

STATEMENT OF POLICY AND INVESTMENT OBJECTIVES

The University of North Carolina at Pembroke
Endowment Board

and

The University of North Carolina at Pembroke
Foundation, Inc.

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I. INTRODUCTION

The basic goal of this statement of investment policy is to provide for the management and investment of the Foundation and Endowment assets of The University of North Carolina at Pembroke (UNCP) in a prudent manner so that asset set aside for specific purposes and the income derived therefrom will be sufficient and available to meet obligations as they become due. This statement shall serve the investment advisor and money managers as the principal source for developing an appropriate strategy. In addition, it shall serve as the basis for performance evaluation. Any changes in investment policy will be in writing and communicated to the investment advisor(s).

In particular, this investment policy will:

- Establish reasonable expectations, objectives and guidelines for the investment of the funds;
- Set forth an investment structure detailing permitted asset classes and expected allocation among asset classes;
- Encourage effective communication between the investment advisor(s), Investment Committee, and the entire system in general;
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the University's Endowment Funds.

UNCP intends to engage the services of an outside investment advisor(s) to actively manage the majority of the Funds within the scope of these guidelines. Within the constraints imposed by this document, the advisor(s) will have total discretion to manage these assets according to their professional judgment and fiduciary obligations. Management progress and strategies shall be communicated to the Investment Committee at regularly scheduled review meetings.

II. INVESTMENT PHILOSOPHY

UNCP believes that the assets should be managed in a manner that is consistent with the philosophy of the University and that reflects the unique purpose for which the Fund was established. The University recognizes that in any economy, over an appreciable time period, unsupervised assets will probably be subjected to an inflationary loss of purchasing power. The University also recognizes that over the long term, the risk of owning equities has been, and should continue to be rewarded with a somewhat greater return than that available from fixed income investments. The role of fixed income investments is to reduce the volatility of the overall Portfolio while providing a predictable stream of income. The assumption of normal risk associated with well-analyzed investments is warranted in order to achieve results consistent with the needs of the Fund.

The purpose of diversification between and within account segments is to provide reasonable assurance that no single security or class has a disproportionate impact on the total Portfolio. The current and expected state of the economy and the needs of the Fund should be key factors determining asset allocation.

III. STATEMENT OF OBJECTIVES

Although the Fund should seek to provide sufficient income to meet current distribution needs, the primary investment objective for the Fund's assets is to maintain its purchasing power and to seek growth of principal over time. Overall, the Fund shall be considered a total return fund. The Investment Committee's objectives for the Fund are to preserve and enhance its real (inflation adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings in line with spending needs. UNCP expects its annual spending from the Fund in any one fiscal year will not exceed 5.5% of the "average market value" of the Fund. The "average market value" is defined as an average of the market value on December 31st of the previous three years. A total return approach that sets its objective as CPI plus 6% should be sufficient for current income needs and inflation protection as well as a modest amount of growth.

IV. TIME HORIZON

In light of the investment objectives outlined above, UNCP is viewed as a moderate risk taker with regard to these investment assets. The Investment Committee recognizes that the pursuit of these objectives involves some volatility in the value of the Fund over periods of time. However, historical asset class returns suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this Investment Policy.

V. PROCEDURES

The role of the Investment Committee, the investment advisor(s), and the money managers with regard to the Funds are delineated as follows.

UNCP's Investment Committee shall have responsibility for the following:

- Establishing overall financial objectives and setting investment policy;
- Setting parameters for asset allocation;
- Evaluating and Selecting appropriate investment options;
- Establishing a process and criteria for the selection and termination of advisor(s) and managers;
- Working with advisor(s) to select qualified managers;
- Monitoring investment results quarterly to assure that objectives are being met and that policy and guideline are being followed;
- Allocate new cash-flows to the advisor(s);
- Communication on a structured and ongoing basis with those persons responsible for investments results (at least once per quarter).

It is the responsibility of the committee members to report ownership of any stock in any publicly traded company whereby the committee member is considered an insider or are in

possession of any material nonpublic information concerning such company. The investment advisor(s) will be instructed to not invest in those companies where such a relationship exists.

The investment advisor(s) will be responsible for advising the Investment Committee regarding:

- Investment Policy
- Asset Allocation
- Manager Selection
- Performance Evaluation
- Investment Fees
- Other Investment Matters
- Determining investment strategy;
- Implementing security and selection timing within policy guideline limitations.

VI. ASSET ALLOCATION & STYLE DIVERSIFICATION

Academic research suggests that the decision to allocate total assets among various asset classes will far outweigh security selection and other decisions that impact portfolio performance. UNCP recognizes the strategic importance of asset allocation and style diversification in the investment performance of the Fund assets over long periods of time. Domestic equities of both large and small capitalization, fixed income alternate investments and cash equivalent securities have been determined to be acceptable vehicles for plan assets.

