Investment Policy
University of Georgia Research Foundation, Inc.
Adopted April 20, 2017

This Investment Policy guides the University of Georgia Research Foundation, Inc. (UGARF), its officers, directors, and staff, as well as its external financial services firms (EFSF), in effectively supervising and managing assets to fulfill UGARF's broad mission in support of scientific, literary, educational, and other charitable programs.

More specifically, UGARF's investment policies should align with UGARF's primary mission to support the research enterprise at the University of Georgia.

This Policy should be periodically reviewed and, if appropriate, revised to ensure it adequately reflects any changes in UGARF's mission or strategic priorities.

This Policy:

A. Describes the investment objectives and primary risk posture for UGARF's assets;

B. Identifies a spending rate;

C. Establishes asset allocations and investment guidelines;

D. Specifies the criteria for evaluating achievement of investment performance objectives; and

E. Outlines expectations and requirements of the Investment Committee and those EFSFs that manage UGARF's investments.

A. Investment Objectives and Risk Posture.

1. Investment Objectives. UGARF's primary investment objective is a total real return that preserves the purchasing power of UGARF's assets, while generating a predictable, stable stream of annual earnings, as required to meet spending needs to adequately support the research enterprise at the University of Georgia. The total investment return objective is to exceed 4% plus the rate of inflation. This approach creates a balance between annual spending and the expected real return on assets.

2. Risk Posture. UGARF acknowledges the positive correlation between risk and return and the long term nature of its primary investments. UGARF takes a conservative approach to risk, and investment decisions should guard against:

a. the inability to provide necessary cash flow to support the foundation mission; and
b. endangerment of the perpetual nature of UGARF's assets.

In making any decision relative to the investment of UGARF's assets, each of the following risk factors must be considered:

a. general economic conditions;
b. possible effect of inflation or deflation;

c. the role that each investment or course of action plays within its overall investment portfolios;
d. expected total return from the income and appreciation of investments;
e. other UGARF resources; and
f. requirements to make timely distributions and preserve capital.

B. Spending Rate. The spending rate is established on an annual basis. For more details, see UGARF's separate "Budget Development and Spending Rate Procedures," a copy of which is included at Appendix A for convenience.

C. Asset Allocations and Investment Guidelines. UGARF's assets may be invested in both short-term and long-term investment portfolios.

1. Asset Allocation. UGARF's assets will be allocated among the following asset classes:

a. Global Equity;
b. Bonds/Cash; and
c. Alternative Investments.

(Asset allocation and mix guidelines for the Long-Term Portfolio are provided in Appendix B. UGARF anticipates that its asset allocation targets may change periodically if needed to meet investment objectives and spending policy.)

2. Investment Guidelines. UGARF and its EFSF will follow these guidelines in the investment management of UGARF's assets.

a. Global Equity Portfolio. The Global Equity Portfolio may include investments in a number of sub-asset categories, including a Domestic Equity portfolio, an International Equity portfolio, etc.

- Equity holdings in a single company (including common stock and convertible securities) should not exceed 10% (at cost) of the individual manager's portfolio or 5% (at cost) of the Domestic Equity portfolio.

- Equity holdings will be diversified as to manager style (i.e. value and growth) across the various equity sub-asset categories, consistent with UGARF's risk tolerance. UGARF and its EFSF will review the portfolio's asset mix at least quarterly and rebalance its mix at any time one or more asset classes reaches the minimum or maximum allocation. In rebalancing, the primary focus will be on overall equity exposure. UGARF will allocate assets back to the target mix over a reasonable period of time, paying attention to the balance of manager style across the total equity portfolio. UGARF anticipates that its asset allocation targets may change periodically if needed to: meet investment objectives; provide available spending per the established spending rate; or mitigate risk.

- A minimum of 20 individual stocks should be held within each of the Individual Equity portfolios.

- Marketable common stocks, preferred stocks, preferred stocks convertible into common stocks, and bond securities convertible into common stocks are the only permissible equity investments.

b. Bond Portfolio.

