AGM Investment Group, Inc.

"A Comprehensive Financial and Life Planning Service"

SAMPLE INVESTMENT POLICY STATEMENT

For A B C Corporation

Creativity our expertise

Table of Contents

* PLEASE NOTE: * These Appendices and Guidelines are in separate documents and are incorporated by reference.

INVESTMENT POLICY STATEMENT for A B C Corporation

Introduction and Purpose

This Investment Policy Statement ("Policy" or IPS") provides the framework for the management of the investments of the ___________________________________. The purpose of a policy statement is to document the investment management process by

- Identifying the key roles and responsibilities relating to the ongoing management of the ____________________ assets;
    - o Recognize and ameliorate the issues among the parties responsible for various aspects of investment management;
- Setting forth an investment structure for the _____________ assets;
    - o This structure includes various asset classes and acceptable ranges that, in aggregate, are expected to produce a sufficient investment return over the long term while prudently managing risk;
    - o This strategy should provide guidance in all market environments, and should be based on a clear understanding of worst case outcomes;
- Establishing formalized criteria to measure, monitor, and evaluate ________________ performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

The document is divided into five sections. There are also a number of Appendices, which are integral parts of this document.

1. Investment Goals, Key Responsibilities, and Philosophy

A. The mission of the _____ is to provide a common investment vehicle, which will generate a stable and continuously growing income stream, for (most but not all of) the_____________, for which the __________ is both trustee and beneficiary.

B. The overall investment goal of the ______ is to preserve the purchasing power of the future stream of _______ payout for those funds and activities supported by the ___________, and to the extent this is achieved, cause the principal to grow in value over time. Other goals include:
    - o To maximize return within reasonable and prudent levels of risk

- o To maximize the value of the _______ while maintaining liquidity needed to support spending in prolonged down markets.

Key responsibilities in the oversight and management of the ________ are as follows:

C. Under the authority granted by _________, has appointed a standing Committee on Investments ("Committee"), which is charged with oversight responsibility for the management of investments on behalf of _______, which includes the establishment of investment policies for the ______ and oversight of the management of the _______ assets.
D. Committee is directed to establish a system of custodianship for all securities.
E. The Committee has delegated to the Treasurer general responsibility for all investment matters, including the implementation of investment policies established by the Committee. References to the "Treasurer" below shall be understood, depending on the context, to mean the "Office of the Treasurer."

The philosophy for the management of the _______ assets is as follows:

F. The investment philosophy of the Committee 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.
G. The Committee 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 of the _______ (see part 4 below). While the Committee recognizes the importance of the preservation of capital, it also recognizes that to achieve the __________'s investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. Risk exposures should be identified, measured, monitored and tied to responsible parties; and risk should be taken consistent with expectations for return. Further articulation of the Committee's risk policy, including appropriate budgets and ranges for various types of risk are found in Appendix 2.

The principal risks that impact the __________, and the parties responsible for managing them are as follows:

H. 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 are not sufficient to provide the required returns to meet the ___________’s investment objectives. Responsibility for determining the overall level of capital market risk lies with the Committee.

I. Investment style risk is associated with an active management investment program. It is the performance differential between an asset category’s market target and the aggregate of the managers’ benchmarks within the asset category weighted according to a policy allocation specified by the Treasurer. This risk is an implementation risk and is the responsibility of the Treasurer.

J. Manager value-added risk is also associated with an active management investment program. It is the performance differential between the aggregate of the managers’ actual (active) portfolios and 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).

K. Tactical/strategic risk is the performance differential between (1) policy allocations for the ________’s asset categories and its investment managers and (2) the actual allocations. This risk is the responsibility of the Treasurer.

L. Total active risk refers to the volatility of the difference between the return of the _______policy benchmark (see Appendix 1) and the actual return. It incorporates the aggregate of the risks in (i), (j) and (k) above, and is thus the responsibility of the Treasurer.

M. Total investment risk refers to the volatility of the return of the total _____________ assets. It incorporates all elements of investment risk as enumerated above, and is thus the joint responsibility of the Committee and the Treasurer.

N. Peer risk refers to the difference in ____________ performance relative to peer institutions. The Committee acknowledges that similar institutions may have different objectives and 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.

2. Investment Policies

The policies of the investment program establish the investment strategy and guide its implementation.

A. The investment policies of the ________ shall be based on a financial plan that will consider:
   a. The financial condition of the ________, i.e., the relationship between the current and projected assets of the ________, projected donor contributions, and the desired spending policy [see Appendix 3]
   b. Future growth of faculty and students; and both general and educational inflation
   c. The expected long term capital market outlook, including expected volatility of and correlation among various asset classes
   d. The range of possible investment outcomes associated with different policies
   e. The Committee's risk tolerance, that is, the trade-off between the desire to achieve high returns (and the associated high volatility) and the desire to avoid unacceptable outcomes (and the associated necessity for reduced volatility)

B. The Committee will consider alternative investment policies and will measure their potential impact on the financial condition of the _________ and assess their suitability in meeting the objectives of the ___________.

