



NC STATE FOUNDATION SRI FUND

Sustainable Investing Guidelines

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NC State Foundation Sustainable Investing Guidelines NC State Foundation SRI Fund

I. INTRODUCTION

NC State Foundation's Sustainable Investing guidelines aligns the NC State Foundation Sustainable Responsible Impact Fund's (SRI Fund) investment strategy with its commitment to successful sustainability through balanced, ethical solutions that are economically viable, environmentally sound and socially just so that current and future generations may thrive.

The initial policy was developed by the Finance Division's staff with assistance from a consultant focusing on achieving a mission based investment strategy primarily through a "Best of Sector" negative/positive screening process. As the SRI Fund's sustainable investing approach has evolved, so too has this policy by further defining sustainable investing as an all-inclusive term that encompasses activities and strategies under the responsible investing and/or social responsible investing umbrella. Such strategies include negative/exclusionary screening, positive/best-in-class screening, norms-based screening, integration of ESG factors, sustainable themed investing, impact/community investing and corporate engagement and shareholder action.

This policy applies to the SRI Fund and will be applied to all asset classes within the fund. The Finance Division will adhere to this policy when making decisions that will impact the SRI Fund.

Statement of Sustainable Investment Beliefs

The NC State Foundation believes it has a responsibility to manage the SRI Fund's assets and underlying investments in a manner consistent with the values, culture, and mission of NC State University. As such, in addition to the fund's Investment Policy Statement, the Finance Division feels the need and importance to specifically highlight and illustrate certain guiding principles reflecting its responsible investing philosophy.

Sustainable Investing Philosophy

The NC State Foundation intends the integration of environmental, social, and corporate governance (ESG) considerations into investment management strategies, processes and practices in the belief that these factors can benefit the fund's performance, and provide a qualitative impact consistent with the values, culture and mission of NC State University.

The University Mission

As a research-extensive land-grant university, North Carolina State University is dedicated to excellent teaching, the creation and application of knowledge, and engagement with public and private partners. By uniting our strength in science and technology with a commitment to excellence in a comprehensive range of disciplines, NC State promotes an integrated approach to problem

solving that transforms lives and provides leadership for social, economic, and technological development across North Carolina and around the world.

II. GUIDING PRINCIPLES/DEFINITIONS

Defining Sustainable Investment

Sustainable Investment is the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

Defining ESG

1. **Environmental:** Relating to companies' interactions with the physical environment – including issues such as climate change, greenhouse gas emissions, air and water pollution, water scarcity, deforestation and threats to biodiversity.
2. **Social:** Relating to business practices that have an impact on specific communities or all of society – including issues such as health and safety, working conditions (including child labor and slavery), labor relations, human rights and respect for indigenous communities.
3. **Governance:** Relating to organizations' structure, policies, responsibilities and stakeholder relations –including issues such as executive compensation, board composition and independence, shareholder rights, and corporate accountability and transparency.

Principles of Responsible Investment (PRI)

The PRI framework as well as the Global Sustainable Investment Alliance (GSIA) provided guidance in the creation of this policy and applies to all assets of the SRI Fund. The following six Principles reinforce the Finance Divisions sustainable investing practices:

1. Incorporate ESG issues into investment analysis and decision-making process
2. Be active owners where possible, and incorporate ESG issues into our policies and practices
3. Seek appropriate disclosure on ESG issues by managers invested in by the SRI Fund
4. Promote acceptance and implementation of the Principles with the investment industry
5. Work together to enhance the SRI Fund's effectiveness in implementing the Principles
6. Report on the SRI Fund's activities and progress towards implementing the Principles

Future Impact Reporting

The next phase of these guidelines is developing a non-subjective set of criteria, potentially incorporating a smaller subset of the 17, UN SDG goals to provide an overall quantitative measurement of the impact of the SRI Fund.