- The duration of the fixed income portfolio should be targeted to that of the Barclays Intermediate Government/Credit Index and may vary +25%/-75% from the target.

- Bond holdings in a single issuer (excluding obligations of the U.S. Government, its agencies, and government sponsored entities) should be limited to 5% of the manager's portfolio measured at market value at the time of purchase.

- Acceptable asset categories include money market securities, U.S. Governments, its agencies and government sponsored entities, mortgage backed and asset-backed securities, and corporate securities. All securities may be purchased without regard to the stated final maturity date or average life of the security. The duration, as outlined above, is the measure of the price sensitivity of the portfolio and the interest rate risk control.

- A bond portfolio should maintain an average credit rating of "A" or better by at least one of the widely accepted credit rating agencies or organizations. Unrated securities of the U.S. Treasury, government agencies, and government-sponsored entities are permissible investments.

- Securities of foreign (non-U.S.) entities are limited to 20% of the total fixed income portfolio, measured at market value. The manager may employ hedging techniques to avoid unwanted currency translation risks.

- Bond purchases should be limited to readily marketable securities. Private placements are not permissible investments. Convertible bonds or preferred securities are also not permissible investments.

- Securities may be purchased on a when-issued or delayed-delivery basis.

- All exotic derivative securities are prohibited.

c. Alternative Investment Portfolio.

- Alternative strategies may be used to the extent they achieve investment objectives, mitigate risk exposure, and enhance annual spending limits.

- Alternative investments portfolios may include the following:

    - Hedge Funds – private investment pool constructed to take advantage of certain identifiable market opportunities
    - Real Assets – physical or tangible assets that have intrinsic value such as real estate, oil, precious metal, commodities, and agriculture land
    - Private Equity – equity capital of a seasoned company that is not listed on a

public exchange

- Managed Futures – strategy in which futures contracts are utilized to gain exposure to price movements in markets such as commodities, energy, agriculture, interest rates, stock indexes, and currency

D. <u>Investment Performance Objectives</u>. Specific investment performance objectives are important to measure success and facilitate ongoing review and evaluation of investment strategies. The performance objectives below are designed to provide a quantitative basis to judge the effectiveness of the Long-Term Portfolio and the individual fund managers.

1. Annualized Return. In general, the expected or modeled real return on the Long-Term Investment Portfolio should meet or exceed 4%. Specifically, over a 3- to 5-year period, the total Long-Term Investment Portfolio's annualized total return should:

- Exceed the annualized rate of inflation (as measured by the Personal Consumption Expenditures (PCE) Price Index[1]) by at least 4% (to be determined based on real return expectation);

- Meet or exceed the annualized total return of the UGARF Custom Benchmark, which is comprised of an appropriate weighting of the following benchmarks:
    - Global Equity;
    - Bonds; and
    - Alternative Investments

- Specifically, the UGARF Custom Benchmark will be composed of a weighted index comprised of:
    - 50% MSCI AC World
    - 25% Barclays Intermediate Government/Corporate; and
    - 25% 90-day T-bill + 4%.

- From inception at 12/01/2004 to 10/31/2007 the benchmark was:
    - 35% S&P 500;
    - 14% Russell Mid Cap;
    - 7% Russell 2000;
    - 14% MSCI EAFE;
    - 30% Lehman Gov't/Corp.; and
    - 2.5% REIT/7.5% T-Bill+4%.

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1 Personal Consumption Expenditures (PCE), or the PCE Index, measure price changes of consumer goods and services. Expenditures noted on the index include actual expenditures and expenditures that are attributed to households in the United States. Sharing similarities with the Consumer Price Index (CPI), the PCE is part of the personal income report issued by the Bureau of Economic Analysis of the Department of Commerce. The Fed, however, prefers the PCE index when reviewing economic conditions and charting a course of action that impacts inflation and employment.

