AUBURN UNIVERSITY FOUNDATION

ENDOWMENT FUND

INVESTMENT POLICY STATEMENT

APPROVED

MARCH 21, 2015

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Auburn University Foundation, ("Foundation"), investments will be managed by the Investment Committee and staff in accordance with the policies established by the Board of Directors (the "Board"). Policies currently governing significant areas of investment management are based upon actions of the Board of Directors and the Investment Committee.

I. Management of Foundation Investments

The Board of Directors has delegated responsibility for the Foundation's investments to the Investment Committee, which shall recommend and implement investment policy with regard to asset allocation, manager selection, and portfolio supervision. The Investment Committee reports to the Board the status regarding the Foundation's investment policies and results; and reports any recommended changes in investment policy to the Board.

A. Investment Committee Functions

1. The Investment Committee's principal function is to develop and recommend to the Board such investment and investment related policies, as it deems appropriate.

2. No member of the Investment Committee shall have or appear to have a conflict of interest that impairs or appears to impair the member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties.

3. The Investment Committee will review regularly all investments of the Foundation.

4. The Investment Committee will make regularly scheduled reports to the Board of Directors.

5. The Investment Committee recommends to the Board appropriate policies and procedures for custodianship and access to securities held by the funds, as it may deem appropriate.

6. The Assistant Treasurer, or his/her designee, is the Secretary of the Committee and shall keep minutes of the actions of the Committee.

7. The Committee may engage an investment consultant to work with staff, and advise staff and the Committee, on investment management issues including, but not limited to investment strategy, asset allocation, market trends, investment manager and custodian selection, manager and custodian evaluation criteria, investment performance evaluation, and any other appropriate matters.

B. Specific Functions of the Investment Committee

1. Establish investment objectives for the Foundation Pool.

2. Set asset allocation and manager structure policies for the investments.

3. Establish and continue to update the investment policy, and report the recommended changes to the Board.

4. Select, and as appropriate terminate, investment managers, fund custodian, and the investment consultant for the investments.

5. Establish, monitor, and update the investment process.

6. Review investment performance against established objectives.

7. Review, at least annually, investment activity to ensure compliance with investment policy.

8. Establish and propose to the Board, the spending policy for the Foundation's endowment pool.

II. Foundation Investment Policy and Guidelines

The goal for Auburn University Foundation's Pool is to provide a real total return that preserves the purchasing power of the Foundation's assets, while generating an income stream to support the Foundation's activities in support of Auburn University. The Foundation's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

A. Investment Objective

For the long-term, the primary investment objective for the endowment pool is to earn a total return (net of portfolio management fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Foundation's assets and support the defined spending policy.

B. Asset Allocation

To achieve its investment objective, the Fund will allocate among several asset classes with a bias toward equity and equity-like investments due to their higher long-term return expectations. Other asset classes may be added to the Fund to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set.

The domestic equity segments are intended to provide long-term growth and offer high expected real returns and liquidity. The international equity segment is intended to enhance return and control risk by reducing the Funds' reliance on domestic financial markets. Private Equity may provide even higher return potential by focusing on opportunities in less efficient and more illiquid markets. Diversified Hedge Strategies are employed to offer market comparable returns with lower expected volatility. Real Assets provide the portfolio with a diversified hedge against inflation as well as a strong yield component. Fixed income provides stability and protection in deflationary environments. Lastly, Cash provides short-term liquidity and serves as a funding source for distributions and rebalancing.

The Fund will be diversified both by and within asset classes. The purpose of diversification is to provide reasonable assurance that no single security, or class of securities, will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced.

The strategic asset allocation adopted by Board is:

ASSET CLASSES	Target Allocation	Range
Equity		
Global Equity	39.5	29.5 - 49.5
Global Private Capital	12.5	8.0 - 16.0
Flexible Capital		
Absolute Return	11.0	6.0 - 16.0
Global Long/Short	14.0	9.0 - 19.0
Inflation Hedging/Real Assets		
Natural Resources, Real Estate, Commodities	12.0	7.0 - 17.0
U.S. TIPS	0.0	0.0 - 2.0
Credit		
Core Bonds	0.0	0.0 - 0.0
Deflation Hedge		
U.S. Treasuries	6.0	4.0 - 10.0
Uncorrelated (Dollar Hedge)		
Non-U.S. Government	5.0	4.0 - 6.0
Liquidity		
Cash	0.0	0.0 - 5.0
TOTAL	**100.0**	

Auburn University has modeled the expected return and volatility of the portfolio. The assumptions for the endowment's portfolio are included in Appendix 1.

