THE MEDICAL UNIVERSITY OF SOUTH CAROLINA FOUNDATION
STATEMENT OF INVESTMENT POLICY
AND OBJECTIVES

February 2013
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I. INTRODUCTION

This statement is issued by the Board of Directors of the Medical University of South Carolina Foundation (“Foundation”). Foundation assets will be managed according to the investment standards as established in the South Carolina Uniform Prudent Management of Institutional Funds Act (SCUPMIFA), S.C. Code Ann.34-6-10 et.seq.

The goal of this investment policy statement is to support, at the discretion of the Board of Directors of the Foundation (“Board”), programs and activities that are of significant value to the Medical University of South Carolina (“University”) and the Medical University Hospital Authority (“Hospital”). The role of the Foundation is to provide financial resources to help underwrite and support current and future operating cash flow requirements of the University. The investment philosophy of the Foundation combines the goal of total return and preservation of capital with prudent risk tolerance in order to achieve investment results consistent with the financial goals and objectives of the University and the Hospital.

In the administration of the powers to make and retain investments and to delegate investment management of Foundation funds, the Board of Directors of the Foundation and the Investment Committee of the Board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider the long and short-term needs of the Foundation in carrying out its purposes, its present and anticipated financial requirements, and expected total return on its investments.

Consistent with the expectation that the University, the Hospital, and the Foundation will exist in perpetuity, grants to be made in the future are as important as grants made today. In order to best serve the University and the Hospital now and in the future, the goal of the Foundation’s investment and spending practices is to maintain and increase the level of annual grants. It is the Foundation’s objective to optimize the total return of funds invested consistent with prudent risk taking, recognizing that the Foundation will live in perpetuity.

The Investment Committee (“Committee”) has oversight of the Endowment Funds and the Expendable Funds. The Endowment Funds are permanent funds established for the benefit, in perpetuity, of designated beneficiaries and purposes. The management objective of the endowment fund is to increase the corpus and the real inflation adjusted purchasing power of such funds over the investment time frame while recognizing that within normal market cycles shorter than the investment time frame there may be periods of year over year absolute market declines. The Expendable Funds are funds established for the benefit of specific programs or activities. These funds may not be considered to be permanent since the amount and timing of distributions is within the discretion of the donor-designated recipient, subject to oversight by the Board of Directors. The investment objective of such funds will be determined independently, and these assets will be segregated from the Endowed funds. The investment objective will be determined by considering the timing and needs of expendable fund beneficiaries, and the investment time horizon of the expendable fund assets.

This Statement of Investment Policy and Objectives is intended to serve as an operating document to guide the investment activities of the Foundation and:

- Define responsibilities among the various groups accountable for guiding the investment process and supervising outside investment professionals.
• Determine an appropriate return and risk level for the Foundation.

• Establish allocation ranges for asset classes and investment styles deemed suitable for the Foundation.

• Determine prudent diversification of assets.

• Establish performance objectives and a regular review process.
II. DELEGATION OF RESPONSIBILITIES

The Board has a direct oversight role regarding all decisions that impact the Foundation. The Board has delegated operating and supervisory responsibility for the Foundation to the Committee.

The Committee recognizes its responsibility to ensure that assets available for investment are managed:

- Exclusively for the benefit of the University and the Hospital and their missions.
- Prudently and in full compliance with all policies, applicable laws and regulations.
- Effectively, so as to protect the purchasing power over time of the assets within the Foundation.

Specific responsibilities of the various groups within the Foundation and outside service professionals retained by the Foundation are outlined below.

**Responsibilities of the Board of Directors**

The Board ensures that its fiduciary responsibility for the invested assets of the Foundation is fulfilled through appropriate investment structure, internal and external management, and portfolio performance consistent with all policies. Although the Board is not involved in day-to-day investment decisions, based on the advice and recommendations of the Committee, the Board shall:

- Approve investment policies, guidelines, and objectives that reflect the long-term orientation of the Foundation.
- Oversee activities related to compliance, decision-making and structure within the Foundation.
- Review and accept the Minutes of the Committee.