- From 11/01/2007 to 08/31/2010 the benchmark was:
    - 20% S&P 500;
    - 6% Russell Mid Cap;
    - 4% Russell 2000;
    - 10% MSCI AC World;
    - 20% MSCI EAFE;
    - 20% Lehman Gov't/Corp.; and
    - 20% T-Bill+4%.

- From 9/1/2010 to 9/30/2016 the benchmark was:
    - 40% MSCI AC World;
    - 40% Barclays Capital Gov't/Corp; and
    - 20% T-Bill+4%.

2. Individual Fund Manager Retention Guidelines. Each asset class or investment style employed has an Index Benchmark, which is used in the asset allocation modeling process. This "proxy" for the asset class is measurable in two dimensions, rate of return and risk. The selected indices are used to develop the overall risk/return profile for the investment program. Therefore, it is also appropriate to use these indices as one of the evaluation tools for both hiring and retaining an individual fund manager. Comparison to an index gauges success relative to a broad market in which the manager invests; however, this measurement is insufficient in isolation. Comparison to a manager's peer universe provides a useful compliment to the index comparison as it reveals a manager's relative rank to other alternative manager candidates.

The following quantitative tests measure each fund manager's return and risk. Each test will be applied quarterly to determine if a new manager search process should be initiated by UGARF's EFSF.

- An existing manager's composite return fails to exceed the appropriate index benchmark for 3 successive rolling 3-year periods, advancing 1 quarter at a time.

- An existing manager's composite return versus their appropriate universe comparison fails to achieve top 1/2 performance for 3 successive rolling 5-year periods, advancing 1 quarter at a time.

- An existing manager's risk (as measured by the standard deviation of the manager's composite return) shall not exceed 150% of the standard deviation of the appropriate index benchmark over a 3-year and 5-year trailing basis.

- An existing manager's risk versus return (as measured by the Sharpe ratio of the manager's composite return) shall exceed the Sharpe ratio of the manager's appropriate index benchmark over a 3-year and 5-year trailing basis.

For each of the above requirements, individual fund manager composites will be utilized accessing the longest applicable historical information available, regardless of the manager's tenure with UGARF. The subject manager will be treated as a candidate in the search process.

Additional measures will also be employed in the evaluation process, as determined by UGARF's EFSF, including but not limited to violation of policy guidelines, staff turnover, change in firm ownership, and style drift.

E. <u>Expectations and Requirements of the Investment Committee</u>. The investment committee will operate according to the separate charter approved by the board of directors, which is attached here as Appendix C for convenience. The Investment Committee also has responsibilities as set forth in Section I of the University of Georgia Research Foundation, Inc. Policy on Equity Acquisition in Licensing, attached to this Policy for convenience as Appendix D.

F. <u>Expectations and Requirements of EFSFs</u>. EFSF are expected to meet with UGARF representatives periodically to review investment alignment with objectives, structure of the portfolios, and past results. Specifically, EFSF should assist UGARF with the following:

- <u>Developing/refining an investment policy or statement</u>. EFSF will guide the board in determining and documenting investment objectives, performance benchmarks, and guidelines for the investment managers.

- <u>Formulating asset allocation policy and rebalancing provisions</u>. EFSF will assist UGARF in determining its risk tolerance and then the appropriate asset classes, at what percent of the total (target levels), to be included in the fund structure.

- <u>Managing to the spend rate</u>. EFSF will manage the asset allocation policy to align return expectations and the UGARF spending rate.

- <u>Evaluating and selecting the investment manager</u>. EFSF will help develop criteria for manager selection within the framework of the Policy. However, it shall be the duty of the EFSF to continuously research, evaluate, and recommend additional investment options that may be prudent for the UGARF portfolios even if the investment option is not currently permitted by the Policy. If such recommendation is made, the investment committee, if in favor of the recommendation, would present such to the board and it would have the authority to accept or reject the recommendation. The investment committee would then submit in writing to the EFSF the approval of the recommendation by the board.

