The Research Foundation for The State University of New York

GENERAL INVESTMENT POLICY AND GUIDELINES

June 12, 2013

www.rfsuny.org

Table of Contents

Introduction

This statement of Investment Policy was developed to assist The Research Foundation for The State University of New York (RF) in carrying out its fiduciary responsibilities for the conservation and use of its assets.

The investments made will be done for the exclusive benefit of the RF and its educational and charitable purposes. The investments are governed by the terms of its governing plan document and other applicable laws.

This policy statement is issued for the guidance of fiduciaries and other interested parties, including the Finance Committee (Committee), investment managers, and consultants in the course of investing the assets of the RF. This policy statement may be amended by the Committee both upon their own initiative and upon consideration of the advice and recommendation of the RF management, the investment managers, consultants or other professionals. Proposed modifications should be documented in writing to the Committee.

To this end, the investment policy will:

- Establish formal but flexible investment parameters that incorporate prudent asset allocation and achievable total return goals.
- Outline the investment responsibilities of the Committee, the RF investment staff, the investment managers, the custodian and the investment consultant.
- Provide a mechanism for regular communication between the RF and all parties with responsibility for investments.

  It is expected that this policy will be reviewed at least annually to ensure that it continues to provide effective guidelines for the management of the RF's portfolio.

I. Background

Types of Pools

The RF's assets are invested in two pools; one pool managed by the treasurer and another professionally managed pool that is grouped in generic categories. The pools act similarly to mutual funds, where value or ownership is determined based upon the amount invested in the pool and the respective investment income is then distributed based upon each participant's ownership of that pool, or at the discretion of the board of directors. Additionally, the RF administers a Voluntary Employee Beneficiary Association (VEBA) Trust which is a "directed fund" whereby investments are managed by professional investment managers who are duly appointed by the named fiduciary, the RF.

1. ***Liquid/Short Term Pool*** – The treasurer shall maintain a Liquid/Short Term Pool to provide for periodic fluctuation in cash flow requirements that shall be maintained at a minimum level necessary to satisfy this requirement. Cash flow shall be monitored daily to determine periodic cash transfer requirements from or to the Operational Pool. This Liquid/Short Term Pool includes the float resulting from outstanding checks issued but not yet cleared through the RF bank account. It will also include funds received from sponsors that require specific investment obligations as well as a reserve portion which is set aside to minimize the number of transfers to and from the Operational Pool.

   These investments shall be in the form of:

   - 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 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 treasuries and agencies that meet the requirement established in this policy.
   - Municipal obligations rated A1 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 of all US banks in terms of total assets.

2. ***Operational Pool*** – Consisting of cash assets for Sponsored Programs, Agency, Designated Campus and Central Office funds. This is a pool of investments where generally the sponsor or the campus has restricted the purposes for which the assets may be expended but can be used for day-to-day business. Funds are generally invested in this pool when the Liquid Pool/Short Term Pool contains excess cash that is not needed in the near term. This pool will be invested in a diversified set of investment instruments and strategies suitable for the overall duration and risk-aversion of the pool.

There will be two duration/risk pools as follows:

Long Duration: This pool will consist of designated campus and central office funds, less amounts needed for program/project advances (net working capital) and other cash that can be reasonably expected to remain unspent or consistently replenished over a long period of time. Risk levels are expected to approach that of endowment funds due to the longer duration of this pool. The Treasurer is responsible for monitoring cash available for investing in this pool. Because of the dynamics of cash inflows and outflows, the RF has access to capital by use of a line of credit to maintain stable balances in this pool. Balances in the pool, which are monitored based upon historical trends and future cash projections, are adjusted periodically.

Medium Duration: This pool consists of sponsored or agency advances (deferred revenue) that can be reasonably expected to remain unspent or consistently replenished. Risk levels are below those of endowment funds due to the type of funds in this pool. This pool is intended to return approximately 300 bps above cash over a rolling five year period. The Treasurer is responsible for monitoring cash available for investing in this pool. Because of the dynamics of cash inflows and outflows, balances in this pool will be monitored monthly and adjusted quarterly based upon current balances and projected future cash flows.

