University of Mississippi Foundation

Investment Policy Statement

November 15, 2019

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I. DEFINITIONS

A. Preamble

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

B. Purpose

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

UMF was created to further the wide-ranging educational and support needs of the University of Mississippi (the University). The purpose of UMF is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs of the University. 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 UMF and the University.

C. Scope

This Policy applies to all assets that are included in UMF's investment portfolio (hereinafter "Fund") for which the Joint Committee 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 over the long term, 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 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 UMF and the University. 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 Prudent Management of Institutional Funds Act (UPMIFA) and UMF's governing instruments. Fiduciaries must provide full and fair disclosure to the Joint Committee of all material facts regarding any potential conflicts of interests. Each member of the Joint Committee shall confirm any conflicts of interest annually using the forms required of the UMF Board.

F. Description of Roles

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

2. **Joint Committee on Investments**
   The Joint Committee, which shall serve as the Investment Committee for UMF, is responsible for implementing the Investment Policy Statement. As specified in its Charter, 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.

3. **President of UMF**
   The President of UMF has daily responsibility for administration of the Fund and will monitor performance of the investment portfolio on a regular basis (at least monthly). In addition, the President will consult with the Joint Committee and UMF Board on all matters relating to the investment of the Fund, and the President or his/her designee, will serve as primary contact for UMF's investment managers, investment consultant and custodian.

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

4. **Investment Consultant**
   The Investment Consultant (currently Fund Evaluation Group, Inc.) is responsible for assisting the Joint Committee and the UMF 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 monthly flash reports and quarterly performance reports
      Review this Investment Policy Statement with the Joint Committee

G. Endowment Spending

Income available for spending is determined by a total return system. The amount to be spent in the coming fiscal year is calculated at the end of each calendar year (December 31st) and is determined by the UMF President and staff in accordance with the appropriate spending policy as approved by the UMF Board. The current calculation is as follows: 4.25% of a 36-month moving average market value per unit.

In addition to the spending shown above, the Joint Committee shall review the Administrative fee. The rate used for calculation of the Administrative fee will be recommended by the Joint Committee and approved by the UMF Board on an annual basis. The current annual Administrative fee is 0.9%. This fee consists on a 0.5% UMF management fee and a 0.4% development fee to support University private support development efforts.

II. INVESTMENT PHILOSOPHY

A. Strategy

The UMF Board and Joint Committee understand the long-term nature of the Fund and believe that investing in assets with higher return expectations outweighs their short-term volatility risk. The overall style of investing will be similar to what is often referred to as the "endowment style." As a result, the majority of assets will be invested in equity or equity-like securities, including within private markets, and other inefficient asset classes. The goal is to find managers and strategies who can deliver returns above what is available in public markets to help achieve the long-term return objective.

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:

ASSET CATEGORY	RANGE
GLOBAL EQUITY	**40-85%**
Public	***20-55***
U.S. Equities	
Large Cap	
Mid Cap	
Small Cap	
International Equities	
Developed Large Cap	
Developed Small Cap	
Emerging Markets	
Private	***0-20***
Hedged Equity	***0-15***
GLOBAL FIXED INCOME	**10-50**
Interest Rate Sensitive	***5-40***
Investment Grade	
Inflation Protected (TIPS)	
Credit	***0-25***
Publicly Traded	0-15
Private Debt	0-15
Credit Hedge Fund	0-15
REAL ASSETS	**0-25**
Real Estate (public & private)	***0-15***
Natural Resources (public & private)	***0-20***
DIVERSIFYING STRATEGIES	**0-25**

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 strategies due to the low probability of traditional active management outperforming an appropriate benchmark.

D. Rebalancing

The UMF President will monitor the asset allocation structure of the Fund and attempt to stay within the ranges allowed for each asset category. The portfolio could be temporarily allocated outside of these ranges (i.e. new large gift received, extreme market events, etc.), which would prompt a discussion with the Joint Committee but not represent a breach of compliance. If the portfolio moves outside of the ranges, the UMF 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 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 three 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 less than half of the total fund. Additionally, a minimum of 5% 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, net of fees. The return premium exists due to 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, 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 allocation is to serve as a diversifier, inflation hedge and also generate total returns. 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 energy infrastructure/MLPs).

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 are 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 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 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 > Consumer Price Index + Endowment Spend Rate + 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.

3. A third benchmark utilized will be a simple stock/bond mix, representative of the risk profile of the portfolio. This will be measured and labeled the "broad policy benchmark" within performance reports.

B. Manager Evaluation

1. Each active manager will be reviewed by the Joint Committee on an ongoing basis and evaluated upon the criteria listed below. The Joint Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Joint Committee 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 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 Statement, subject to the oversight of the Joint Committee.

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 5% 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 7% of the total fund invested in a single manager

4. Diversifying Strategies
   a. Ensure that the allocation is diversified by number of holdings, sector, geography and strategy.
      Not more than 5% of the total fund will be invested in a single manager

C. ESG and Sustainability

We seek to ensure that UMF and all related parties conduct business with ethical standards and ensure that our business practices comply fully, in appearance and deed, with all applicable laws and regulations. In managing the portfolio, all constituents and related parties who are affected by UMF's activities are treated fairly and without prejudice to gender, race, ethnic or national origin, socioeconomic status, age, religion or disability. We encourage and embrace the efficient use of natural resources and continuously look for and expect the best environmental solutions to be executed by our investment managers for their underlying investments in companies or physical assets.

For the Fund, the primary goal is to generate a sustainable stream of distributions to support the University's programs. Mindful of this objective, the Joint Committee will consider the extent to which an investment is consistent with the principles and goals of the University. Where appropriate, the University may seek to influence or avoid those investments that conflict with those principles and goals. Action will only be taken, however, if the Joint Committee believes it would not cause harm to the investment objectives of the Fund, impair performance or place a material burden on the current resources.

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.

_____ _____

President/CEO UMF (Date)

_____ _____

Fund Evaluation Group, LLC (Date)

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 cannot dictate policy. The Joint Committee, 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. ASU No. 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient as discussed in FASB Subtopic 820-10.

ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

- Level 3: Significant unobservable inputs for the asset or liability that reflects the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability. These assumptions are based on audited financial statements provided by the general partner of the investment combined with additional third party due diligence.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.