GENERAL INVESTMENT POLICY AND GUIDELINES

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Introduction

The Research Foundation for the State University of New York (RF) Investment Policy and Guidelines (Policy) is issued for the guidance of fiduciaries and other interested parties, including the RF Investment Committee (Committee), RF management, and consultants in the course of investing the assets of the RF. This Policy may be amended by the Committee.

The Policy serves to:

- Establish investment parameters that incorporate prudent asset allocation and reasonable total return goals relative to risk.
- Outline the investment responsibilities of the Committee, the RF investment staff, and investment consultants.

It is expected that this Policy will be reviewed at least annually to ensure that it provides for the effective management of the RF's investment portfolio.

The RF reserves the right to make exceptions or changes to this policy at any time or as warranted by unique circumstances, with approval of the Committee.

I. Investment Pools

Funds for investment are generally derived from Sponsored Program funds, Agency funds, and Designated Campus/Central Office funds and collections from Fringe Benefit charges.

- *Sponsored Program funds* are received from sponsors in advance of incurring the expenditure for which they are restricted.

- *Agency funds (Contracted Services)* are held by the RF as custodian or fiscal agent for other SUNY-related organizations.

- *Designated Campus/Central Office funds* are typically unrestricted revenue designated or allocated by the board of directors for specific campus or central office activities.

- *Fringe Benefit* charges include funds collected for post-retirement health care costs and are deposited into a VEBA trust.

Funds for investment are deposited into one of the following:

Liquid/Short Term Pool – Funds are invested in this pool to provide the minimum level necessary to satisfy short term cash flow requirements. Cash flow shall be monitored daily.

Investments within this pool shall be in the form noted below unless otherwise required under the terms of a grant or contract.

- U.S. Treasury securities.

- Securities issued by U.S. government agencies or by government sponsored entities, including Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Small Business Administration and Student Loan Marketing.

- Money market securities, including commercial paper rated A-1 or better by Standard & Poor's (S&P) or its equivalent as rated by another nationally rating service, collateralized certificates of deposit and banker's acceptances for banks rated A or higher with maturities limited to one year.

- Repurchase and reverse repurchase agreements collateralized at 102 percent (marked to market daily) with Treasury and agency securities that meet the requirements established in this Policy.
- Municipal obligations rated A-1 or higher by a nationally recognized rating agency.
- Money market funds or short duration fixed income funds that are regulated by the Securities and Exchange Commission and carry an overall average quality rating of A or better.

- Money market deposit accounts with US banks in the top five US banks in terms of total assets.

Operational Pools - Funds are invested in one of these pools when the Liquid/Short Term Pool contains excess cash.

The objectives for the Operational Pool are as follows:

- Ensure adequate liquidity for operating needs
- Preserve capital in negative market environments
- Provide annual support for the RF's operating budget and preserve the real purchasing power (after inflation and fees) of the assets over time
- Generate reasonable risk-adjusted returns that compare favorably with peer institutions

Each pool has a different risk, return, and liquidity profile. Portfolio construction and manager selection should be aligned with the respective goals of each pool.

- Operational Pool Medium Duration: 70% of the portfolio is assumed to have a duration of 1-6 years. 30% of the portfolio is assumed to have potential for withdrawal in less than a year. Long term return target of 5.0%. Aim to minimize the probability of a decline in excess of 5% in any single year.
- Operational Pool Long Duration: 80% of the portfolio is assumed to have a duration of 7-10 years or longer. Long term return target of 7%. Aim to minimize the probability of a decline in excess of 15% in any single year.

Voluntary Employee Beneficiary (VEBA) Trust – A VEBA Trust has been established to separately invest funds for post-retirement health care benefits to eligible employees. The VEBA Trust is a separate legal entity.

These funds are designated to meet the cost of health insurance for current and future retirees.

The investment strategy for the trust should allow the RF to meet ongoing obligations while minimizing contributions and controlling risks.

