ECU Medical & Health Sciences Foundation

Investment Policy Statement

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MISSION STATEMENT

The East Carolina University Medical & Health Sciences Foundation, Inc. is a 501(c)(3) organization whose purpose is to seek and acquire charitable gift support from individuals, businesses, organizations, corporations and foundations to support ECU’s Division of Health Sciences, including the College of Nursing, Brody School of Medicine, College of Allied Health Sciences, William E. Laupus Health Sciences Library, East Carolina Heart Institute, School of Dentistry and Metabolic Institute. As the Division’s official charity, funds received and managed by the Medical & Health Sciences Foundation are designed to enhance education, teaching, research and service within the Health Sciences Division at East Carolina University.

OVERVIEW

PURPOSE

1. This is a statement of the investment objectives and policies that govern the management of the investment assets of the Brody Brothers Endowment Fund which is owned by the ECU Medical & Health Sciences Foundation, Inc.

2. This Policy Statement is established to ensure that the assets will be invested in a prudent manner consistent with the investment objectives clearly stated in this document. This policy further describes the standards utilized in constructing and monitoring the overall portfolio, as well as the criteria for retaining, overseeing and evaluating investment advisors. It is anticipated that this statement will be in effect until modified. The Investment Policy Statement will be reviewed annually by the Investment Committee with recommended changes brought to the Board for approval.

SCOPE

This Policy applies to assets that are included in the Foundation’s investment portfolio for which the Investment Committee and the Investment Advisor have discretionary investment authority.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the policy, the Investment Advisor 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. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflicts of interests.

LAWS AND REGULATIONS

The management of the Portfolio is governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the North Carolina General Assembly in March of 2009.
DEFINITION OF DUTIES

BOARD OF DIRECTORS

The Board has the ultimate fiduciary responsibility for the Foundation's investment portfolio. The Board must ensure that appropriate policies governing the management of the Foundation are in place and that these policies are effectively implemented in accordance with the Investment Policy Statement. To implement these responsibilities, the Board approves the Investment Policy Statement and delegates responsibility to the Investment Committee for ongoing monitoring.

INVESTMENT COMMITTEE

The Investment Committee is responsible for recommending the overall Investment Policy that is sent to the Board for approval. This responsibility includes approving investment strategy, oversight of the Investment Advisor, monitoring performance of the investment portfolio and maintaining sufficient knowledge about the portfolio so as to be reasonably assured of compliance with the Investment Policy Statement. The Investment Committee’s review of the portfolio will include:

1. Adherence to IPS guidelines;
2. Material changes in the Investment Manager’s organization, investment philosophy and/or personnel;
3. The Directors’ continuing confidence in the Investment Manager;
4. Performance comparisons with appropriate benchmarks and peer group.

INVESTMENT ADVISOR

The Investment Advisor is responsible for all aspects of managing and overseeing the Investment Assets of the Foundation’s Portfolio. On an ongoing basis the Investment Advisor will:

1. Implement the overall investment strategy, including the asset allocation stated in the Investment Policy Statement and the selection/termination of securities and/or investment managers, within these investment policy guidelines;
2. Monitor the asset mix and allocate assets of each investment strategy within these investment policy guidelines;
3. Provide the ECU Medical & Health Sciences Foundation (MHSF) Investment Committee with quarterly performance reports within 30 days following the end of the quarter;
4. Assist the MHSF Investment Committee periodically, with a review of the Investment Policy Statement, including an assessment of the current asset allocation, spending policy and investment objectives; and
5. Supply the MHSF Investment Committee with other reports or information as reasonably requested.
OBJECTIVES

The investment objectives of the Foundation are to manage the Portfolio in a manner that will maximize the benefits intended by donors, support the programs of the Brody Brothers Endowment Fund and to generate sufficient long term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real (adjusted for inflation) purchasing power of the investments.

The goal is to achieve an average annual return (net of fees and expenses) of at least the level of spending adopted by the Foundation annually to support the University’s programs over the long term plus the rate of inflation on an annualized basis measured by the Consumer Price Index.

The Foundation’s investment objective is a compromise between the need for current income and the long-term growth of assets to keep pace with inflation. Due to the Foundation being an institution perpetual in nature, the portfolio should be viewed long term in its entirety, avoiding decisions based solely on short-term concerns and individual investments. The inevitability of the short-term market fluctuations is tolerable to allow for “real” growth of assets. A diversified investment structure, which is identified under the “Asset Allocation” section of this statement, is utilized in order to provide participation in rising markets, while mitigating risk in falling markets.

