The University System of Maryland Foundation, Inc.  
Approved June 2018

Fundamental Investment Principles – Endowment Fund Investment Policy Statement

The University System of Maryland Foundation endowment fund’s (“the Fund” or “Endowment”) Statement of Investment Policies and Objectives is based on certain investment principles the Investment Committee (“the 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, 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 considers 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. **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 with one investment fund and no more than 10% of the Fund’s assets may be invested with one investment manager. The Committee may however make exceptions in special circumstances by a majority vote of persons present and voting, either in person or communicating by phone, assuming there is a quorum. Investments in each asset class’ benchmark index and/or equivalent products and/or strategic partners are exempt from these concentration limits.

4. **RETURN AND RISK OBJECTIVES** The overall goal of the Endowment is to manage the funds to an appropriate risk level that meets its long-term objectives. The Endowment will be managed to a return commensurate with the Endowment’s objectives, relative to market conditions. Both quantitative and qualitative assessments of risk will be made on the portfolio as a whole. Investment Staff will monitor and report to the Committee underlying portfolio allocations and risk exposures.

5. **EXCHANGE LISTED PRODUCTS** It is appropriate for Staff to invest in holdings of index products and their associated derivatives in order to develop core positions within the asset allocation structure, rebalance the portfolio, and/or thematically tilt the portfolio.

6. **CONFLICTS OF INTEREST** The Foundation, Investment Committee, and Investment Staff make best efforts to avoid potential conflicts of interest. There is a written policy detailing best efforts to avoid these situations or to appropriately manage conflicts of interest when they exist.

7. **INVESTMENT POLICY REVIEW** The Committee will take into consideration risks and liquidity needs, with respect to changing market conditions in assessing investment policy. It is expected that the Committee will review the Endowment’s investment policy and asset allocation no less frequently than 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.

8. ROLES AND RESPONSIBILITIES OF THE INVESTMENT COMMITTEE

The Committee has been granted the authority by the Bylaws and bears sole responsibility for the
management of the endowment portfolio. The Committee may, within the prudence guidelines set forth
in the Uniform Management of Institutional Funds Act as adopted in Maryland, delegate to external
investment managers all or part of the endowment portfolio.

The Committee shall determine and review at least annually the Foundation’s investment policy for the
endowment portfolio. This shall include the determination of the return objective, risk tolerance, asset
allocation (which shall include ranges within each asset class) and other constraints. Both return
objectives and risk tolerances shall be considered in the context of the spending policy and an appropriate
time horizon.

The Committee shall establish benchmarks for each of the individual asset classes and a composite
benchmark reflecting the portfolio as a whole.

The Committee has delegated to the Chief Investment Officer authority to hire and discharge external
investment managers as appropriate and to make direct investments and disinvestments, including
benchmark index and/or equivalent product, consistent with the asset allocation and the overall return
objective established by the Committee. In addition, the Committee has delegated to the Chief
Investment Officer authority to buy and/or sell individual securities.

The Committee shall periodically monitor the portfolio’s performance and risk exposures.

The Committee may, at its discretion, use the services of any outside advisors as the Committee
determines is necessary and appropriate to enable the Committee to fulfill its responsibilities.

9. ROLES AND RESPONSIBILITIES OF THE CHIEF INVESTMENT OFFICER

The primary responsibility of the Chief Investment Officer is to analyze and manage the investments of
the Foundation, including hiring and discharging managers and making direct investments and
disinvestments, in accordance with the risk and return guidelines and asset allocation ranges set by the
Committee. In the event that the Chief Investment Officer is unclear about whether a particular
investment or disinvestment fits within the risk and return guidelines and asset allocation ranges set by the
Committee, the Chief Investment Officer shall consult with the Investment Committee Chair for
guidance.

In addition, the Chief Investment Officer shall assist the Committee in setting long term capital market
assumptions, strategic target allocation weights for each asset class and appropriate benchmarks.

The Chief Investment Officer shall manage the relationships with the Strategic Investment Managers,
Consultants and third party vendors. The Chief Investment Officer shall have the authority, upon
consultation with the Committee, to terminate a Strategic Investment Manager, investment consultant or
third party vendor.

The Chief Investment Officer or a senior member of the Investment Staff, shall, when requested, report
in person or in writing, on the Endowment Fund to various internal constituencies, including USM Board
of Regents, USM Affiliated Foundations and Maryland Community College Foundations with whom the
University System of Maryland Foundation has a relationship.
The Chief Investment Officer shall hire, discharge, and manage the Investment Staff.

The Chief Investment Officer shall give the Committee a brief monthly report, preferably no more than one page, detailing that month’s investment actions. The report shall indicate the name of the fund manager, the asset class and amount committed for new fund managers and the name and amount of shares purchased and per share price for publicly traded securities. For terminations the report shall list the name of the fund manager, the asset class and the amount redeemed.