**Responsibilities of the Investment Committee**

The Committee is responsible for the development, recommendation, implementation and maintenance of all policies. The Committee shall:

- Recommend and set long-term investment policies and objectives for the Foundation. This includes studying and selecting asset classes, determining asset allocation ranges, and setting performance objectives for the Foundation and investment managers.
- Propose recommendations to the Board regarding the management of the Foundation.
- Determine that assets are prudently and effectively managed.
- Monitor and evaluate the performance of all service providers by regular review of reports provided to the Committee and by meetings with the service providers.
• Retain or dismiss outside professionals such as custodian banks, investment managers, and investment consultant.

• Receive and review reports from staff, investment consultant, and investment managers regarding the status of assets within the Foundation.

• Meet periodically to evaluate whether this policy, the investment activities, the risk management controls and processes continue to be consistent with meeting the goals and objectives set for the Foundation.

Responsibilities of the Staff

The staff will be responsible for the day-to-day administration and implementation of the policies set for the Foundation. The staff shall also be the primary liaison between all service providers. Specifically, the staff shall:

• Oversee the day-to-day operational investment activities of the Portfolio subject to policies established by the Board and Committee.

• Assist in establishing long-term investment policies and objectives for the Foundation. This includes studying and selecting asset classes, determining asset allocation ranges, and setting performance objectives for the Foundation and investment managers.

• Communicate the Statement of Investment Policy to outside professionals such as the custodian, investment managers, and investment consultant.

• Work with investment managers, investment consultant, and other outside professionals to meet the overall goals and objectives set for the Foundation.

• Rebalance assets among asset classes, investment styles, and investment management firms within allocation ranges previously approved.

• Ensure that investment managers adhere to the terms of their contracts and that performance monitoring systems are sufficient to provide the Committee with timely, accurate and useful information.

• Receive and review reports from outside professionals regarding the status of the Foundation.

• Issue status reports to the Board and Committee on a periodic basis.

Responsibilities of the Investment Managers

The Investment Managers have full discretion to manage the assets of the Foundation in accordance with the investment objectives and guidelines expressed by this Statement of Investment Policy. For Investment Managers retained under a mutual fund or commingled fund agreement, it is expected that the
fund operate under the specific guidelines outlined in its prospectus or offering memorandum. Investment Managers shall:

- Acknowledge in writing the acceptance of responsibility as a fiduciary and to adhere to the investment policies and guidelines prescribed for the Foundation.

- Communicate promptly with staff and investment consultant regarding all significant matters such as:
  - major changes in the firm’s investment strategy,
  - shifts in portfolio construction,
  - changes in the firm’s ownership, organizational structure or professional staffing, and
  - other changes of a substantive nature.

- Comply with all laws, legislation, and regulations that involve the Foundation as they pertain to the manager’s duties, functions and responsibilities as a fiduciary.

- Reconcile and certify in writing every month accounting, transaction and asset summary data with custodian or trustee valuations and communicate and resolve any significant discrepancies.

- Secure, reconcile and vote proxies on the securities in the portfolio in accordance with its fiduciary duties, professional judgement and in the best interest of the Foundation.

- Effect security trading on a best execution basis. Placement of orders should be based upon the assurance of prompt and efficient execution.

- Issue monthly and/or quarterly reports to the Committee, staff, and investment consultant with regards to portfolio performance.

- Meet as requested with the Committee, staff, and investment consultant to report on the management of assets.

- Fully disclose all fees and expenses on an annual basis.

**Responsibilities of the Custodian Bank**

The Custodian Bank is responsible for the safekeeping of Foundation assets. The Custodian Bank shall:

- Serve as custodian and act in a fiduciary capacity with respect to the assets of the Foundation.

- Provide safekeeping of securities entrusted to it; collect dividends and interest on these securities; make disbursements and manage cash flows as directed.

- Arrange for timely settlement of all transactions made in the portfolio.

- Provide complete and accurate accounting records including each transaction, income flow and cash flow by investment manager, and overall portfolio.
• Issue monthly reports of holdings and transactions priced in accordance with industry standards.

• Meet as requested with staff and investment consultant to report on the administration of the assets.

**Responsibilities of the Investment Consultant**

The principal role of the Investment Consultant is to provide independent advice to the Foundation. The Investment Consultant shall:

• Act in a fiduciary capacity with respect to the University, the Hospital and the assets of the Foundation.

• Monitor and communicate long-term capital market trends and recommend broad-based asset-mix policies to be considered by the Committee and to be implemented by the investment managers, if approved.