ASSET ALLOCATION

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility that is required under UPMIFA. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is expected. Consequently, the general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

The investment advisor will actively manage the asset allocation based on their determination of market valuations, but remain within the ranges at all times. Should any category move out of acceptable range due to market movements, the investment advisor will use prudence in rebalancing the portfolio, either immediately or over the subsequent few months. The plan of action will address the specific circumstances and needs pertaining to the Foundation and the Portfolio at that time.
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Long-Term Target</th>
<th>Min</th>
<th>Max</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equities</td>
<td>30%</td>
<td>15%</td>
<td>50%</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Large Cap Equities</td>
<td>15%</td>
<td>50%</td>
<td></td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Mid Cap Equities</td>
<td>0%</td>
<td>15%</td>
<td></td>
<td>Russell Mid Cap</td>
</tr>
<tr>
<td>Small Cap Equities</td>
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<td>15%</td>
<td></td>
<td>Russell 2000</td>
</tr>
<tr>
<td>International Equities</td>
<td>15%</td>
<td>5%</td>
<td>30%</td>
<td>MSCI Eafe</td>
</tr>
<tr>
<td>Developed International</td>
<td>5%</td>
<td>25%</td>
<td></td>
<td>MSCI Eafe</td>
</tr>
<tr>
<td>International Small Cap</td>
<td>0%</td>
<td>10%</td>
<td></td>
<td>MSCI Eafe Small</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
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<td>15%</td>
<td></td>
<td>MSCI Emerging</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>30%</td>
<td>20%</td>
<td>40%</td>
<td>Barclays Aggregate Bond Index</td>
</tr>
<tr>
<td>Diversified Fixed Income</td>
<td>5%</td>
<td>30%</td>
<td></td>
<td>Barclays Aggregate Bond Index</td>
</tr>
<tr>
<td>Treasury InflationProtected Securities</td>
<td>0%</td>
<td>20%</td>
<td></td>
<td>Barclays Capital U.S TIPS</td>
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<tr>
<td>High Yield</td>
<td>0%</td>
<td>10%</td>
<td></td>
<td>Merrill Lynch High Yield Master</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
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<td>10%</td>
<td></td>
<td>Merrill Lynch Emerging Mkt Sovereign/Corporate</td>
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<tr>
<td>International Fixed Income</td>
<td>0%</td>
<td>10%</td>
<td></td>
<td>Merrill Lynch Global Broad Market</td>
</tr>
<tr>
<td>Alternative Investments</td>
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<td>0%</td>
<td>35%</td>
<td>CSFB Tremont Hedge Fund Index</td>
</tr>
<tr>
<td>Real Estate (ETFs)</td>
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<td>10%</td>
<td></td>
<td>NAREIT</td>
</tr>
<tr>
<td>Commodities (ETFs)</td>
<td>0%</td>
<td>10%</td>
<td></td>
<td>S&amp;P GSCI Index</td>
</tr>
<tr>
<td>Hedged Equity Funds</td>
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<td>20%</td>
<td></td>
<td>CSFB Tremont Hedge Fund Index</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0%</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

**ASSET CLASS GUIDELINES**

**Domestic Equities:**

The decision to invest in domestic equities encompasses the expectation that over long periods of time investors are rewarded with higher returns by assuming risk. Equities may consist of individual stocks listed on the New York, America, or NASDAQ exchanges, or mutual funds or exchange traded funds (ETFs).

Performance will be evaluated against a relevant style-oriented benchmark and peer group. It is expected that each active portfolio will achieve a return over a full market cycle in excess of the benchmark.

**International and Emerging Equities:**

The decision to diversify internationally is based on expected benefits of improved return from an increased investment universe and the expected reduction of portfolio volatility. Equities may consist of individual stocks, mutual funds or exchange traded funds (ETFs).

Performance will be evaluated against relevant international benchmarks and peer groups.

**Alternative Investments:**

The decision to diversify into alternative investments is based on the expectation that this asset class will seek to improve the risk/reward profile of a traditional portfolio, provide low correlation to equities and fixed income, and provide attractive returns with low volatility.
Performance will be evaluated against relevant benchmarks and peer groups.

**Fixed Income:**

The decision to diversify into fixed income investments is based on the expectation that allocations to this asset class will reduce volatility of the total fund, provide liquidity for unanticipated cash needs, and generate a relatively stable cash flow.

The Manager may select from preferred stocks, corporate debt securities, obligations of the U.S. Government and its agencies, taxable securities of municipal and state governments and securities convertible to equities. The Manager may also purchase open or closed end mutual funds or exchange traded funds (ETFs). Performance will be evaluated against relevant style-oriented benchmarks and peer groups. It is expected that the fixed income portfolio will achieve a return over a full market cycle in line with the (Barclay’s Aggregate Bond Index).

**Cash:**

The level of cash retained in the account will be a function of accumulated cash flow, the timing of reinvestment and cash needs of the foundation.