- *Sponsored Program Funds* is where the sponsor has restricted the purposes for which the funds may be expended. This is generally where the sponsor has advanced cash for a specific sponsored program.
- *Agency funds* are held by the RF as custodian or fiscal agent for another SUNY-related organization.
- *Designated Campus and Central Office funds* are unexpended campus revenue designated by the board of directors for specific campus or central office development activities. Individual campuses or central office may have restricted the purpose for which these funds may be expended.

Unless specifically categorized in one of the other two pools noted below, or included within the planned giving investments pool, all other miscellaneous funds managed by the RF are considered Operational.

3. ***Voluntary Employee Beneficiary (VEBA) Trust*** – The board of directors, on February 4, 2009 passed a resolution that authorized RF management to establish a retiree health benefit trust in order to protect funds that that the RF had been setting aside in a board-designated investment pool to cover post-retirement health care benefits to eligible employees. The VEBA Trust is a separate legal entity that holds the benefits funding, sets forth the actions and obligations of the Trustee and the Administrator, and protects the existing funds from the claims of RF creditors.

II. Statement of Goals and Objectives

This policy statement of investment goals and objectives is set forth to provide an appropriate set of goals and objectives for the RF's assets and to define guidelines within which RF management and investment managers may formulate and execute their investment decisions.

The investment managers shall exercise full investment discretion within the specific guidelines as described in any or all of the appropriate documents including the respective investment advisory agreement, investment specification document, fund prospectus, offering memorandum and/or limited partnership agreement. However, assets must be managed with the care, skill, prudence and diligence that a prudent investment professional in similar circumstances would exercise. Investment practices must comply with the applicable laws and regulations.
The RF's primary investment goals are outlined below:

1. It is acknowledged that the different pools of capital across RF have different risk, return, liquidity profiles and portfolio construction and manager selection should be aligned with the respective goals of each pool.

    a. Long Duration Operational Pool: 80% of the portfolio is assumed to have a duration of 5 years or longer and the investment goal is to maximize long term total return, consistent with prudent investment management. Long term return target of approximately 7.5%. Aim to minimize the probability of a decline in excess of -15% in any single year.

    b. Medium Duration Operational Pool: Maintaining liquidity is a high priority whereby 30% of the portfolio has potential to have quarterly liquidity to meet withdrawals on relatively short notice. An important objective is to minimize downside volatility, maintain liquidity while achieving modest returns in excess of cash. Long term return target of 6%. Aim to minimize the probability of a decline in excess of -5% in any single year.

    c. VEBA Trust: 80% of the portfolio is assumed to have a duration of 5 years or longer and the investment goal is to maximize long term total return, consistent with prudent investment management. Long term return target of approximately 7.5%. Aim to minimize the probability of a decline in excess of -15% in any single year.

2. Performance of the RF shall be regularly compared to the Allocation Index[1] and the Policy Index.[2] While it is anticipated that there will be fluctuations in the RF's value, the RF assets should, at a minimum, produce a nominal long term rate of return that exceeds the Policy Index, net of all expenses.

3. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with peer institutions, the Allocation Index, and the Policy Index. Risk-adjusted 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.

4. Performance of the RF will be evaluated on a regular basis. Consideration will be given to the degree to which performance results meet the goals and objectives as herewith set forth. Normally, results are evaluated over a full market cycle, but shorter term results will be regularly reviewed and earlier action taken if in the best interest of the RF.

[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 deviating 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 structure.

III. 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 any of the RF's constructed Pools.

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. In addition, the RF's staff will instruct the appropriate investment manager(s) to bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

C. Strategic Rebalancing

In addition to carefully monitoring asset allocation compliance, the investment consultant will, at least annually, suggest asset-rebalancing strategies, even if a particular pool is not actually out of compliance. These strategies will be implemented in accordance with the ebbs and flows of the pricing of various asset classes in pursuit of exploiting short term pricing inefficiencies. Moreover, short term rebalancing strategies will be employed in a "buy-low, sell-high" scenario.

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 for the managed pools.

1. *Operational Pool – Investment Guidelines:*

The Operational Pool consists generally of cash advances on research contracts administered by the RF (sponsored programs); funds advanced or administered by the RF from SUNY related organizations (agency funds); funds designated for development activities at the campuses by the board of directors, or gift (non-deferred gifts only) amounts donated on behalf of a specific campus or central office.