United Nations Sustainable Development Goals (SDGs)

A set of 17 goals adopted by world leaders in 2015 to help guide global efforts to end all forms of poverty, fight inequality and address the most pressing environmental issues. While the SDGs are not legally binding, governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals, and the business community is expected to play a key role in achieving these.

III. SUSTAINABLE INVESTMENT STRATEGIES

The Foundation will use the following strategies as a way to proactively benefit the SRI Fund's performance:

- 1. Negative/exclusionary screening:** The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria such as Environment & Natural Resource use, Labor rights and supply chain management, Human Rights, Community Impact, Product Quality & Safety, Corporate Governance, & Animal Welfare
- 2. Positive/best-in-class screening:** Investment in sectors, companies or projects selected for positive ESG performance. (Defined in III.1 above)
- 3. Norm-based screening:** Screening of investments against minimum standards of business practice based on international norms
- 4. Integration of ESG factors:** The systematic inclusion of environmental, social and governance factors into financial analysis
- 5. Sustainability themed investing:** Investment in themes or assets specifically related to sustainability (clean energy, green technology, etc.)
- 6. Impact/community investing:** Targeted investments, typically made in private markets, aimed at solving social or environmental problems where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose.
- 7. Corporate engagement and shareholder action:** The use of shareholder power to influence corporate behavior by direct corporate engagement (i.e., communicating with senior management and boards of companies), filing or shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

The SRI fund looks to support NC State's initiatives by investing in the following categories: (not all inclusive)

ENVIRONMENTAL ISSUES	SOCIAL ISSUES	GOVERNANCE ISSUES
<ul style="list-style-type: none">• Climate Change	<ul style="list-style-type: none">• Working Conditions	<ul style="list-style-type: none">• Board Structure
<ul style="list-style-type: none">• Waste Management	<ul style="list-style-type: none">• Health & Safety Conditions	<ul style="list-style-type: none">• Executive pay
<ul style="list-style-type: none">• Pollution Management	<ul style="list-style-type: none">• Employee relations & diversity	<ul style="list-style-type: none">• Independent board of directors
<ul style="list-style-type: none">• Water Supply	<ul style="list-style-type: none">• Product Quality & Safety	<ul style="list-style-type: none">• Separate CEO & Chairman
<ul style="list-style-type: none">• Transportation	<ul style="list-style-type: none">• Community impact	<ul style="list-style-type: none">• Shareowner rights
<ul style="list-style-type: none">• Sustainability best practice	<ul style="list-style-type: none">• Collective bargaining	<ul style="list-style-type: none">• Accounting quality
<ul style="list-style-type: none">• Environmental policy	<ul style="list-style-type: none">• Labor relations	<ul style="list-style-type: none">• Audit quality

The Finance Division will seek appropriate disclosure on ESG issues by the investment managers and funds in which invested.

As a small endowment, the SRI Funds are invested in commingled funds and separate accounts with investment managers who are aligned with the policy. As a result, most investment decisions are made at the manager level, and not in individual issues or securities. This policy enables staff to invest in funds that align with the SRI Fund's stated mission.

IV. REPORTING

The Finance Division will report on an annual basis, the SRI Fund's sustainable investing activities and progress towards implementing its principles; and provide the necessary disclosures associated with the its investing efforts. Information regarding the SRI Fund's investment manager's incorporation of ESG characteristics will be highlighted. This report will be made available to the NC State Foundation Board of Director's, Park Advisory Committee, and the NC State University Administration. At the discretion of the Foundation's Board of Directors and Administration, the report may be made public.

V. REVIEWING THE POLICY

On an annual basis, the Finance Division will review these guidelines to measure the effectiveness of the SRI Fund with the use of selective performance indicators, such as SDG's. Specifically, the assessment will seek to determine: how well it is working; what progress towards goals have been made; how is the implementation working; what issues are we facing and need to address; what adjustments or revisions, if any, need to be made; has anything changed that requires the Finance Division to make changes to the policy; are there new approaches to responsible investing that could be considered; are the policies consistent with the values, mission and culture of North Carolina State University.