

Endowment Management

INVESTMENT OBJECTIVES

The overall **financial objective** of the Fund is to provide a level of support (as determined by the Fund's spending policy summarized in Section I) consistent with the Fund's purchasing power being maintained or enhanced over time.

The **primary investment objective** of the Fund is to attain a real total return (net of fees) of at least 6% with acceptable risk to preserve and continue to enhance the purchasing power of the fund assets. Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index (CPI for All Urban Consumers, CPI-U).

ASSET ALLOCATION & REBALANCING

The Asset Allocation Policy Table below defines the long-term policy ranges and present target asset allocation percentages of the Endowment portfolio. The Committee will periodically review and recommend asset class allocation targets and minimum / maximum ranges.

	Long-Term Policy Range	Target
Public Market Equities		
Domestic:		
Non-US:	<u>NOT AVAILABLE FOR</u>	
Total:	<u>PUBLIC VIEWING</u>	
Fixed Income		
Inflation Hedging		
Hedge Funds		
Other Alternative Assets		
Total:		100%

INVESTMENT MANAGEMENT STRUCTURE

The Committee is responsible for the investment of the University's Endowment Fund. To meet this responsibility the Committee will:

- Adopt and periodically review investment objectives and policies appropriate to the University's financial goals and policies;
- Appoint, review and, if necessary, replace investment managers and advisors;
- Monitor the performance of the University's investment managers and advisors as well as the investment-related duties of the Treasurer.

The Committee will regularly report on these matters to the full Board of Trustees and/or the Executive Committee. The Committee shall consist of at least five Trustees and the Vice President for Business Affairs. Meetings will be held as required, normally three times per year.

The majority of the Fund will be managed by external investment managers. Each investment manager shall have complete discretion to manage the assets in each particular portfolio to best achieve the investment objectives and requirements, consistent with their style and within the guidelines set forth in this policy statement.

PORTFOLIO COMPOSITION AND ASSET ALLOCATION

1. The total Fund shall be diversified by asset class (i.e. equities, fixed income, hedge funds alternative investments such as private equity, venture capital, natural resources, real estate, and cash equivalents) and sub structure (i.e. market cap size, quality, investment style, etc.). The purpose of diversification is to provide (i) reasonable assurance that no single security or class of securities will have a disproportionate impact on the total Fund, and (ii) a well designed mix of asset classes which should result in reduced volatility for the overall Fund

2. To achieve its investment objective, the Fund shall be divided into the following key asset classes:

- Public Market Equities, including both US and non-US investments
- Fixed Income Assets, which include public market bonds and cash and equivalents
- Inflation Hedging Assets, such as real estate, natural resources, commodities and TIPS
- Hedge Funds, including hedged equity and absolute return strategies
- Other Alternative Assets, such as private equity, venture capital and distressed debt

Over the long run, the allocation mix across these key asset classes will be the most important determinant of the overall Fund's investment performance.

3. The purpose of the equity focused-asset classes such as (public equities, inflation hedging assets, hedge funds and private market investments - is to provide a total return that will provide for growth in principal sufficient to support spending requirements, while at the same time preserving the purchasing power of the Fund's assets. It is recognized that the equity focused assets will exhibit greater market variability and risk than fixed income assets. The purpose of the fixed income assets defined as bonds and cash equivalents is to reduce the overall volatility of the Fund, to produce current income in support of spending needs, and to provide a deflation hedge.

GUIDELINES FOR THE EQUITY FOCUSED ASSETS

1. The objective for the Equity Focused Assets is to outperform the broad global equity markets as defined as the MSCI All Country World Index. Individual sub-components of the overall Equity Focused Asset class will have specific benchmarks (as outlined in Appendix A) against which performance is measured.

2. The Equity Focused Assets will be broadly diversified according to market cap, investment style, economic sector, and other investment characteristics. Decisions as to individual security selection, security size and quality, number of industries, holdings, current income levels, turnover and the other tools employed by active managers are left to a broad manager discretion, consistent with their style, subject to the usual standards of fiduciary prudence.