The objectives for the Operational Pool are as follows:

- Ensure adequate liquidity for cash needs in excess of the reserves held in the liquid pool
  - Liquidity profiles and portfolio management is optimized against objectives specific to the "Long Duration" and "Medium Duration" sub-pools.
- Generate attractive risk-adjusted returns
- Preserve capital in negative market environments
  - Long Duration: target maximum drawdown in a single year to -15%.
  - Medium Duration: target maximum drawdown in a single year to -5%.
- Provide annual support for the RF's operating budget & preserve the real purchasing power (after inflation/fees) of the assets over time
- Achieve results that compare favorably with peer institutions

In order to best meet these objectives, the asset allocation will be as follows:

LONG DURATION OPERATIONAL POOL		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**2%**	**0-10%**
Fixed Income	**10%**	**5-30%**
Government Bonds	10%	5-20%
Credit	0%	0-15%
Equities	**51%**	**40-60%**
Global Equities	25%	20-33%
Hedged Equities	16%	10-30%
Private Equity	10%	0-15%
Absolute Return	**15%**	**5-25%**
Real Assets	**22%**	**15-25%**
Inflation-Protected	5%	3-10%
Commodities	5%	2-7%
Global Real Estate	12%	4-14%

MEDIUM DURATION OPERATIONAL POOL		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**3%**	**0-10%**
Fixed Income	**27.5%**	**15-45%**
Government Bonds	5%	0-20%
Credit	22.5%	10-30%
Equities	**31.5%**	**20-40%**
Global Equities	20%	15-30%
Hedged Equities	11.5%	0-15%
Private Equity	0%	0%
Absolute Return	**22%**	**5-25%**
Real Assets	**16%**	**10-25%**
Inflation-Protected	7%	5-15%
Commodities	5%	2-7%
Global Real Estate	4%	2-10%

- 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.
- Geographic exposures and manager sizing should be monitored by the investment staff and 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.

- Management of the overall Equities target is priority with allocation within equities a secondary consideration. For example, when private equity is under/overweight, allocations to liquid equities will be considered as a proxy for private equity exposure.

2. VEBA Trust – Investment Guidelines:

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

The objective of this strategy is to minimize the probability and impact of liabilities rising at a rate not supported by asset growth which would increase the size and necessity of contributions.

This trust is currently underfunded. The board policy or funding plan is to deposit cash into this trust over the next 10 years, and not withdraw any funds. 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. 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.

In order to best meet these objectives, the asset allocation will be as follows:

Voluntary Employee Beneficiary Association (VEBA) Trust		
Asset Class	**Long Term Target %**	**Ranges**
Cash	**2%**	**0-10%**
Fixed Income	**10%**	**5-30%**
Government Bonds	10%	5-30%
Credit	0%	0-15%
Equities	**51%**	**40-60%**
Global Equities	25%	20-33%
Hedged Equities	16%	10-30%
Private Equity	10%	0-15%
Absolute Return	**15%**	**5-25%**
Real Assets	**22%**	**15-25%**
Inflation-Protected	5%	3-10%
Commodities	5%	2-7%
Global Real Estate	12%	4-14%

- 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.
- Geographic exposures and manager sizing should be monitored by the investment staff and 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.
- Management of the overall Equities target is priority with allocation within equities a secondary consideration. For example, when private equity is under/overweight, allocations to liquid equities will be considered as a proxy for private equity exposure.

E. Excluded Investments:

Unless specifically approved by the Committee, 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 (except on a case by case basis approved by the Committee or co-investments offered by managers already in the portfolio), real estate, oil and gas and venture capital.
- Investments in transactions that would generate unrelated business taxable income ("UBTI") to the Investment Plan.
- 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, unless otherwise approved by an authorized representative in writing.

F. Alternative 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. When investing in Fund-of-Funds or individual hedge funds, offering memorandums must be reviewed by the investment consultant at a minimum to ensure that such investments would not constitute any violations of the RF's Investment Policy.

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, complementing traditional equity and fixed-income investments and improve the overall performance consistency of the portfolio. There is no guarantee that this objective will be realized.

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. In special situations and where considered appropriate, the RF may also be invested directly with individual rather than Multi-Advisor Funds.