Ordinarily, the asset allocation plan would be structured such that:

- Short term liabilities are funded by short term assets
- Intermediate term liabilities are funded by intermediate term assets
- Long term liabilities are funded by long term assets

Currently short and intermediate term liabilities will be paid from routine operational cash that is collected as part of the fringe benefit rate charged against salaries. Accordingly assets within the Trust should be allocated to fund long term liabilities. If the funding plan changes and funds are deposited to cover the current year benefit obligations, these funds will be invested in cash/short term assets and available for monthly withdrawals.

- 80% of the portfolio is assumed to have a duration of 7-10 years or longer. Long term return target of 7%. Aim to minimize the probability of a decline in excess of 15% in any single year.

II. Investment Guidelines and Asset Allocation

A. Diversification

The RF's assets will be diversified both by asset class (e.g., equities, bonds, absolute return, real estate, commodities, inflation-protected securities and cash equivalents) and within asset classes (e.g., by country, economic sector, industry, quality, and size). The purpose of diversification is to minimize unsystematic risk and to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Operational Pools.

The classification of investment managers by asset class will be driven primarily by the expected risk/return profile of the investment manager, correlation with other asset classes and underlying macroeconomic drivers of performance and not necessarily the type of securities being invested in.

B. Asset Allocation Monitoring and Compliance

If any asset class weighting is outside its respective permissible range by +/- 5 percent at the end of any calendar quarter, the investment consultant will advise the Committee at the next Committee meeting. The portfolio should be re-balanced to bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

Diversification within asset classes will also be monitored by the investment consultant and appropriate rebalancing within asset classes or across managers should be undertaken if exposures become significantly over/under weight versus respective target size.

C. Strategic Rebalancing

The investment consultant may, suggest asset-rebalancing strategies, even if a particular pool is not actually out of compliance. These strategies will be implemented in pursuit of exploiting short term pricing inefficiencies.

D. Asset Allocation

In order to have a reasonable probability of consistently achieving the RF's long term return objectives, the Committee has adopted the asset allocation policies outlined below:

OPERATIONAL POOL MEDIUM DURATION		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**3%**	**0-10%**
Fixed Income	**31.5%**	**15-45%**
Government Bonds	12.5%	0-20%
Credit	19%	5-30%
Equities	**33%**	**20-40%**
Global Equities	17%	10-30%
Hedged Equities	16%	0-30%
Private Equity	0%	0%
Absolute Return	**15%**	**0-25%**
Real Assets	**17.5%**	**5-30%**
Inflation-Protected	12.5%	0-20%
Commodities	0%	0-5%
Global Real Estate	5%	2-15%

OPERATIONAL POOL LONG DURATION		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**1%**	**0-10%**
Fixed Income	**21%**	**5-30%**
Government Bonds	8%	0-30%
Credit	4%	0-20%
Private Debt	9%	0-20%
Equities	**60%**	**40-80%**
Global Equities	28%	20-50%
Hedged Equities	15%	0-25%
Private Equity	17%	0-25%
Absolute Return	**5%**	**0-20%**
Real Assets	**13%**	**10-30%**
Inflation-Protected	3%	0-10%
Commodities	0%	0-10%

Global Real Estate	10%	5-20%

Voluntary Employee Beneficiary Association (VEBA) Trust		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**1%**	**0-10%**
Fixed Income	**21%**	**5-30%**
Government Bonds	8%	0-30%
Credit	4%	0-20%
Private Debt	9%	0-20%
Equities	**60%**	**40-80%**
Global Equities	28%	20-50%
Hedged Equities	15%	0-25%
Private Equity	17%	0-25%
Absolute Return	**5%**	**0-20%**
Real Assets	**13%**	**10-30%**
Inflation-Protected	3%	0-10%
Commodities	0%	0-10%
Global Real Estate	10%	5-20%

E. Ineligible Investments

Unless specifically approved by the Committee or consistent with the Exception below, certain securities, strategies and investments are ineligible for direct investment:

- Derivative instruments, except as otherwise permitted in the Derivatives Policy and for Currency hedging overlays.
- Privately-placed debt, except marketable securities issued under Rule 144A.
- Initial investments in lettered, legend or other so-called restricted stock.
- Private placements, real estate, oil and gas and venture capital.
- Investments in transactions that may generate unrelated business taxable income (“UBTI”) are permitted as long as it is expected to be low and UBTI at the portfolio level is well below 10% of total revenue.
- Investments or transactions that would be non-exempt prohibited transactions under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.
- Securities of the investment manager, their parent or subsidiary companies (excluding money market funds) or any other security that could be considered a self-dealing transaction.