- <u>Evaluating and reporting investment performance</u>. EFSF will assist with performance reporting. Historical and ongoing performance reporting should be customized to meet the committee's information needs.

EFSFs will provide monthly custody statements that include:

  - The portfolio composition (i.e. asset mix at market value) for each major class of security, including cash equivalents.

  - Position, by individually named securities and/or by appropriately described units of collective funds, showing market values of individually invested securities.

  - All transactions in descriptive detail.

APPENDIX A

University of Georgia Research Foundation, Inc.
Budget Development and Spending Rate Procedures

Background:
In 2013, the UGARF board of directors agreed to maintain $26 million in UGARF's long-term investment portfolio, which in practice would operate like an "endowment". An annual spending limit, estimated to be approximately $1.04 million in the initial years, was calculated on $26 million and became a revenue source to UGARF for annual budget purposes. The goal of this approach was to allow continued long-term investment growth and an increased spending limit over time. This was the preferred approach to a previously contemplated expenditure of all but roughly $11.5 million of UGARF's long-term investment portfolio.

Procedure:
The Executive Vice President has authority with respect to, the conduct of the business and affairs of the corporation, and therefore is responsible for budget development and spending. Each January, the Executive Vice President will begin the budget development process for the next fiscal year. The proposed budget may include spending from the long-term investment portfolio. However, absent unique spending needs, and/or poor investment returns, the Executive Vice President should adhere to the following principles:

Spending from the long-term investment portfolio in any given fiscal year should not:

- Exceed 4% of the average market value of the long-term portfolio over the 12 quarters of the three (3) previous calendar years; or
- Reduce the market value of the long-term portfolio below $26 million.

The Executive Vice President will communicate with, and solicit input from, the Financial Vice President and Treasurer regarding budget development, specifically identifying any proposed annual spending rate. This will allow the Financial Vice President and Treasurer, the Investment Committee, and any external financial services firms to provide their recommendations with respect to annual spending from the long-term portfolio, as well as plan investment strategies that address the proposed spending.

Ordinarily, at each spring meeting of the UGARF board of directors, the Executive Vice President will present the final proposed budget for the next fiscal year to the UGARF board of directors for approval.

APPENDIX B

Asset Allocation Requirements – Long-Term Investment Portfolio

	Investment Portfolio	
	Target	**Range**
Global Stocks (domestic & international)	***50%***	***30-70%***
Alternative Investments:	***25%***	***0-40%***
Bonds:***	***25%***	***20-70%***

***Cash and Cash Equivalents are considered "Bonds" for purposes of Asset Allocation

APPENDIX C

UNIVERSITY OF GEORGIA RESEARCH FOUNDATION, INC.

CHARTER OF THE INVESTMENT COMMITTEE

The Investment Committee (the "Committee") was properly established by the authority of the Board of Directors of the University of Georgia Research Foundation, Inc. ("UGARF") on March 24, 2010. The purpose of this Charter is to define the precise functions of the Committee and its responsibilities and authority. Only the Board of Directors may to modify this Charter.

I. Purpose

The Committee was established to assist the Board of Directors in fulfilling its fiduciary investment responsibilities. The Committee is responsible for oversight of the general management of UGARF's investments and preservation of UGARF's resources, including its short-term and long-term investment portfolios and endowment, if any, in perpetuity.

II. Membership; Chair

There will be at least four members of the Committee, appointed by the President, who each will serve a term of at least one year. The President shall appoint the chair of the Committee, and, as of the effective date of this Charter, has appointed UGARF's Financial Vice President and Treasurer to chair the Committee.

III. Responsibilities; Authority between Meetings

The Committee shall:

1. Determine investment goals and objectives based on the Board's tolerance for risk, and make recommendation to the Board regarding any investment policy modifications the Committee determines appropriate.

2. Interview external financial services firms and make recommendation to the Board regarding those firms the Committee determines should be retained by UGARF, as well as recommend action to the Board to replace any external financial services firms that do not comply with duties and responsibilities as outlined in UGARF's investment policies.