A. SUMMARY OF ASSEST ALLOCATION GUIDELINES

After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the following asset allocation strategy is incorporated to achieve the objectives of the Fund's Portfolio:

Asset Category	Minimum	Target	Maximum
Cash	0%	4%	50%
Fixed Income	15%	25%	45%
Alternatives	10%	15%	20%
Equity	30%	56%	75%

Asset allocations, and changes therein must always be reviewed with the Investment Committee.

B. REBALANCING PROCEDURES

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the established allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, each asset class in which the Portfolio invests shall be reviewed at least on a semi-annual basis by the Investment Committee, and their Investment Advisors for possible rebalancing back to the target weighing if the actual weighing goes above / below the maximum / minimum

recommended weighing. As a general rule, new cash will be used to rebalance the total Fund in the direction of the allocation ratified by the Committee at its most recent meeting.

C. ADJUSTMENTS IN THE TARGET ALLOCATION

The approved asset allocation displayed previously indicates both an initial target allocation and a range for each investment category. From time to time, based on changing economic circumstances and the various relative investment opportunities as perceived by the Investment Committee and their advisor(s), it may be desirable to make changes in the target allocations. The Investment Committee and their advisor(s) will determine such changes. The Investment Committee will approve subsequent target allocation changes and the IPS will be updated accordingly.

VII. SELECTION & RETENTION CRITERION FOR INVESTMENTS

A. INVESTMENT MANAGEMENT

Investment advisor(s) and money managers (including mutual funds) shall be chosen using the following criteria:

- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance;
- The historical volatility and down-side risk of each proposed investment;
- The investment style and discipline of the proposed manager;
- How well each proposed investment complements other assets in the Portfolio;
- The current economic environment;
- The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration;
- Experience of the organization as measured by the tenure of the professionals with respect to the investment style under consideration;
- Investment Management Organizations registered under the Investment Company Act of 1940, whose performance is audited or audit-verifiable.

B. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the investment advisor(s) shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserve the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment advisor(s) organization.

C. INDIVIDUAL SECURITY INVESTMENT GUIDELINES

The Investment Committee desires to permit investment advisor(s) flexibility to maximize investment opportunities. However, it is cognizant of its responsibility to practice prudent management in order to conserve and protect Fund assets and to prevent exposure to undue risk. Exceptions to the guidelines stated below may be made upon special written approval of the Investment Committee and shall be subject to annual review.

i. Equity Holdings

Investment Guidelines:

The equity portion of the funds will be managed by professional investment managers utilizing different investment styles in order to diversify risk and maximize returns over the longer term. The different investment styles include, but are not limited to:

- Large Capitalization Domestic Growth
- Large Capitalization Domestic Value
- Small/Mid Capitalization Domestic Growth
- Small/Mid Capitalization Domestic Value
- International Equities
- Domestic Fixed Income
- Emerging Markets
- REITS
- Alternative Investment

The purpose of the equity fund is to provide appreciation of principal and a growing stream of income that more than offsets inflation. In light of the allocation ranges specified above, allocation to equities should fall between 30% and 75% of total Fund assets, and rebalancing will be required when the equity allocation falls outside of these ranges.

Diversification:

The Fund's investments shall be diversified both by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and size). The

purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Fund's aggregate results.

Decisions as to individual security selection, security size and quality, number of industries or holdings, current income levels, and turnover are left to broad manager discretion, subject to the usual standards of fiduciary prudence. However, in no case shall a single security exceed 10% of the market value of the equity fund at purchase. Additionally, no single major industry shall represent more than 25% of the market value of the equity fund.

To provide diversity of portfolio managers as well as diversity of the investment themselves, no one portfolio manager will be responsible for more than 50% of the Portfolio.

Quality:

There are no qualitative guidelines with regard to equity ratings except that prudent standards should be developed and maintained by the investment managers.

Restrictions: Investments in the following is prohibited unless written permission is granted:

- Restricted stock
- Short sales
- Stock Loans

ii. Fixed Income Holdings

The purpose of the fixed income component of the Fund is primarily to provide a stream of current income for the Portfolio and secondarily to provide a hedge against unanticipated deflation. In light of the allocation ranges specified above, allocation to fixed income securities should fall between 20% and 45% of total Fund assets. Rebalancing will be required when the fixed income allocation falls outside of these ranges.

Security Types:

- Investment in obligations of the US Government or US corporate entities, US Agencies, and dollar denominated foreign bonds or stocks is permitted unless otherwise prohibited by investment restrictions.

Diversification:

- In principle the fixed income component of the Portfolio should be well diversified with respect to security type, industry, and issues in order to minimize risk.

- With the exception of obligation issued or guaranteed by the US Government, no more than 5% of the fixed income Portfolio (at market) should be invested in a single issue or corporate entity.

Maturity:

- The manager shall have responsibility for setting the appropriate maturity schedule for the Fund based on the Fund's investment objectives and risk profile. Based on current and expected market conditions, the manager should determine the structure that will yield optimal performance.

Objective:

- The investment return objective for the composite of the fixed income managers is to outperform (net of fees) the Lehman Brothers Aggregate Bond Index. The accounts will also be measured against a peer group universe represented by the Cambridge Associates fixed Income Manager Median.