• Review investment policies and objectives, and recommend changes as appropriate.

• Provide general advice concerning the allocation of new contributions as well as periodic asset allocation rebalancing.

• Research and recommend investment management firms.

• Monitor and assess service providers and report on changes within the organizations.

• Measure, evaluate, and report the Portfolio’s and investment managers’ performance results on a regular basis.

• Provide education to the Board, Committee, and staff.

• Meet periodically with the Board, Committee, and staff to report on the management of the portfolio.

• Provide support to the Board, Committee, and staff.
III. **Risk Tolerance**

The following statements reflect the Committee’s understanding of capital market risk as well as measures adopted to control undue portfolio volatility:

- Risk, as measured by standard deviation, should be commensurate with a passive portfolio, consisting of a similar asset allocation to the Foundation, over rolling five-year periods.

- The Committee fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.

- The Committee will consider investments appropriate for the Foundation based on thorough research. Assets of the Foundation are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.

- Diversification of assets is to be achieved by:
  - allocating funds to various asset classes and investment styles within asset classes, and
  - retaining investment management firm(s) with complementary investment philosophies, styles and approaches.
IV. ASSET ALLOCATION GUIDELINES

The Committee, with assistance from staff and its investment consultant, shall determine the asset allocation strategy for the Portfolio. The Committee and staff will manage the asset allocation mix within the allocation ranges stated by this policy. To implement this strategy, the Committee will select an asset allocation mix which will diversify investments among asset classes, and which is designed to meet the objectives of the Foundation.

The following asset allocation parameters will guide investment activities for the Foundation:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation Range</th>
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<tbody>
<tr>
<td>Equities</td>
<td>60% - 40% - 70%</td>
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<tr>
<td>Domestic Equity</td>
<td>20% 10% - 25%</td>
</tr>
<tr>
<td>International Equity</td>
<td>15% 10% - 25%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5% 0% - 10%</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>10% 5% - 35%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10% 0% - 15%</td>
</tr>
<tr>
<td>Income Oriented</td>
<td>22.5% 15% - 40%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>10% 5% - 20%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>12.5% 7.5% - 20%</td>
</tr>
<tr>
<td>Special Situations</td>
<td>10% 0% - 20%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7.5% 0% - 12.5%</td>
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- The Committee may diversify assets among multiple investment managers of varying investment styles to the extent that such diversification can be expected to reduce risk without sacrificing expected investment return, or that such diversification may produce greater investment return without incurring any greater risk.

- Cash inflows and outflows will be allocated in accordance with the asset allocation policy.

- The Committee will periodically review the Foundation’s asset allocation.

- Special investment situations may necessitate an amendment to the Statement of Investment Policy and Objectives as deemed appropriate by the Board and Committee.

Role of Asset Classes

- **Domestic and International Equity** – Equities provide long-term capital appreciation in excess of inflation. International equities are included primarily to enhance return and diversification. The equity portfolio includes both large, mid and small capitalization portfolios of different investment styles, (i.e. growth, value, opportunistic). Additionally, the international equity portfolio is diversified across developed and emerging markets.
• **Long/Short Equity** – These equity strategies are generally characterized by lower correlation with traditional asset classes, higher expected risk-adjusted returns, and a source of return distinct from long-only equity strategies. These strategies generally have better downside risk protection than other equity-oriented strategies.

• **Private Equity** – By serving as substitutes for publicly traded domestic and international common stocks, the role of these investments is to enhance returns and diversification. These investments are typically long-term in duration and may provide little, if any, current income. In order to achieve the target allocation in private equity investments, commitments in excess of the targeted percentages are anticipated. These excess commitments are necessary due to the long lead times required to fully fund a given commitment. While commitments may be drawn down over a period of years, distributions may begin before the initial commitments are fully drawn. Furthermore, these investments may produce negative returns and cash-flows in their early years because of management fees and write-offs. To mitigate this effect, the Foundation will attempt to spread out commitments to these investments over a reasonable time period to achieve vintage year diversification.

• **Fixed Income** – Fixed income investments are intended to preserve principal during periods of deflation, provide a source of income, and reduce overall portfolio volatility. These portfolios are primarily domestically focused, but can include exposure to sectors that may not be included in the specified benchmarks.