- **Exception**: A campus President and Operations Manager may elect to make annual direct investments[1] in SUNY Affiliated Startup Companies[2] of up to twenty percent (20%) of the campus' intellectual property royalty income (i.e., revenue generated by licensees of intellectual property, or liquidation events by companies in which the RF own equity on behalf of the campus measured at the time a request is made), provided that the request is reviewed and approved by the RF Vice President for Industry and External Affairs and the RF Chief Financial Officer. The maximum direct investment a campus may make in any specific SUNY Affiliated Startup Company over a three-year period may not exceed $1 million. All direct investments will be administered and managed pursuant to all applicable policies and procedures, including but not limited to the Responsibility for Losses Policy, Conflict of Interest Policy, and Equity Administration Policy.
  - To be eligible for a direct investment, a SUNY Affiliated Startup Company must have raised at least $1 million in grants or private capital or a combination thereof.
  - No request will be considered unless the campus President and Operations Manager provide: (1) an investment due diligence memorandum and any other documentation requested, which may include corporate records and charter documents, business plan and financials, intellectual property, security issuances and agreements concerning securities, materials agreements, information regarding disputes and potential litigation, and information regarding employees; and (2) a letter acknowledging that the requested direct investment is high risk and RF Central Office is not responsible for any losses, financial or other.
  - The RF Vice President for Industry and External Affairs shall inform the Committee of all requests, approved transactions, and related outcomes as part of a quarterly report on all equity positions held by RF in SUNY Affiliated Startup Companies pursuant to this policy.
  - Direct investments in SUNY Affiliated Startup Companies must be funded utilizing RF's short-term pool. However, if there are not sufficient short-term funds available, Operating Pool Medium Duration holding may be liquidated to fund the investment.

F. Investments

1. Absolute Return Hedge Funds

Hedge funds are private investments, generally structured as limited partnerships or investment companies. Hedge Fund investment managers are allowed to operate with greater flexibility than most traditional investment managers, and their compensation usually includes substantial performance incentives.

The RF may invest in Fund-of-Funds or individual hedge funds. A Fund-of-Funds is managed by an Investment manager, who subsequently invests in the hedge funds of multiple underlying Investment Advisors. Therefore, Fund-of-Funds are also referred to as Multi-Advisor Funds. Because they are diversified, Fund-of-Funds help to reduce the individual fund-specific risk. Hedge fund investments are less transparent than traditional investments and liquidity in such investments may be limited.

The Committee may consider investments in hedge fund strategies within the context of an overall investment plan. The objective of such strategies will be to diversify the RF's portfolio,

[1] Direct investment for purposes of this policy does not include equity in lieu of payment transactions under the Equity Administration Policy or any follow-on investments contemplated by a license agreement at the time of its execution.

[2] A SUNY Affiliated Startup Company is a company that has: 1) licensed intellectual property from RF; 2) is a graduate, tenant, or program participant in a SUNY business incubator or accelerator; or 3) is led by an individual or team with an affiliation to SUNY (i.e., student, faculty, staff, alumni).

complementing traditional equity and fixed-income investments and improve the overall performance consistency of the portfolio. When investing in Fund-of-Funds or individual hedge funds, offering memorandums must be reviewed by the investment consultant to ensure that such investments would not constitute any violations of the RF's Investment Policy. Transparency and liquidity constraints, including lock-up provisions, will be taken into consideration when making allocations to such investments.