3. Evaluate and benchmark current external financial services firms at least once every five years against other providers to identify and consider the best possible investment advice and management related to UGARF's assets, and report its findings and recommendations to the Board.

4. Meet with UGARF's external financial services firms at least twice per year to receive performance reports and monitor performance relative to objectives set forth in UGARF's investment policies, and by comparison to stated benchmarks and other appropriate indices.

5. Review periodically actual asset allocation against the minimum and maximum allocation parameters required by UGARF's investment policies, and evaluate asset allocation, fund manager, and other investment recommendations proposed by UGARF's external financial consultants. Between meetings of the Board, the UGARF Financial Vice President and Treasurer shall have the authority to direct an external financial services firm hired by UGARF to make changes to asset allocations or fund managers, or to implement other investment recommendations, so long as such changes are within the parameters outlined in UGARF's investment policies <u>and</u> only after recommendation from the Investment Committee to do so. If the UGARF Financial Vice President and Treasurer directs a UGARF external financial services firm to take any such action, s/he shall report such action to the Investment Committee at its next meeting and to the UGARF Board at its next meeting. In their discretion, either the UGARF Financial Vice President and Treasurer or the Committee may bring any recommendation to the UGARF Executive Committee, or the full Board, for consideration and approval.

6. Define and recommend to the Board procedures for controlling and accounting for investment expenses by examining money manager fees, mutual fund expenses, trading costs, soft dollar costs, custodial charges, and consulting and administrative costs and fees, and any other expenses related to investment management.

7. Avoid prohibited transactions and manage or avoid potential conflicts of interest.

8. Report its activities and recommendations to the Board at each meeting of the full Board.

IV. Meetings

The Committee will meet as often as it deems necessary or appropriate in order to fulfill its responsibilities under this Charter, either in person or through electronic means, and at such times and places as the Committee determines. Minutes of these meetings should be provided to the UGARF Secretary.

V. Resources

The Committee has the authority to conduct any investigation it determines appropriate to fulfill its responsibilities, and has direct access to UGARF's independent auditors as well as any Board member or staff person who supports UGARF. The Committee may recommend to the Financial Vice President and Treasurer, or to the Executive Committee or full Board, that UGARF retain, at UGARF's expense, special legal, investment, or other consultants or experts it deems necessary in the performance of its responsibilities.

APPENDIX D

University of Georgia Research Foundation, Inc. Policy on Equity Acquisition in Licensing

I. Introduction

Through the work of the Technology Commercialization Office ("TCO"), the University of Georgia Research Foundation, Inc. ("UGARF") occasionally has the opportunity to acquire equity in companies as consideration for a license agreement. Young companies in particular often do not have the requisite cash reserves to compete with an established company for rights to intellectual property owned by UGARF. An offering of equity is a means of enabling otherwise qualified small companies to license intellectual property from UGARF. However, UGARF's acceptance of equity raises two concerns: risk and conflicts of interest and conflicts of commitment.

Risk is an issue because, at the time UGARF would receive equity in a young company, the equity would generally have no value. Whether or not the equity will acquire value will depend upon the overall success of the company, which is a function of many factors that may not relate to the licensed intellectual property. Therefore, in order to minimize risk, UGARF will require some cash as part of the consideration for the license agreement, except for in the case of exceptional circumstances as approved by the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

Conflicts of interest and conflicts of commitment may arise when the inventors, authors, or creators of the intellectual property are also owners or equity holders in the licensee company. Owners or equity holders stand to gain if the company does well and therefore may have incentive to take actions and make decisions that favor the interests of the company over their responsibilities to UGARF and the University of Georgia. This Policy reduces the potential for real or perceived conflicts by removing inventors, authors, and creators of UGARF intellectual property, as well as departments, schools, and units of the University of Georgia, from decisions regarding the acceptance, management, and sale of equity. Equity is owned by UGARF and all decisions regarding the stock are made in the sole judgment of UGARF in accordance with this Policy.