Quality:

- Decisions as to individual issue selection, credit quality, number of holdings, and turnover are at the manager's discretion, subject to the usual standards of fiduciary prudence. In general, the accounts will be well diversified with respect to type, industry, and issuer in order to minimize risk exposure.
- Each debt instrument selected for investment shall be subjected to credit analysis prior to inclusion in the Portfolio.

iii. Cash Equivalents And Short Term Investment Policy

The cash portion of the Fund shall be invested with the objective of maintaining liquidity and safety of principal. Cash equivalent investments are defined as US dollar-denominated fixed income instruments with maturities of one year or less.

Permissible Cash Equivalent Instruments Are:

- a. Direct obligations of the United States;
- b. Obligations unconditionally guaranteed (principal and interest) by the United States government;
- c. Negotiable certificates of deposit, banker's acceptances, and floating rate notes issued by, or time deposits placed with banks meeting the following criteria:
 1. US chartered banks must have debt ratings of "A" or higher, ready access to world capital markets, a demonstrated record of profitability (including the avoidance of recent major loan losses), and a sizable ongoing CD issuance or deposit-collection program.
 2. Foreign-chartered banks must be domiciled in nations with strong economies, established capital markets, and central banks capable of effectively controlling domestic monetary movements. Instruments must be

recognized as direct obligations of such banks, not as obligations of their subsidiaries.

- d. A1-P1 commercial paper issued by large companies domiciled in the US or aboard. Instruments issued by state-owned companies must be guaranteed by the owning government;
- e. Repurchase agreements secured by US government and Federal agency obligations;
- f. Money market funds of commercial banks and other major investment advisors.

VIII. PERFORMANCE OBJECTIVES

All objectives and policies are in effect until modified by the Investment Committee. The Committee will review these at least annually for their continued appropriateness. The overall Fund performance will be reviewed on a quarterly basis, with long-term emphasis placed on results achieved over a three to five year period. Objectives will be reviewed annually and adjusted, if necessary, after consultation with the Finance Committee, investment consultant and investment managers.

A. TOTAL FUND

The Investment Committee has determined that the minimum Real Rate of Return requirement is 6% above the Consumer Price Index.

Fund performance will be compared to a similarly structured balanced index in line with the target allocation in each strategy. This custom index will be comprised of the S&P 500 Index, Russell 2000 Index, EAFE International Index, Lehman Brothers Aggregate Bond Index and Solomon Brothers 90 day Treasury Bill Index and / or other appropriate indices.

The Fund should at least equal the performance of the custom balanced index and rank in the top thirty-three percent (33%) of a nationally recognized evaluation service's universe of comparable funds over a rolling three to five year time period.

B. EQUITY SEGMENT

The Investment Committee expects the Domestic large cap equity portion of the Portfolio to meet or exceed the S&P 500 Composite Index or the S&P / Barra Growth / Value Index, depending on the manager's investment style. Additionally, the returns should rank in the top thirty-three percent (33%) of a nationally recognized evaluation service's universe for comparable funds and investment styles over rolling three to five year time periods.

The small capitalization equity portion of the Portfolio should meet or exceed the performance of the Russell 2000 Small Stock Index. The returns should rank in the top thirty-three percent (33%) of a universe for comparable funds over rolling three to five year time periods.

Any International equity portion for the Portfolio should meet or exceed the performance of the Morgan Stanley Capital International's Europe Australia Far East (EAFE) Index. The returns should rank in the top thirty-three percent (33%) of a universe for comparable funds over rolling three to five year periods.

D. FIXED INCOME SEGMENT

The fixed income portion of the Fund is expected to meet or exceed the performance of an appropriate index or mix of indices, which reflects the fixed income portion of the Portfolio.

The fixed income funds are expected to perform in the top thirty-three percent (33%) of a universe for comparable fixed income fund over a three to five year time period.

IX. COMMUNICATIONS

Month-end accounting of transactions and portfolio holdings, yields, current market values and the beginning and ending positions will be provided by the custodians.

Quarter-end regular accounting of transactions (sales and purchases), portfolio holdings at cost and market value, yields, summary of cash flows, calculations of the portfolio's total rate of return (on a time-weighted basis) net of commissions, year-to-date and since inception basis will be provided from each managers.

The manager reports will also review the quality of individual fixed income holdings making up their portfolio and an analysis of their returns versus Fund objectives. No less than semi-annually, the managers should review in person or in writing their current portfolio strategy as well as commentary on the outlook for the economy and capital markets.

The investment manager will maintain communication with the Investment Committee with a reasonable frequency as market condition and the Portfolio warrant.

Major market conditions and major Portfolio changes should be called to the attention of the Investment Committee by the investment managers. Significant changes within the investment manager's operation of personnel and the anticipated impact on the funds should be brought to the attention of the Investment Committee immediately.

The Investment Committee shall meet no less than quarterly for the purpose of reviewing such items as investment policy, investment performance, performance evaluation, and investment strategies.