**SPENDING POLICY**

The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the Foundation with the goal of providing a sustainable level of spending. Subject to gift instruments and statutory requirements, distribution is determined by a total return system. The amount to be spent in the coming year is calculated each year and is reviewed and approved by the Stewardship Committee of the Foundation’s Board of Directors annually.

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**PERFORMANCE MEASUREMENT**

All investment returns shall be measured net of fees.

**TIME HORIZON**

The Investment Committee seeks to achieve the investment objectives over a full market cycle. The Investment Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, the portfolio may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period.

**PRIMARY BENCHMARK**

The objective of the Foundation is to achieve a total return greater than the Consumer Price Index +5%.
**RISK PARAMETERS**

The Investment committee acknowledges that some risk to the value of the Fund must be accepted in order to achieve the Fund’s long-term investment objectives. Fluctuations in market value and rates of return are acceptable in order to achieve long-term objectives. The volatility (beta) is expected to be no greater than 1.2 versus the Policy Benchmark.

The foundation’s policy is to minimize the risks listed below by buying a diversified mixture of approved investments. The following risks have been identified in order of importance:

Market Risk: Risk that the value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market.

Inflation Risk: The possibility that the value of assets or income will decrease as inflation shrinks the purchasing power of a currency. Inflation causes money to decrease in value at some rate, and does so whether the money is invested or not.

Interest Rate Risk: The risk that an investment’s value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Interest rate risk affects the value of bonds more directly than stocks, and it is a major risk to all bondholders.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University’s Foundation Board has a formal policy that addresses credit risk. The policy states that the funds are to be allocated within the range found on the asset chart on page 4. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. Refer to the chart of assets.

Concentration Risk: The risk of loss attributable to the magnitude of an investment in a single issuer.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Currently, the University does not participate in a securities lending program and counterparty risk is not material. With regard to the safety of assets held by the custodian (recommended by the manager and approved by the Investment Committee) and in the event of the broker/dealer failure, the assets held do not become assets of the broker/dealer (title is held by accounts owner(s)). As such, the assets are not subject to the claims of the broker/dealers creditors and remain property of the account’s owner(s). Failure of the custodian will have no adverse effect on these accounts.

Foreign Currency Risk: Currency hedging is at the investment manager's discretion.

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**GUIDELINES AND RESTRICTIONS**

**GENERAL**

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 for the market environment in which investment decisions must be made. 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 Foundation's investments.

The Investment Advisor shall:

1. Have full investment discretion with regard to security selection, consistent with this Investment Policy Statement;

2. Not employ short-selling, margin trading, securities lending, or direct investments in commodities at the portfolio level. Any underlying managers employing any of these strategies will comprise no more than 35% of the total portfolio;

3. Immediately notify the Investment Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel.

STANDARD OF INVESTMENT JUDGEMENT

The enactment of UPMIFA created a new standard of conduct for the management and investing of institutional funds. All persons associated with the management of the investment portfolio must act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. Each individual must place the interest of the Foundation first. All members of the investment committee must provide full and fair disclosure to the committee of all material facts regarding potential conflicts of interest.

The following factors must be considered by the investment committee in its deliberations regarding the management and investing of the fund:

1. The general economic conditions;

2. The possible effect of inflation or deflation;

3. The expected tax consequences, if any, of investment decisions or strategies;

4. The role that each investment or course of action plays within the overall investment portfolio of the fund;

5. The expected total return from income and the appreciation of investments;

6. Other resources of the Foundation;

7. The needs of the Foundation to make distributions and preserve capital; and

8. An Asset’s special relationship or special value, if any, to the charitable purpose of the Foundation.

All management and investment decisions must be made in context of the portfolio as a whole and the related strategy concerning risk and return.

SELECTING AND EVALUATING THE INVESTMENT ADVISOR

There are no strict guidelines that will be utilized in selecting the Investment Advisor. The Committee will consider such factors as the age of the firm, its track record, and total assets under management, along with any other factors deemed appropriate by the committee, in its evaluation of prospective Investment Advisors. The Committee must act with due prudence in the selection of the Investment Advisor. At such time as a new Investment Advisor is required, the Committee shall solicit requests for proposals from multiple prospective firms. The agreement between the Parties and the Investment Advisor must limit the scope of the investment
advisors activities within the parameters of this policy. The Parties delegate the authority to retain and terminate the investment advisor to the Committee.

The Investment Committee is to evaluate the Advisor’s performance at least biannually. The results of the biannual review will be made available to the Advisor.

ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission 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 mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are expected.

___________________________                         __________________________
President, ECU Medical & Health Sciences Foundation, Inc. Date

____________________________                   ___________________________
Principal, Wilbanks, Smith & Thomas Asset Mgmt, LLC                                                Date

____________________________                   ___________________________
Investment Committee Chair                                                Date

____________________________                   ___________________________
Foundation Board Chair                                                Date