Allowable Hedge Fund Strategies: Hedge funds are expected to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments. Such strategies may include, but are not limited to, the following:

- Long/Short Equity
- Convertible Arbitrage
- Merger/Risk Arbitrage
- Fixed-Income Arbitrage
- Distressed Securities

Allowable Hedge Fund Investments: The above-referenced strategies may include investments in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

2. ***Equity Hedge Funds***

The RF may consider an allocation to equity hedge funds as a complement to the traditional long-only equity allocation. Within the equity hedge category, the RF would typically invest in. Fund-of-Funds, though individual hedge funds are not prohibited. Manager strategies focus on long biased long/short equities and will be diversified with respect to each manager's approach to security selection. The objective of such strategies is to achieve returns similar to traditional equities with roughly half the volatility

3. ***Private Equity/Private Equity Real Estate***

Private equity funds, including private equity real estate funds, are private investments, generally structured as limited partnerships or investment companies. Private equity investment managers are allowed to operate with greater flexibility than most traditional investment managers, and their compensation usually includes substantial performance incentives.

Liquidity in private equity investments is very limited and in most case "illiquid". Most private equity funds have lifecycles of 5 to 12 years. Unlike hedge funds that are marked to market monthly and offer monthly/quarterly/annual liquidity, private equity investments call capital over a period of time and do not return capital until their investments are fully realized via the sale of underlying assets (i.e., companies, properties, etc.). Therefore, there is limited ability to redeem these investments, and return of capital and any cash gains are typically limited to when the underlying managers pay distributions upon the sale of assets.

The Committee may consider investments in private equity funds, including private equity real estate funds, within the context of an overall investment plan. The objective of these investments will be to generate attractive long term returns within the overall "Total Equities" exposure that includes public, hedged and private equity. When investing in private equity funds, offering memorandums must be reviewed by the investment consultant to ensure that such investments would not constitute any violations of the RF's Investment Policy.

4. **Foreign Currency**
The RF's liabilities are 100% US$ denominated. Therefore, non-US$ currency exposures is a risk to the portfolio achieving its goal to optimize returns in US$. As an asset class, currencies have a long term expected return of 0%, but always have volatility. Therefore, unless an investment manager can successfully time the exposure to currencies, adding currency exposure to the portfolio only adds portfolio risk (as measured by volatility) without a corresponding improvement to expected portfolio return.

To reduce currency exposure from foreign exchange rate fluctuations, currency hedging strategies may be implemented by the Committee at the recommendation of the investment consultant.

- The target will be to hedge approximately 50% of the estimated foreign currency risk relative to the US$.
- Only currencies with exposure that the investment consultant, reasonably estimates is greater than 10% of portfolio value (excluding illiquid investments) will be subject to currency management. In certain cases, the Committee may choose to hedge exposures under 10%. The investment consultant will be responsible for making such recommendations.
- After a currency hedge is deployed, the hedge will remain in place even if the currency exposure then drops below 10%. The Committee will assess, based upon recommendation from the investment consultant, when and if the hedge should be removed.
- The currency hedge should be re-balanced annually or if the value of the hedge deviates plus or minus 30% from the initial exposure. For example, if Euro/$ exposure is 10% and the hedge covers 50% of this exposure (5% of portfolio value), the hedge would be rebalanced if the hedge value were to drop below 3.5% or 6.5% of the total portfolio.
- Illiquid investments will not be hedged; however, other investments in private equity assets will be subject to currency hedging.

5. **Derivatives**
The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more efficiently and at a lower cost. Except in the case of pooled investment vehicles such as limited partnerships or mutual funds (hedge funds, private equity funds, venture funds and certain other private investment funds) derivatives should not be used to leverage portfolios.

The investment consultant may recommend investment managers that engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the manager and as noted below.

Hedging: To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.

Creation of Market Exposures: Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.

Management of Country and Asset Allocation Exposure: Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for this purpose.

By way of amplification, it is noted that the following two uses of derivatives are prohibited:

Leverage: Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial vehicle beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.