The Committee understands that hedge fund investments are less transparent than traditional investments but will expect reasonable levels of transparency in order to monitor the investments appropriately. In addition, the Committee understands that liquidity in such investments may be limited. 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

The RF may consider an allocation to equity hedge funds as a compliment to the traditional long-only equity allocation. Within the equity hedge category, the RF would typically employ a 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. When investing in private equity funds, offering memorandums must be reviewed by the investment consultant at a minimum to ensure that such investments would not constitute any violations of the RF's Investment Policy.

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 included public, hedged and private equity. There is no guarantee that this objective will be realized.

The Committee understands that liquidity of 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 no ability to redeem these investments and return of capital and cash gains are only realized as underlying managers pay distributions upon the sale of assets.

G. Currency Management and Derivative Policy:

1. Currency Management

The liabilities for both the Operational Pool and VEBA Trust are 100% US$ denominated. Therefore, non-US$ currency exposure in a pool's assets 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 unwanted currency exposure, currency hedging strategies will be implemented with the custodian at the recommendation of the investment consultant. It is acknowledged that precisely identifying underlying non-US$ currency exposure is difficult, therefore only a portion of the estimated currency exposure will be hedged.

The portfolio will be partially protected from foreign exchange rate fluctuations through the deployment of appropriate direct hedging strategies:

- Only currencies with exposure that the investment consultant, in conjunction with the investment staff, reasonably estimates is greater than 10% of portfolio value (excluding illiquid investments) will be subject to currency management. In certain cases, the Committee may chose to hedge exposures under 10%. The investment consultant will be responsible for making such recommendations.

- Initially, currency overlays will be deployed to maintain a hedge of approximately 50% of the estimated exposure versus the US dollar. This amount is subject to change by the Committee.
- After a currency hedge is deployed, the hedge will remain in place even if the currency exposure then drops below 10%. During review meetings, 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
- Un-hedged assets will include all illiquid investments.
- Investments in private equity "proxy" assets will be subject to currency hedging.

2. Derivative Policy

An investment manager shall engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. 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 than would be possible in the cash market. 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.

Where appropriate, investment managers may use derivative securities for the following reasons:

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.

H. Distributions:
Investment managers should assume that withdrawals could be made from the RF's portfolio from time to time by the RF. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process. The Committee or the designated representatives shall alert investment managers to anticipate liquidity needs of the RF's portfolio.

I. Commingled Funds:
The Committee may elect to invest assets of the RF in commingled funds, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds). The Committee recognizes that they may not be permitted to give specific policy directives to a fund whose policies are already established; therefore, the Committee is relying on the best efforts of the investment consultant to assess and monitor the investment policies of such funds to ascertain whether they are appropriate.

IV. Investment Income Allocation

Investment income allocations from the Liquid and Operational Pools to the individual campus funds will be based upon the specific investment returns of these pools and each campus fund's proportionate share.

- For sponsored program awards when the sponsor requires that cash advances receive investment income, income will be paid based upon the average monthly earnings in the overnight liquid pool, net of any investment. Investment allocations to the sponsored program funds will be calculated quarterly and distributed as required.
- Investment income realized on sponsored program funds that do not require an interest allocation to the specific grant or contract will accrue to the benefit of the RF and will be considered as part of the overall Operational Pool.
- When funds are individually invested for a specific program income is determined based upon the specific investment income of that investment net of fees.

Income allocations will be determined on the average rate of return on a fiscal year basis of the pools, unless the treasurer determines that this would cause an inappropriate distribution. The total return or net earnings for purposes of the investment income allocation is defined as an annualized percentage of the sum of investment income on an accrual basis and includes realized and unrealized gains or losses, net of Treasury expenses.

The earnings from the Operational Pools are allocated to the campuses based on each campus's net cash balance on an annual basis. Campuses that had an overall surplus in their respective net cash balances shared in the investment income earned and received a distribution of income. For campuses with deficit balances, a "floor" interest rate is established and it is to be the higher of the four-year average yield (per the spending formula concept discussed in the next paragraph) on the Operational Pool investment portfolio or the average interest rate paid by the RF on its Line of Credit (LOC). Amounts paid by deficit campuses, net of the interest charged on the LOC, is then allocated to the campuses with surplus balances in the RF's final campus allocation process.