C. Asset Allocation Review and Balancing Procedure

1. The Investment Committee will review the strategic allocation in the seven asset classes, as well as the allocation to various styles of managers within these asset classes, at least annually.

2. Cash flows into and out of the portfolio (i.e., new gifts and spending) shall be allocated in a manner that is consistent with asset allocation policies. Rebalancing the portfolio by means of liquidating assets managed by investment managers will be the exception, and only done, when recommended by the investment consultant and approved by the Committee. Asset allocation reports will be provided to the Committee on a quarterly basis.

D. Manager Selection, Performance Measurement, Monitoring, and Evaluation

Auburn University Foundation seeks managers who demonstrate effective strategies, sustainable advantages, and high-quality organizational structures. The Fund expects its active managers to generate superior, relative risk-adjusted performance, net of all expenses. Passive mandates may be used in more efficient (occasionally in less efficient) segments of the capital markets, for the purpose of gaining market exposure. The committee shall determine the respective maximum allocations to single, active managers.

Attractive firm characteristics include:

i. strong reputation in the marketplace and a meaningful, high-quality, institutional client base;
ii. aligned interests (e.g. significant amount of principal/employee dollars invested in the funds);
iii. stable and experienced professional team and principals/employees own equity in the firm
iv. controlled growth and a manageable level of assets under management; and
v. competitive long-term performance among peers.
vi. annual audits by an independent audit firm.

Performance (net of fees) will be calculated on a quarterly basis by the consultant.

In addition to reporting time-weighted total returns for each manager and the Pool, a comparison is made with relevant market benchmarks as well as the composite returns for other money managers with similar philosophies to those managers investing for the Pool. Managers should add value above these benchmarks. Reports will include historical data in order to evaluate short-term results against longer-term strategies.

E. Guidelines for Corrective Action

Corrective action should be taken as a result of an ongoing investment managers review process. The following are instances where corrective action or termination may be in order:

1. Major organizational changes in a firm, including any changes in portfolio managers, may require a new contract and interview process. Failure on the part of the Investment Manager to notify the Committee of such changes is grounds for termination. At all times, communication with the managers should be open and informative. Investment managers should be willing and able to meet at least annually with the Committee.

2. Violation of terms of contract constitutes grounds for termination.

3. As part of its overall asset allocation strategy, the Committee will choose managers with certain styles and approaches to provide portfolio diversification. Therefore, it is critical that managers adhere to the original intent of the Committee at the time they are engaged. Any significant changes in investment approach may be grounds for termination.

4. The Committee will not, as a rule, terminate a manager on the basis of short-term performance. If the organization is sound and the firm is adhering to its style and approach, the Committee will allow a sufficient interval of time over which to evaluate performance. The Committee's consultant will provide insight regarding the appropriate length of time. The manager's performance will be viewed in light of the firm's particular style and approach, keeping in mind at all times the Pool's diversification strategy and, as well as, other organizational and relationship issues.

5. Investment managers may be replaced at any time as part of the overall restructuring of the Foundation Pool.

6. Other events or circumstances that are deemed to be in the best interest of the Foundation.

F. Foundation Spending Policy

The long-term objective of the foundation's spending policy is to maintain the purchasing power of each endowment with the goal of providing a predictable and sustainable level of income. Under this policy, spending for a given year equals 80% of spending in the previous year, adjusted for inflation (CPI within a range of 0% and 6%), plus 20% of the long-term spending rate (4.0%) applied to the twelve-month rolling average of market values. This spending policy has two implications. First, by incorporating the previous year's spending, the policy eliminates large fluctuations and so enables the University to plan for operating budget needs. Second, by adjusting spending toward a long-term rate of 4.0%, the policy ensures that spending levels will be sensitive to fluctuating market value levels thereby providing stability in long-term purchasing power.

The annual administrative fee is also calculated each year by using the spending model described above using a rate authorized by the Board, currently 1.0%.

An example of the spending calculation can be found in Appendix 2.

G. Gift Policy

It is anticipated that from time to time the Foundation will receive gifts in the form of marketable securities. In such event, the Endowment Investment Office will liquidate the securities as soon as possible. In the event that the securities are restricted from sale for a designated period of time due to regulatory restrictions, the Foundation will hold said securities until the restricted period has elapsed and then liquidate the securities as soon as possible thereafter. The Foundation will make no attempt to add value to the Pool by holding gifted securities.

H. Custodian and Depository Activities

The custodian and depository activities of the endowment pool, including agreements with any banks for the temporary, short-term investment of cash and equivalents will be subject to annual review by the Committee to assure that the Foundation is receiving competitive rates and services.