Unrelated Speculation: Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial vehicle unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

6. Other Considerations

The Committee considers environment, social and governance (ESG) factors in making its investment decisions. While the Committee's primary objective is to manage capital prudently and seek financial return for the benefit of the institution, the Committee believes that evaluating ESG considerations and risks is consistent with the goal of maximizing the long term risk adjusted returns of the portfolio. Since the Committee manages the portfolio predominantly through external investment managers, it seeks to engage in a dialog with these managers about integrating ESG considerations into their investment processes and ownership philosophy with the assistance of its investment advisor.

The Committee recognizes that as an economic development and innovation engine, SUNY and its campuses may wish to use unrestricted funds on investments enabling SUNY research and innovation to transform the world's knowledge economy and solving the world's most pressing problems. Thus, the Committee recognizes that in certain circumstances RF management should be allowed to approve requests from campuses to reinvest income generated from intellectual property licenses in SUNY Affiliated Startup Companies.

III. Performance Standards and Evaluation

Investment performance, portfolio risk exposure and risk-adjusted returns will be evaluated and compared with peer institutions, the Allocation Index, and the Policy Index. While it is anticipated that there will be fluctuations in investment performance, the investments should, at a minimum, produce a long term rate of return, net of all expenses, that approximates the Policy Index. Returns for the RF and for individual managers are expected to rank in the top third of comparable funds or managers, respectively, over a full market cycle.

[1] ***Allocation Index*** is calculated by taking the actual asset class weights, at quarter end, times the return of the respective passive benchmark. It measures the effectiveness of the portfolios' deviations from target weights.

[2] ***Policy Index*** is calculated by taking the target asset class weights times the return of the respective passive benchmark (calculated quarterly). It measures the effectiveness of the RF's asset allocation structure.

Investment managers will be reviewed regularly by the investment consultant regarding performance, personnel, strategy, research capabilities, organizational and business matters and other qualitative factors that may impact their ability to achieve the desired investment results.

The investment performance of investment managers shall be measured (e.g., total return and risk adjusted return) against the investment performance of other managers with similar investment styles (e.g., large cap growth equity manager against other large cap growth managers). Furthermore, investment performance will also be measured against an appropriate index benchmark (e.g., small cap core equity managers will be measured against the Russell 2000 Index).

Performance reports shall be compiled quarterly and provided to the Committee for review. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, risks and guidelines as set forth in this Policy. The Committee may terminate an investment manager for any reason including the following:

- Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established or unacceptable justification of poor results.
- Investing in asset classes other than the asset classes for which the manager was engaged.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.

IV. Investment Income Allocation

For sponsored program awards that require cash advances be allocated investment income, investment income net of investment fees will be allocated to the award based upon the average monthly earnings in the Liquid/Short Term Pool.

Funds invested separately for a specific campus or program will be allocated investment income/losses inclusive of investment fees based upon the actual investment income earned or lost.

Other Investment earnings or losses, net of investment fees and other charges as approved in the Annual Operating Plan from the Liquid/Short Term and Operational pools shall be allocated proportionately to each campus in a reasonable manner as determined by the Chief Financial Officer.

Distributions of investment income will be made to each campus with a cash surplus unless deemed to be fiscally imprudent by the Chief Financial Officer.

Campuses with cash deficit balances shall be charged interest at the higher of the four year average yield of the Operational Pool or the average interest rate which would be charged on the RF Line of Credit (LOC). Interest amounts charged to campuses with cash deficits, net of interest actually charged on the LOC shall be allocated to campuses with cash surpluses.

V. Responsibilities

A. Investment Committee

The Committee operates under the RF Board of Directors Charter which is incorporated herein by reference.

B. Central Office Investment Staff

The CFO of the RF is responsible for day to day management and oversight of all investments in accordance with this Policy. The RF's investment staff will facilitate and assist the Committee and the CFO in carrying out its duties and will:

- Monitor Policy for compliance.
- Review the work performed by the investment consultant pertaining to investment manager performance, personnel, strategy, research capabilities, organizational and business matters and other qualitative factors that may impact the investment manager's ability to achieve the desired investment results.
- Monitor cash on a daily basis, minimizing idle funds and maximizing the use of investments.
- Allocate and distribute investment income.
- Maintain appropriate internal controls over investments.
- Maintain appropriate accounting and financial reporting for investments.
- Facilitate and work with investment managers, consultants and custodian as appropriate.
- Communicate information on the investments as appropriate.