Campus final allocations from the Operational Pool will be distributed based upon a spending formula concept. The intent of the spending formula concept is to provide a known, predictable and constant distribution of income to the campuses on an annual basis. Net investment income will first be allocated to individual campus investment reserves. Then, the annual distribution from these campus investment reserves will be determined by the spending formula. The basis for the spending formula calculation will be a rolling average of the annual rate of return for the four previous years. Any difference between net investment income and the amount distributed per the spending formula will be held in an individual campus investment reserve. Campus investment reserves may be used in future years where the spending formula distribution is greater than net investment income. However, the campus allocation should never cause the investment reserve to be negative. Investment income may also be distributed at the discretion of the board of directors.

V. Performance Standards and Evaluation

Performance objectives shall be agreed upon prior to engagement of any investment manager or as outlined in respective fund documentation such as the fund prospectus or offering memorandum. These investment managers shall achieve these objectives primarily by investing in those assets for which they were engaged to invest and within the parameters of this document and/or as described in any or all of the appropriate documents including the respective investment advisory agreement, investment specification document, fund prospectus, offering memorandum and/or limited partnership agreement. Performance comparisons will be made on a net of fees and risk-adjusted basis. Manager performance will be periodically reviewed to ensure compliance with these standards.

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 (e.g., total return and risk adjusted return) 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 communicated 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 statement. The Committee intends to evaluate individual manager performance over a complete market cycle, but reserves the right to terminate a 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.

  Investment managers will be reviewed regularly by the 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.

VI. Responsibilities

A. Finance Committee:

The Committee shall consist of five to eight people. Four of the members should be board members and up to four members may be advisory members. The membership should comprise:

i. members with investment experience, particularly in the areas of investment analysis and/or portfolio management.
ii. campus representatives who have managed or participated in the administration of a major campus foundation investment portfolio.
iii. business representatives with a proven track record of process management and professional judgment.

Composition of the Committee is at the discretion of the Chair of the Committee. The Chair of the Committee shall appoint the advisory members who shall serve at the discretion of the Chair. Advisory Committee members are non voting members and will participate in all investment Committee meetings as requested by providing guidance and insights in investment decisions.

The Committee acknowledges its fiduciary responsibility for the conservation and prudent management of the RF Pool. More specifically, its responsibilities include:

- Comply with the provisions of all pertinent federal and state regulations and rulings.
- Develop investment objectives, asset allocation targets, investment guidelines, and performance measurement standards, which are consistent with the needs of the funds.
- Evaluate and appoint investment managers to invest and manage fund assets and to appoint custodians and investment consultants.
- Communicate investment goals, objectives and standards to investment consultant, including any material changes that may subsequently occur.
- Deploy existing assets and new monies to investment managers.
- Review and evaluate investment results in the context of established standards of performance and adherence to the investment guidelines.
- Take whatever action is deemed prudent and appropriate when the investment consultant or manager fails to meet mutually accepted performance standards or significantly violates the investment guidelines.

B. Central Office Investment Staff:

The investment staff acknowledges its fiduciary responsibility for supporting the instructions as provided by the Committee. The treasurer of the RF is responsible for day to day management of all investments in accordance with these guidelines.

- The RF's investment staff will facilitate and assist the Committee in carrying out its duties noted above.
- Ensure that board policy and guidelines are followed and adhered.
- Manage the assets, monitor cash on a daily basis, including minimizing idle funds and maximizing the use of investments.
- Monitor asset allocation mix to ensure adherence to guidelines, rebalance as necessary.

- Maintain appropriate internal controls over the assets.
- Distribute the investment income proceeds.
- Maintain appropriate accounting and financial reporting for the assets.
- Establish and maintain an accounting system that identifies ownership of assets/investments.
- Facilitate and work with investment managers, consultants and custodian as appropriate.
- Communicate with asset owners on pertinent information on the investments.
- Perform reviews of the work performed by the 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 the activities of investment managers to determine compliance with these policy guidelines and generally accepted industry standards.

C. Investment Managers:

In recognition of their role as fiduciaries of the RF Pool, investment managers must assume the following responsibilities:

- Managing the assets under its management in accordance with the policy guidelines and objectives expressed herein and/or as described in any or all of the appropriate documents including the respective investment advisory agreement, investment specification document, fund prospectus, offering memorandum and/or limited partnership agreement.
- Meeting or exceeding the manager specific benchmarks
- 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, investment specification document, 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 Fund assets.
- Using best efforts to ensure that portfolio transactions are placed on a "best execution" basis.
- Exercising ownership rights, where available, through proxy solicitations, doing so strictly for the economic benefit of the Fund.
- Meeting with the Committee or central office investment staff at least annually (if requested) or more frequently upon request of the Committee.
- Provide written reports to central office investment staff and the investment consultant on a quarterly 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.