Appendix 1

Asset Allocation Input Assumptions
Expected Returns, Risks, and Correlations

	Expected Nominal Return	Expected Standard Deviation	Domestic Public Equity	Non-U.S. Developed Equity	Emerging Markets	Global Private Equity	Flexible Capital	Natural Resources (Private)	Natural Resources (Public)	Commodities	Real Estate (Private)	Real Estate (Public)	U.S. TIPS	Core Bonds	Long Gov/Corp	High Yield	Municipal Bonds	U.S. Treasuries (5+ Years)	Non-U.S. Government Bonds	Cash
Domestic Public Equity	8.5	20.0	1.00																	
Non-U.S. Developed Equity	8.5	20.0	0.82	1.00																
Emerging Markets	10.5	28.0	0.70	0.70	1.00															
Global Private Equity	12.3	30.0	0.67	0.58	0.50	1.00														
Flexible Capital	7.8	12.0	0.80	0.72	0.81	0.74	1.00													
Natural Resources (Private)	11.3	26.0	0.51	0.47	0.40	0.64	0.48	1.00												
Natural Resources (Public)	9.3	22.0	0.62	0.67	0.53	0.46	0.59	0.39	1.00											
Commodities	7.5	20.0	0.04	0.16	0.17	0.13	0.17	0.17	0.59	1.00										
Real Estate (Private)	10.3	26.0	0.11	0.12	-0.04	0.26	-0.02	0.28	0.20	0.20	1.00									
Real Estate (Public)	8.8	22.0	0.58	0.51	0.43	0.37	0.48	0.35	0.50	0.21	0.19	1.00								
U.S. TIPS	3.0	5.0	-0.30	-0.22	-0.07	-0.15	-0.13	-0.08	-0.10	0.28	0.05	0.05	1.00							
Core Bonds	4.0	6.5	-0.10	-0.10	-0.19	-0.21	-0.13	-0.11	-0.16	-0.14	-0.16	0.06	0.65	1.00						
Long Gov/Corp	4.3	11.0	-0.13	-0.11	-0.21	-0.18	-0.17	-0.11	-0.22	-0.21	-0.10	0.03	0.52	0.91	1.00					
High Yield	6.8	11.0	0.66	0.57	0.62	0.37	0.66	0.37	0.51	0.08	-0.11	0.62	0.09	0.05	0.00	1.00				
Municipal Bonds	3.5	7.5	0.02	0.02	-0.03	-0.11	0.04	0.02	0.01	-0.04	-0.17	0.12	0.69	0.81	0.75	0.24	1.00			
U.S. Treasuries (5+ Years)	3.8	10.0	-0.32	-0.31	-0.39	-0.26	-0.35	-0.21	-0.41	-0.30	-0.05	-0.17	0.44	0.82	0.94	-0.26	0.62	1.00		
Non-U.S. Government Bonds	4.3	10.5	-0.08	0.21	-0.13	-0.12	-0.14	0.06	0.00	0.08	-0.12	0.01	0.32	0.51	0.46	-0.07	0.37	0.40	1.00	
Cash	2.5	2.0	0.04	-0.06	0.00	0.12	0.17	0.07	0.03	0.18	0.15	-0.06	0.06	0.27	0.09	-0.13	0.18	0.10	0.00	1.00

* Expected returns are for the next 10-15 years; correlations are based on nominal returns from January 1,1988-December 31, 2013

Appendix 2

Sample Spending Calculation

In accordance with the Auburn University Foundation Fund Investment Policy, the foundation spending is calculated using the following formula:

[(80%)(Prior year's distribution)(1+CPI)] + [(20%)(twelve-month rolling average of market values)(4.0%)]

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Spending Calculation*:*

A hypothetical endowment with a $1,000,000 gift value has a prior year distribution of $40,000. CPI was 3.4%. The twelve-month rolling average of market values is $1,080,000.

[(.80)($40,000)(1+.034)]+[(.20)($1,080,000)(.04)] = $41,728

Appendix 3

Responsibility Table

FIDUCIARY LEVEL	WRITTEN INVESTMENT POLICY	WRITTEN INVESTMENT STRATEGY	TACTICAL ALLOCATION AMONG ASSET CLASSES	STRATEGY WITHIN AN ASSET CLASS	MANAGER & FUND SELECTIONS	SECURITY SELECTION
BOARD OF DIRECTORS	APPROVES	INFORMED	INFORMED			
INVESTMENT COMMITTEE	RECOMMENDS	APPROVES	APPROVES	APPROVES	APPROVES	INFORMED
INVESTMENT CONSULTANT & STAFF	RECOMMENDS	RECOMMENDS	RECOMMENDS	RECOMMENDS	RECOMMENDS AND MONITORS	MONITORS
INDIVIDUAL MANAGERS						APPROVES