C. Investment Consultant

The investment consultant will act as an objective, non-discretionary advisor to the Committee. The responsibilities include:

- Provide performance evaluation reports to the Committee on a quarterly basis. Reports will include absolute and relative performance of each of the investment managers and the total fund. The consultant will utilize meaningful market indices for comparisons. Also, provide specialty reporting, and analysis of the overall program for portfolio risk.
- Provide proactive advice to the Committee on investment guidelines, asset allocation and manager structure; assist in the selection of new investment managers and in the termination of managers; alert the Committee of any adverse developments concerning the Fund and the performance of the managers; report on market trends and external change (market intelligence); provide research materials and educational seminars on different asset types or topics, as requested.
- Monitor the activities of investment managers to determine compliance with this Policy and generally accepted industry standards.
- Meet quarterly for a formal performance review or at other such times as the Committee may reasonably request.

D. Investment Managers

Investment managers must assume the following responsibilities:

- Exercising investment discretion within the guidelines and objectives stated herein and/or as described in any or all of the appropriate documents including the respective investment advisory agreement, fund prospectus, offering memorandum and/or limited partnership agreement. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.

- Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary. Fund assets should be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of assets.
- Using best efforts to ensure that portfolio transactions are placed on a "best execution" basis.
- Meeting with the Committee, investment consultant or central office investment staff if requested.
- Providing written reports to the investment consultant on a routine basis. Reports should include information such as organizational changes, changes to the investment process, departures/addition of key staff, performance review including comparison to benchmark, portfolio holdings and other comments or information deemed pertinent.

E. Custodian

In order to maximize the RF investment return, no money should be allowed to remain idle. Any dividends, interest, sale proceeds, new contributions and all other monies are to be invested or reinvested promptly.

The custodian bank(s) will be responsible for performing the following functions:

- Accept daily instructions from designated investment staff.
- Immediately advise designated investment staff of additions or withdrawals from account.
- Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
- Resolve any problems that designated investment staff may have relating to the custodial account.
- Safekeeping of securities.
- Collection of interest and dividends.
- Daily cash sweep of idle principal and income cash balances.
- Processing of all investment manager transactions.
- Collection of proceeds from maturing securities.
- Disbursement of all income or principal cash balances as directed.
- Providing monthly statements by investment account and a consolidated statement of all assets.
- Working with the investment consultant and the central office investment staff to ensure accuracy in reporting.
- Perform monthly reconciliation of custody and investment managers' accounting statements.

VI. Conflict of Interest

It is the policy of the Committee to review potential conflicts of investment managers, consultants or funds. Therefore, if members of the Committee have a pecuniary relationship or a potential conflict of interest with any manager, consultant or fund, they need to disclose such relationship or conflict to the Committee and abstain from voting on related items.

VII. Code of Ethics

In an effort to maintain the highest ethical standards, the investment managers and the investment consultant will completely adhere to their respective internal code of ethics as required by the SEC, FSA and/or NFA as delineated in their most recent edition. Committee members and staff will adhere to the RF's internal policy on ethical behavior.

VIII. Implementation

All new monies received by investment manager(s) after the adoption of this Statement of Policy shall conform to the Statement. To the extent that RF assets are not currently managed in accordance with this Statement, the investment manager shall conform in all respects to this Statement within 60 days of its receipt.

IX. Amendments

The Committee may amend this Policy, as needed. The Committee, through the RF's staff, also reserves the right to direct the investment managers and investment consultant to take any appropriate actions, whether or not consistent with this Policy, if market conditions, liquidity needs or other circumstances so indicate.

X. Policy Review

It is the policy of the Committee to review this Policy at least annually and to communicate any material change thereto to the investment consultant and managers. Revisions to this Policy may be made only in writing by the Committee. However, the investment consultant and the investment managers are expected to notify the Committee when, in their judgment, they believe it is appropriate to modify the Policy.

