection consistent with this Investment Policy Statements, subject to the oversight of the Joint Committee on Investments.

B. Asset Class Diversification Guidelines

Below are the guidelines by asset category:

1. Global Equity
 - a. Ensure that the allocation is diversified by the number of stocks, sector, geography, and market capitalization.
 - b. Not more than 10% of the total fund will be invested in a single active manager
2. Global Fixed Income
 - a. A minimum of 10% of the total fund will be invested in investment grade U.S. bonds.
 - b. Not more than 10% of the total fund will be invested in a single active manager
3. Real Assets
 - a. Ensure that the allocation is diversified by the number of holdings, asset type, geography, and sector.
 - b. Commitments will be made with the objective of having not more than 5% of the total fund invested in a direct manager, and not more than 10% in a fund of funds
4. Diversifying Strategies
 - a. Ensure that the allocation is diversified by number of holdings, sector, geography, and strategy.
 - b. Not more than 5% of the total fund will be invested in a direct manager, and not more than 10% in a fund of funds

C. Derivative Security Guidelines

1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Joint Committee on Investments shall consider certain criteria including, but not limited to, the following:
 - a. Manager's proven expertise
 - b. Value added by utilizing derivatives
 - c. Liquidity of instruments
 - d. Amount of leverage
 - e. Management of counterparty risk
 - f. Manager's internal risk controls and procedures

2. The strategies in which derivatives can be used include:
 - a. Index Funds – Derivatives (typically futures contracts) will be used to securitize cash in order to fully replicate the performance of the index being tracked.
 - b. Fixed Income – Derivatives will be used as a cost efficient means to control and/or hedge risks such as duration, credit, and currency.
 - c. Hedge Funds – Derivatives will be used for many purposes. These uses include hedging, risk management, leverage, and market exposure.

V. ACKNOWLEDGEMENT

We recognize the importance of adhering to the philosophy and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to this Investment Policy Statement or the manner in which investment performance is reviewed are welcome.

University of Mississippi Foundation

(Date)

Fund Evaluation Group, LLC

(Date)

VI. APPENDIX

A. Illiquid and Semi-Liquid Investment Implementation

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Fund may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Joint Committee on Investments cannot dictate policy. The Joint Committee on Investments, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement. The Fund is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Fund, potential tax ramifications must be considered during the investment analysis and selection process. The Fund shall seek to minimize UBTI by selecting investment structures and geographic locations most beneficial to the Fund.

1. Illiquid / Private Capital Implementation

For private capital investments to achieve expected objectives without unnecessary risk, the Fund should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall portfolio

should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The following is a list of potential investments within each private capital category:

- i. Private Equity – venture capital, buyout and secondary funds
- ii. Private Debt – distressed debt and mezzanine funds
- iii. Real Assets – real estate, energy, and timber

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns. As commitments are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

c. Manager

Investments should be considered with several private partnerships (or a fund of funds) to mitigate manager specific, as well as deal specific risk.

d. Stage/Type

- i. Private Equity - investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.
- ii. Private Debt – investments should be considered across the distressed spectrum: from short-term passive trading strategies, to long-term active control/reorganization strategies.
- iii. Real Assets – investments in real estate should be considered across property types (e.g. apartments, office, industrial, and retail) and strategies (core, value-add and opportunistic). Energy investments will focus primarily on the upstream end of the energy market with development and production, and to a lesser extent exploration. Exposure to the upstream markets will be gained through private equity investments, working interests, and royalty interests. Investment in midstream activities such as refining, transmission, and distribution may be considered opportunistically. Upstream markets offer two primary benefits:
 - a. Inefficiencies, which offer attractive investment opportunities, and
 - b. Exposure to the underlying commodity price, which provides an inflation hedge.

Timber investments should be considered across wood types (hard and softwood, species, etc.). Exposure to timber prices provides inflation protection, with the potential to generate additional return through the underlying management of the timberland.

2. Semi-liquid / Hedge Fund Implementation

Hedge funds are not an asset class, but rather an investment vehicle. The majority of hedge funds will have a “lock-up” period of 1-3 years from the date of investment, during which time money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.).

Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

For hedge funds to achieve the expected objectives without unnecessary risk, the Fund should seek access to skilled managers and size investments appropriately. Individual hedge funds may be concentrated on a particular strategy, market or geographic region, but the overall portfolio should be diversified. A “core-satellite” approach of combining a core allocation of fund of funds, with satellite investments in direct funds mitigates manager specific, as well as strategy specific risk.

B. Valuation Policy

As investors with a long-term investment horizon we may choose to invest in funds that are illiquid in nature and that are expected to achieve a return over a multi-year period. We understand that any interim “fair market” valuation of such investments may have a lower “current” value due to the inability to sell an investment mid-term. This interim valuation is likely to reflect the incomplete nature of the investment (e.g., selling a real estate development that is partially finished) but may also reflect current, unfavorable market conditions or other factors. FAS 157 requires that all investments be valued based on the “current” state of the investment and “current” market conditions.

Under the FAS 157 guidelines, investments in private funds are expected to be classified as “Level 3” holdings. The fund manager is generally expected to have the best information available to value these investments. As such, we anticipate using the fund’s audited and interim net asset values (NAVs) as the most appropriate value of an investment. In cases where a fund is not compliant with GAAP accounting, an appropriate valuation method will have been established.

In accordance with GAAP and the adoption of FAS 157, effective for fiscal years beginning after November 15, 2007, all investments will be stated at fair value using the three-tiered hierarchy level outlined in this standard. Generally speaking these categories are:

- Level 1: Marketable investments with direct exchange-based values
- Level 2: Marketable investments with inferred market-based values
- Level 3: Non-marketable investments

Whenever available, quotations from securities exchanges are used as the basis for fair value. Manager valuation methodologies vary but policies and procedures have been reviewed and deemed acceptable. An ongoing review process has been established to provide appropriate oversight of the investments. Generally this process is conducted in conjunction with our investment consultant. Managers typically follow valuation procedures and policies that are industry standard. These policies include:

Level 1: Marketable securities listed on a national securities exchange are valued at the last sale price on the date of valuation.

Level 2: Investments not listed on a national securities exchange, but that derive their pricing from exchange traded securities or other market-based measures, are priced at an appropriate “exit” value; valuation may be determined by trading of comparable securities, appraisal, or other model-based methods with direct market inputs.

Level 3: Private investments are valued at estimated fair value based on meaningful third-party transactions, comparable public market valuations, and/or the income approach. An investment may be carried at cost if deemed the most appropriate estimate of fair value.