4. Unless otherwise instructed, an equity manager may at their discretion invest in either cash equivalents or bonds, but with the understanding that performance will be measured against fully invested equity indexes as outlined in Appendix A. A portion of the Equity Fund, not to exceed 25% of the total market value of the endowment, may be allocated to managers specifically investing in non-U.S. common stocks.

6. Alternative Investments involve investing in non-traditional asset classes and in traditional asset classes structured in a non-traditional manner. The Committee may allocate a portion of the equity focused assets to alternative equity assets such as real estate; venture capital; private equity; oil and gas; distressed securities; and hedge funds. These investments combined shall not exceed 52% of the total aggregate market value of the Fund. Alternative managers are expected to use their specific investment skills to generate long-term equity-like returns that are not highly correlated to traditional asset classes. Alternative investment strategies shall be used to enhance investment returns and overall portfolio diversification.

Due to the slow pace of capital calls in private partnerships, the Committee may need to over-commit capital above target levels (assumed to be approximately 150%) in order to attempt to achieve an average investment in subclasses of non-marketable alternative investments at the individual target levels

established for each subclass. Investments in alternative assets will be made primarily in partnerships where the University is a limited partner relying upon the expertise of experienced general partners.

GUIDELINES FOR THE FIXED INCOME ASSETS

1. The objective of the Fixed Income Assets is to outperform the Barclays Capital Aggregate Bond Index (net of fees) as well as the Cambridge Associates' bond manager mean. Performance will be monitored on a regular basis and evaluated over a running three to five-year period.

2. Money market instruments as well as bonds may be used in the Fixed Income Assets, but equities and convertibles (if the latter are bought at prices above their investment value) are to be excluded. Fixed Income managers are expected to typically employ active management techniques with changes in average duration typically expected to be moderate and incremental. The core fixed income managers are expected to maintain a minimum average duration and quality consistent with the Fixed Income Assets' deflation hedge objective.

GUIDELINES FOR TRANSACTIONS

Marketable asset classes that exceed policy ranges will be rebalanced to target levels periodically by the Treasurer. The Treasurer will also utilize the quarterly spending rate draw downs to rebalance asset categories within target range. Excess allocations intended for non-marketable asset categories will be carried, prior to their investment in non-marketable assets, in one or more other asset classes after consultation with the Committee. New cash flows shall be allocated to investment managers in a manner consistent with rebalancing the portfolio to target.

As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. Managers shall have the discretion to execute securities transactions with brokerage firms of their choosing, based upon the quality of execution rendered, the value of research information provided, the financial health and integrity of the brokerage firm, and the overall efficiency in transacting securities trades. In the case of separate accounts, the Committee retains the right to direct brokerage commissions subject to best execution, in order to benefit from brokerage recapture programs.

MONITORING OF OBJECTIVES AND RESULTS

All objectives and policies are in effect until modified by the Committee, which will review these annually for their continued pertinence. All managers are expected to observe the specific limitations, guidelines, and philosophies stated herein or in any amendments hereto, or other written instructions from the Committee or an officer of the University. If at any time a manager believes that any policy guideline inhibits their investment performance, it is the manager's responsibility to clearly communicate this view to the Committee.

The Fund portfolios will be monitored on a continual basis for consistency in investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to key economic sectors, and market volatility. Portfolio returns will be reviewed by the Committee on a quarterly basis. The Committee will regularly review each manager in order to confirm that the original investment factors underlying performance expectations remain in place.

Each investment manager will report the following information quarterly: total return net of all commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and investment outlook is expected. Additionally, managers are required to inform the Committee of any changes in firm ownership, organizational structure, key investment personnel, account structure / assets in strategy (e.g., number, asset size and account minimum), or fundamental investment philosophy. Managers for alternative investments shall provide in writing, the policies and procedures used in periodic portfolio valuation. At a minimum, the Manager will address the following:

- Nature of underlying investments, including factors such as complexity, liquidity, volatility and frequency of trading
- Methodology and assumptions used in valuation
- Checks and balances in place to ensure a fair evaluation process

Performance results will be evaluated relative to benchmarks (net of fees) assigned to asset classes and Managers. These benchmarks are a vital element in the evaluation of individual and aggregate Manager performance within each asset class. Performance of the Endowment (net of fees) and its component asset classes and managers will be measured against benchmark returns of comparable portfolios as outlined in Appendix A.