• **Absolute Return** – Provide consistent, stable streams of investment returns primarily through the use of non-directional strategies. These strategies have shown an ability to generate positive returns over time with low volatility and diversification benefits.

• **Special Situations** – This allocation is designed to provide flexibility to the portfolio and can include investment opportunities that do not fit well in other asset classes. Additionally, some of the opportunities may be more short-term in nature (3-5 years) and could be based on an asset class being undervalued, out of favor, or a timely investment opportunity.
V. INVESTMENT OBJECTIVES

Investment objectives are necessary and appropriate to properly measure and evaluate the success of the Foundation’s investment program. Performance will be evaluated net of investment management fees.

**Total Fund**

- A reasonable time horizon for evaluating the Foundation’s investment performance shall be long-term (five to ten years). Time frames for evaluating the performance of investment managers should approximate a market cycle (three to five years).
- Recognizing the need for asset stability, protection of principal, and capital growth, the Endowment Funds should be managed on a total return basis.
- Achieve a total rate of return, over rolling ten-year periods, which exceeds the rate of inflation (Consumer Price Index) by 5.5% per year on average.
- Outperform a passive portfolio, consisting of a similar asset allocation to the Foundation, over rolling five-year periods.
- Risk, as measured by standard deviation, should be commensurate with a passive portfolio, consisting of a similar asset allocation to the Foundation, over rolling five-year periods.

**Investment Managers**

*NOTE:* Exceptions to the manager guidelines may exist. Investment manager guidelines are meant to foster discussion and possible action. They are not meant to automatically trigger a termination.

- Outperform a passive, style-specific index over rolling five-year periods.
- Rank in the top half (top 50 percent) in a style-specific peer-group universe over rolling five-year periods (specific style benchmarks and peer groups will be selected for each manager).

The following investment manager guidelines may be used to begin discussions regarding manager termination or probation:

- Three-year relative performance drops below the 50th percentile of the peer group and remains there for the next three consecutive quarters.
- Most recent one-year ranking is in the bottom quartile of the peer group.
- A distinctive and recognizable departure from the investment style and/or philosophy from which the manager was selected.
- Significant organizational events such as a change in the portfolio manager, firm ownership, etc.
VI. INVESTMENT GUIDELINES

Each investment manager shall have full investment discretion with regard to security selection as set forth in this Statement of Investment Policy and Objectives. Commingled funds and/or mutual funds, which meet the general intent of the policy guidelines, may be utilized by the Portfolio.

Investment management firms are expected to act in an ethical manner and with integrity in all phases of the investment process. It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and The Standards of Professional Conduct as established by The CFA Institute.

**Equity Segment**

- The equity segment should be diversified across a spectrum of market capitalizations by allowing investments in small-, medium-, and large-capitalization stocks.

- Equity holdings should be readily marketable and diversified by issue, industry, and sector.

- International equity holdings should be diversified among countries, geographic regions and currencies in line with their specific mandate.

- The investment manager may use currency-hedging strategies to protect against adverse currency movements. Portfolios can be hedged back to the base currency (the U.S. dollar) or cross-hedged into other, more attractive currencies.

- Investment managers may invest in commercial paper, other money-market investments and money-market mutual funds as well as bond investments as a surrogate for cash reserves from time-to-time.

**Fixed Income Segment**

- The fixed income segment should be diversified by issue, industry, sector, coupon, and quality and be readily marketable.

- Global fixed income holdings should be diversified among countries, geographic regions and currencies in line with their specific mandate.

- The investment manager may use currency-hedging strategies to protect against adverse currency movements. Portfolios can be hedged back to the base currency (the U.S. dollar) or cross-hedged into other, more attractive currencies.

- Investment managers may invest in commercial paper, other money-market investments and money-market mutual funds as well as bond investments as a surrogate for cash reserves from time-to-time.
Long/Short Equity and Absolute Return

- Investment managers may be permitted to own both long and short positions in the equity and fixed income markets, as outlined in the managers’ individual guidelines. Seeking investment managers, who take advantage of this flexibility to enhance portfolio return and reduce portfolio risk, acknowledges that the capital markets are becoming increasingly competitive. To generate competitive returns going forward, investment managers may have to use varied approaches -- not only owning both long and short positions, but also owning multiple asset classes (e.g., stocks, bonds, and currencies, both foreign and domestic) and derivative instruments (e.g., futures, options, options on futures).