XI. Risk Policy

The RF's investment philosophy is to create a process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program. The RF's investment process revolves around the management of risk, not the management of an investment return.

The RF seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the investment objectives. While the RF recognizes the importance of preservation of capital, it also recognizes that to achieve the investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns.

The Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. That is, the level of risk taken should be consistent with the return objectives of the various investment pools. The Committee is responsible for:

- understanding the risks in various investment strategies
- measuring and monitoring risks
- ensuring proper return relevant to risk

The Committee establishes the framework for risk management through the investment policy, which includes such items as the strategic asset allocation and performance objectives. However, tolerance for risk may also be expressed in the form of various other metrics or types of risk. The Committee is responsible for managing total risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established. Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee.

Principal risks that impact the investment program

General risks

- *Market risk* is the risk that the value of an investment will decrease due to moves in market factors.
- *Liquidity risk* is the risk that arises from the difficulty of selling an investment. Some assets are highly liquid and have low liquidity risk, while other assets are highly illiquid and have high liquidity risk.
- *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of the investment.
- *Concentration of credit risk* is defined as an excess of investments in any one issuer or exposure to a number of counterparties engaged in similar activities and having similar economic characteristics that would be similarly affected by changes in economic or other conditions.
- *Credit risk* is the risk of loss due to a debtor's non-payment of a fixed income instrument (either the principal or interest (coupon) or both).
- *Custodial credit risk* is the risk that, in the event of a failure of the counterparty, the RF will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the RF and are held by either the counterparty or the counterparty's trust department or agent but not in the RF's name.
- *Foreign currency risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Operational Risk

- *Management risk* is the overall structure established to provide the framework for an efficient and effective investment process. This includes such items as board committee structure; investment policy and guidelines; staff support; operational processes supporting the policy (internal control framework); etc.

- *Reputation risk* is as much the perception of behaviors and actions as it is about fact. It is about ethics, trust, relationships, confidence and integrity. It is built on the fundamental belief that the Committee and senior management know how to manage the investment portfolio and are making prudent investment decisions.
- *Opportunity risk* is associated with the acceptance of low long-term targeted returns or a too conservative investment philosophy. This, combined with the cost associated with excessive cash balances maintained in daily operating accounts and excessive sponsored program deficits by individual campuses, results in reduced income.
- *Income distribution risk* refers to the ability to meet the budgeted expected allocations to campuses or customers.
- *Daily Liquidity risk* refers to maintaining sufficient access or availability of investments/cash to meet current obligations and/or maintaining access to borrowed funds to support routine short term operational needs.
- *Benefit risk* refers to the volatility of the change in the value of retiree health insurance pooled assets versus the change in the value of the benefit liabilities.
- *Conflict of interest risk* exists when a Committee member, the investment consultant or any other decision maker knows or has reason to know that there is a financial or other interest that is likely to bias their decision, evaluation or advice with respect to a transaction or assignment on behalf of the RF. Any decision or advice should be aligned solely with the best interests of the RF.

Policy Risk

- *Peer risk* refers to the difference in pool performance relative to peer institutions. The Committee acknowledges that similar institutions may have different levels of investment risk. Comparisons of performance with other institutions are meaningful *only* after adjusting for differences in investment policy and risk among peers.
- *Capital market risk* is the risk that the investment returns (in excess of the risk-free rate) associated with the Committee's asset allocation policy is not sufficient to provide the targeted returns.
- *Manager value-added risk* is associated with an active management investment program. It is the performance differential between (1) the aggregate of the managers' actual (active) portfolios and (2) the aggregate of the managers' benchmarks, both at policy allocation.
- *Tactical/strategic risk* is the performance differential between (1) policy allocations for the pools asset categories and its investment managers and (2) the actual allocations.
- *Total active risk* refers to the volatility of the difference between the return of the pools' policy benchmark and the actual return.
- *Total investment risk* refers to the volatility of the return of the total pools assets. It incorporates all elements of investment risk as enumerated above.