

Fundamental Investment Principles – Investment Policy Statement

The University System of Maryland Foundation Fund's Statement of Investment Policies and Objectives is based on certain investment principles the Investment Committee of the board of directors regards as fundamental and constant. The committee's intent is to manage the endowment assets in accordance with these principles, regardless of cyclical ebbs and flows in the capital markets, and this documentation of these principles is intended to ensure continuity of purpose and implementation regardless of changes in the composition of the committee.

- 1. TIME HORIZON.** On the one hand, the endowment's investment time horizon should be infinite, since the institution is expected to exist in perpetuity. On the other hand, the purpose of the endowment is to provide a steady and sustainable distribution of funds to the operating budget, which means that large fluctuations in endowment market value over short time periods are highly undesirable. In setting asset allocation policy, the committee will attempt to take into account both of these conflicting time horizons.
- 2. SPENDING.** The ideal endowment spending policy ensures inter-generational equity, whereby the current needs of the institution are not sacrificed in the interests of the future, nor future needs sacrificed to those of the present.
- 3. ALLOCATION TO EQUITIES AND EQUITY RELATED INVESTMENTS.** A high allocation to equities and equity related investments are required to support spending while preserving the purchasing power of the endowment. The committee understands that a high commitment to equities may result in periods of diminished purchasing power and higher short-term volatility. All hedged equities will be considered equities.
- 4. DIVERSIFICATION.** By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the Fund's assets may be invested in more than one fund and no more than 10% of the Fund's assets may be invested in one manager.
- 5. REBALANCING.** In order to reap the benefits of diversification and maintain a relatively constant risk exposure, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocations.
- 6. PURPOSE OF THE ALLOCATION TO FIXED INCOME.** The primary purpose of the fixed income portfolio is to help maintain spending distributions from the endowment during a period of prolonged economic contraction, without having to sell equities or other assets at depressed prices to do so. To realize this objective, the bond portfolio must consist predominantly of high-quality, longer-term issues that are unlikely to generate superior returns during most periods.

- 7. PURPOSE OF THE ALLOCATION TO INFLATION-HEDGING ASSETS.** The primary purpose of the allocations to real estate and natural resources is to hedge the portfolio against unanticipated inflation, which can dramatically decrease the endowment's purchasing power and its ability to sustain spending. Portfolio diversification is an important secondary consideration.
- 8. HIRING MANAGERS.** Investment managers are hired to fulfill specific roles in the portfolio. Managers will be expected to exhibit superior performance on a risk-adjusted basis over time. They are evaluated versus a broad universe of comparable candidates and relative to their likely effect on the structure of the endowment's portfolio as a whole. The committee recognizes that managers should not be selected on the basis of recent performance, but on their longer-term record and also on the basis of other dimensions that will affect performance and risk over time.
- 9. FIRING MANAGERS.** Similarly, managers should not be terminated for poor performance over a few years. Terminations within a period of at least three years should be predicated on something other than performance; for example, fundamental changes in the manager's personnel or organization; a failure to fulfill the mandate for which the manager was hired; evidence of illegal or unethical behavior; or a decision by the endowment fund to cease investing in the manager's asset class.
- 10. INVESTMENT POLICY REVIEW.** It is expected that the committee will review the endowment's investment policy and actual asset allocation annually. While it is not anticipated that the investment policy will be changed frequently, the committee should review the policy periodically to ensure that the endowment is capitalizing on available market opportunities.

Investment Committee Membership:

- The Investment Committee is to have a maximum of 13 members.
- There will be no term limit for Committee members, but there will be an informal goal to drop one existing member and add one new member every two years. Members who discover they cannot participate consistently are encouraged to relinquish their position.
- Term length for the Committee Chairman is three years and limited to two terms with a vote for reelection at the end of the first term.