- The Committee may review and recommend alternative asset classes, strategies, and investments. Recommendations shall be thoroughly documented describing the asset class, security, or strategy, and provide a detailed explanation of the potential benefits and risks associated with the recommendations.

- Alternative investment holdings should be diversified by style, strategy and manager.

Derivatives

- Derivatives securities may be used in place of underlying securities.

- Use of derivatives is authorized to modify risk/return characteristics or to cost-effectively implement change in asset allocation.

- Derivatives use is not authorized for speculation.
VII. POLICIES AND PROCEDURES

Rebalancing

It is expected that the Foundation’s actual asset allocation will vary from its target asset allocation given the varying returns earned on its investments in different asset and sub-asset classes over a given period of time. The Foundation’s portfolio will be rebalanced to its target normal asset allocation under the following circumstances:

- Utilize incoming cash flow (contributions) or outgoing money movements (disbursements) of the portfolio to realign the current weightings closer to the target weightings for the portfolio.
- The portfolio will be reviewed quarterly if rebalancing is necessary.
- The investment consultant may provide a rebalancing recommendation at any time.

Spending Policy

The Committee will periodically review and recommend an endowment payout or spending rate for approval by the Board. This rate is applied to the three year moving average of market values, as of December 31 of the previous year, to determine funds available to each endowment for the subsequent fiscal year. The current Endowment payout is 4.25% and there is an additional 1% fee to cover expenses associated with the Foundation.

Criteria for Manager Termination

The Committee reserves the right to terminate an investment manager for any reason. Grounds for termination may include, but are not limited to, the following:

NOTE: Exceptions to the manager guidelines may exist. Investment manager guidelines are meant to foster discussion and possible action. They are not meant to automatically trigger a termination.

- Failure to comply with policies and guidelines for management of the portfolios, including holding restricted issues.
- Failure to achieve performance objectives specified in this policy.
- Significant deviation from the investment manager's stated investment philosophy and/or process.
- Loss of key staff members or any other major organizational change.
- Failure to meet minimum assets under management if significant account loss occurs.
- Significant asset growth that could negatively impact the strategy/investment process.
- Evidence of illegal or unethical behavior by the investment management firm.
• Unwillingness to cooperate with reasonable requests of the staff for information, meetings or other material related to its portfolios.

• Loss of confidence by the Committee in the investment manager.
VIII. **EXPENDABLE FUNDS OBJECTIVES AND GUIDELINES**

**Investment Objectives**

The investment objective of the Expendable Funds is primarily to preserve the principal of these funds and secondarily to receive interest commensurate with a low volatility strategy.

**Investment Guidelines**

Each investment manager shall have full investment discretion with regard to security selection as set forth in this Statement of Investment Policy and Objectives. Commingled funds and/or mutual funds, which meet the general intent of the policy guidelines, may be utilized by the Portfolio.

Investment management firms are expected to act in an ethical manner and with integrity in all phases of the investment process. It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and The Standards of Professional Conduct as established by The CFA Institute.

- The Expendable Funds shall be invested in fixed income securities and be primarily in money-market type investments and short-intermediate bonds.

- The portfolio should be diversified by issue, industry, sector, and quality and be readily marketable.

- Given the short term nature of the Expendable Funds, the portfolio should emphasize liquidity and quality. The portfolio should have an average credit quality of A or higher (as measured by the major rating agencies).
IX. EVALUATION AND REVIEW PROCESS

The Committee will evaluate investment performance on a regular basis. The Committee will review the following:

- The asset allocation set for the Foundation relative to the Statement of Investment Policy and Objectives and capital market outlook.

- The extent to which investment managers have consistently managed their portfolios consistent with their stated investment philosophies and styles.

- The extent to which each investment manager has adhered to the guidelines and policies contained in the Statement of Investment Policy and Objectives.

- The performance of the portfolio and each investment manager to determine whether the objectives for the Foundation are being met.

The Committee will review the Statement of Investment Policy and Objectives periodically to determine that it continues to be appropriate in view of changes within the Portfolio and the capital markets. The Committee, as deemed appropriate, may consider exceptions to the Statement of Investment Policy and Objectives.