Performance of the Endowment portfolio will also be compared to the endowment universe with similar investment allocations. It is expected that the total portfolio will perform above the median performance in the comparable fund universe provided by the Investment Advisor and the National Association for College and University Business Officers (NACUBO). Managers are expected to equal or exceed the return of the agreed benchmark and generally perform in the top 40th percentile (40%) or better of their respective peer group over a market cycle (three to five years), as measured by a broad performance database that evaluates Managers as to style, risk and return.

SPENDING POLICY

The Endowment’s spending policy governs the rate at which funds are released to fund operating and restricted spending. The current spending policy shall be expressed as a maximum of 5 percent of a three-year moving market value average of the assets in the endowment funds (calculated for fiscal budgeting purposes on the asset’s valuations for the trailing twelve quarters as of March 31 of each year). Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the investable assets. In addition, this policy will minimize the probability of invading the principal over the long term.

Since there may occasionally be situations requiring a higher percentage of spending from investable assets, in order to assure the short term economic viability of the University, the Committee is authorized to increase the spending rate, as necessary, on a temporary basis. Such an increase should not be undertaken without clearly justifiable cause, and in no case without explicit approval of the full Board of Trustees, since spending above this level result in an increasing probability of erosion of the principal value of investable assets in real terms and inter-generational spending inequities. The spending rate will be reviewed annually by the Finance Committee for recommendation to and approval by the Board of Trustees.

Revised: October, 2007

Appendix A

Endowment Fund Benchmarks

Total Endowment	Aggregated weighted return equal to the actual asset class composite market value as a percentage of total portfolio market value multiplied times the selected benchmarks for the asset class composites. & A weighted hybrid index of S&P 500 88%/LB Aggregate Bond Index 12%
Total Equity Focused Assets	MSCI All Country World Index
US Equity Composite	S&P 500 Index

US Equity Large Cap Indexed	S&P 500 Index
US Equity Large Cap Growth	Russell 1000 Growth Index
US Equity Large Cap Value	Russell 1000 Value Index
US Equity Mid/Small Cap Growth	Russell 2500 Growth Index
US Equity Mid/Small Cap Value	Russell 2500 Value Index
US Equity Small-Cap Value	Russell 2000 Value Index
Global ex U.S. Equity	MSCI EAFE Index
International Equities (developed markets)	MSCI EAFE Index
International Equities (Emerging markets)	MSCI Emerging Markets Index
Global Equities	MSCI World Index
Marketable Alternatives	HFR Fund of Funds Index
Hedge Funds (Long/Short Equity Strategies)	HFR Fund of Funds Index
Hedge Funds (Absolute Return Strategy)	ML T-Bill Index + 5%
Hedge Funds (Commodities & Natural Resources)	DJAIGTR Commodity Index
Non-Marketable Alternatives (Private Equity, Venture Capital, Distressed Debt)	S&P 500 Index + 5%
Inflation Hedging	CPI-U + 5%
Real Estate (Marketable)	Dow Jones Wilshire Real Estate Securities Index
Real Estate (Non-Marketable)	NCREIF Property Index
Oil & Gas / Natural Resources	CPI-U + 5%
Fixed Income	Barclays Capital Aggregate Bond Index
Domestic High Quality Bonds	Barclays Capital Aggregate Bond Index
Global Bonds	Citigroup World Government Bond Index
Domestic High Yield Bonds	Barclays Capital High Yield Composite Bond Index
Cash and Cash Equivalents	Merrill Lynch 91-Day Treasury Bills

All asset classes and managers will also be benchmarked against median performance tracked within the manager universe maintained by the University's Investment Advisor.