II. Policy

In the course of intellectual property licensing, UGARF, through the work of TCO, may have the opportunity to acquire equity in a licensee company. This Policy enables UGARF to receive a benefit from acquiring equity while addressing risk management and conflicts of interest.

A. UGARF may accept equity in a company as partial consideration for licensing transactions related to UGARF intellectual property in appropriate circumstances pursuant to this Policy. TCO is given the authority to negotiate these transactions and the Executive Vice President of UGARF ordinarily will execute any final licensing arrangements on behalf of UGARF. Under exceptional circumstances approved by the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF, it may be appropriate for UGARF to accept equity as full consideration for such a transaction.

B. UGARF's acceptance of equity in consideration of licensing UGARF intellectual property shall be based upon the principles of fairness in decision-making and preeminence of the missions of UGARF over financial or individual personal gain.

C. UGARF shall neither seek nor accept representation on the board of directors of a licensee company in which UGARF holds equity, nor exercise any voting rights on board actions of the licensee company, regardless of the level of UGARF's equity interest. Exceptions to this provision require approval of the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

D. The terms of any licensing transaction, other than those related to UGARF's acceptance of equity in a licensee company, shall be consistent with other transactions for comparable intellectual property to which UGARF is a party.

E. UGARF generally shall not accept more than a fifteen (15%) ownership share in a licensee company. Exceptions to this provision require the approval of the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

F. Where there is a proposal for UGARF to accept equity in a licensee company as consideration for a transaction to license UGARF intellectual property, UGARF, through TCO, taking into account any legal restrictions, shall either:

   a. arrange for the inventors, authors, or creators of the licensed intellectual property to receive his or her share of equity directly from the licensee company upon execution of the relevant agreement, including provisions relating to restrictions, if any, on the transfer or disposition of the share of equity acquired by such inventors, authors, or creators; or

   b. take all equity, including the shares of any inventors, authors, or creators, in the name of UGARF, in which case UGARF will make decisions regarding equity disposition in its sole discretion and based upon its sound business judgment in accordance with this Policy. The sole right of any such inventors, authors, or creators under these circumstances is the receipt of the appropriate proportional share, as indicated in Section H, below, of such equity or its cash equivalent at such time and in such form as required by the University of Georgia Intellectual Property Policy and as UGARF deems appropriate.

G. Under no circumstances shall UGARF make any direct investment in any licensee company in which UGARF then holds equity unless and until UGARF's interest in the licensing transaction ends or UGARF has disposed of its equity interest. If the Director of TCO recommends to the Executive Vice President of UGARF that UGARF should vote on an issue presented to UGARF as an equity holder in a licensee company, then the Executive Vice President of UGARF has the authority to effectuate UGARF's vote on that issue, taking into consideration the recommendation of the Director of TCO and after obtaining the approval of the Treasurer of UGARF.

H. UGARF shall determine and distribute the shares or cash proceeds, upon conversion of equity to cash, to be distributed to any inventors, authors, or creators according to the memoranda of understanding between UGARF and the Board of Regents of the University System of Georgia and the University of Georgia Intellectual Property Policy, taking into account the distributions, if any, already made to inventors, authors, or creators pursuant to Section F, above, and deducting for expenses incurred by UGARF by reason of its ownership or administration of the intellectual property.

I. UGARF may dispose of equity acquired pursuant to this Policy as determined by the Treasurer of UGARF, based on recommendation of the UGARF Investment Committee and UGARF's external investment consultant and taking into consideration stipulations or requirements resulting from any Initial Public Offering by the licensee company.

J. There shall be no negotiation independent of UGARF by any inventor, author, or creator regarding any license with a licensee company. Exceptions to this provision may be approved under exceptional circumstances by the Director of TCO, the UGARF Investment Committee, and the Executive Vice President of UGARF.

K. This policy is effective April 1, 2006.