D. Custodian:

In order to maximize the RF Pool's 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.

E. 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.
- Meet quarterly for a formal performance review or at other such times as the Committee may reasonably request.

VII. Conflict of Interest

It is the policy of the Committee to seriously review potential conflicts of interest in its operations and in the selection of investment managers, consultants or funds. Therefore, if members of the Committee have a pecuniary relationship in any manager, consultant or fund being considered, they need to abstain from voting and special consideration of the circumstances should be closely undertaken by the Committee. It is important that any potential conflicts of interest that may occur with members of the Committee and 3rd party relationships must be disclosed upfront prior to any investment actions.

VIII. Code of Ethics

In an effort to maintain the highest ethical standards appropriate for the management and safeguarding of RF Pool assets, 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.

IX. 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 Pool 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.

X. Amendments

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

XI. Policy Review

It is the intent of the Committee to revise this statement of goals and objectives to reflect modifications and revisions to the RF Pools that may develop from time to time. It is also the policy of the Committee to review these goals and objectives at least once per year and to communicate any material change thereto to the investment managers. Revisions to the goals and objectives of this Investment Policy or any other substantive revisions to it including, but not limited to, investment guidelines 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.

XII. Risk Policy

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 Research Foundation (RF) investment pools. The Committee is responsible for:

- understanding the risks in various investment strategies
- ensuring proper compensation for these risks
- measuring and monitoring risks

The Committee establishes the framework for risk management through the investment policy and guidelines, which includes such items as the strategic asset allocation and the benchmarks used for performance objectives. However, tolerance for risk (alternatively, aversion to risk) may also be expressed in the form of various other metrics or types of risk.

The treasurer is responsible for managing both 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 by the Committee.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Committee that are delegated to and performed by the treasurer.

1. Investment Philosophy

The RF's investment philosophy is to create a management 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 evolves 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.

2. 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 (such as stock of a publicly traded company), while other assets are highly illiquid and have high liquidity risk (such as a real estate or most other types of alternatives).
- *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of the investment.
- *Concentration of credit risk* as is defined as an excess 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 risk* is when deposits are uninsured and uncollateralized.
  - 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

& guidelines; staff support; operational processes supporting the policy (internal control framework), etc. This is the responsibility of the corporate officers and the board of directors.

- *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. This is the responsibility of the corporate officers and the board of directors.
- *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 maintained in daily operating accounts and excessive sponsored program deficits by individual campuses, results in reduced income. This risk is the responsibility of the Committee and the treasurer.
- *Charitable gift annuity risk* refers to the potential that annuitants may exceed the life expectancy of the mortality tables. This, combined with lower than expected investment returns, may cause the lifetime payouts to exceed the gift principal and accumulated earnings. This risk is the responsibility of the senior management staff.
- *Income distribution risk* refers to the ability to meet the budgeted expected allocations to campuses or customers as determined at the beginning of each fiscal year in the RF financial plan. This risk is the joint responsibility of the finance committee and the treasurer.
- *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. Too much liquidity risk may also impact investment performance. This risk is the responsibility of the treasurer.
- *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. The latter represents the ultimate investment objective of the VEBA Trust. Because the asset allocation articulates the Committee's risk tolerance and because the human resources committee determines the annual funding, benefits and, thus, the ultimate liabilities; this risk is the joint responsibility of the Committee, the human resources committee and the vice president of human resources.
- *Conflict of interest risk* exists when a Committee member, the 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. This is the responsibility of the corporate officers and the board of directors.

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. This risk is the responsibility of the Committee.
- *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. Responsibility for determining the overall level of capital market risk lies with the Committee and the treasurer.
- *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. This risk is an implementation risk and is the responsibility of the treasurer (and, indirectly, the investment managers retained by the treasurer).

- *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. This risk is the responsibility of the treasurer.
- *Total active risk* refers to the volatility of the difference between the return of the pools policy benchmark and the actual return. It incorporates the aggregate of the risks in items above, and is thus the responsibility of the treasurer.
- *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, and is thus the joint responsibility of the Committee and the treasurer