C. The Committee's financial plan will result in a risk budget, that is, an expected amount of volatility associated with a given expected level of investment returns offered by the capital markets including the expected active return.

D. Based on the risk budget, the Committee, with input from the Treasurer and other consultants, will approve a specific allocation of the investments (the asset allocation policy) among the various asset classes considered prudent given the ___________'s objectives, time horizon, and constraints, and considering multiple measures of investment risk. The asset allocation policy shall be expressed in terms of a normal percentage allocation, and ranges for each asset class. These normal weights and ranges are found in Appendix 1. Criteria for including an asset class in the strategic allocation are also in Appendix 1.

E. The asset allocation policy shall be sufficiently diversified to enable the appropriate fiduciary to manage risk without imprudently sacrificing return. The Treasurer is delegated the responsibility of managing total and active risk within the ranges set by the Committee (see Appendices 1 and 2). Within the limits of prudent diversification and established risk budgets, capital market and active risk exposures are fungible, and the Treasurer may allocate risk exposures within and between asset classes in order to optimize return. When necessary, the Treasurer may use appropriate risk management strategies to protect portfolio value.

F. The Committee will approve performance benchmarks for each asset class, based on a pre-approved set of criteria, which are found in Appendix 1, and will approve overall investment guidelines for each asset class, which are found in Appendix 7.

G. The _________ equity and fixed income assets shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management is defined as a net dollar exposure to assets in excess of the amount of invested capital, as measured by current market value. The term "net dollar exposure" is defined in the Derivatives Policy, Appendix 4. A very small, inadvertent, or temporary violation of this restriction that may occur in the normal course of portfolio management shall not be construed as leverage. Notwithstanding the general prohibition against leverage, leverage may be used in Private Equity, Real Estate and Absolute Return strategies, per the limits and guidelines set forth in Appendix 7 and in the conduct of the Securities Lending Program (see section 2I. below).

H. The Treasurer will implement the asset allocation policy as approved by the Committee. The Treasurer will select investment professionals (or "managers") with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Guidelines in Appendices 6 and 7. Each investment manager will function under a formal contract that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager's contract will include a benchmark and range of probable outcomes relative to that benchmark. The Treasurer shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in Appendix 6.

I. The Treasurer will allocate funds across managers to develop an efficient investment structure, within the constraints of the prudence requirement, for each asset class, and will monitor whether the aggregate characteristics of all portfolios in an asset class comply with the investment guidelines for that class. The Treasurer will determine a policy allocation for each manager to be used in the evaluation of the active management program.

J. The Treasurer shall establish and implement procedures to provide efficient management of liquidity (including timely payouts) for the _________.
K. The Treasurer shall be responsible for administering the investments of the _________ at the lowest possible cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the __________. The Treasurer may establish directed brokerage arrangements with the custodian for the __________ or other qualified third parties in order to reduce overall commissions cost for the __________.
L. The Treasurer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Cash collateral received from borrowers will be invested by the Treasurer or the lending agent, in a short term investment pool, in accordance with guidelines established by the Treasurer. Current guidelines are included in Appendix 7.
M. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting will occur in accordance with the Proxy Voting Policy found in Appendix 5.
N. The investment program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement.
O. All transactions undertaken on behalf of the _________ will be undertaken solely in the interests of the __________ and according to the direction of donors.

3. Fiduciary Oversight Procedures

The following procedures for the management of the _________'s assets outline the specific responsibilities of the Committee and other fiduciaries.

A. The Committee, in developing investment policy for the _________ assets, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
B. The Committee will exercise its fiduciary responsibilities in regard to the investment program in accordance with the _________ Mission [see section 1.a above] and _________ Bylaws.
C. The Committee shall review the asset allocation policy, asset class guidelines, and current capital market assumptions at least annually to ensure that the

current asset mix can reasonably be expected to achieve the long-term goals of the __________.

D. The Committee will review the _________'s financial condition annually, and recommend a Spending Policy for each year to the Finance Committee, which is responsible for approval.
E. The Committee may appoint investment consultants to review investment performance of the _________ in whole or with respect to specific asset classes, to assist in the development of the _________'s investment policies and asset allocation, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the Treasurer.
F. The Committee has appointed a standing Investment Advisory Committee ("IAC") of selected ___Members___, investment professionals, ___Directors___, and ___Foundation members___ to provide input to the Committee on decisions and assist in oversight of the Treasurer. The Chair of the Committee shall also be the Chair of the IAC.
G. The Committee shall review the investments of the ________ no less than quarterly to assess whether policy guidelines continue to be appropriate and are met. The Committee shall monitor investment risk, as well as monitor investment returns on an absolute and benchmark relative basis.
H. The Treasurer shall prepare quarterly and annual reports for the Committee and The ___Members___ on the investment program, including
    a. The achievement of overall performance objectives
    b. The type and amount of risk taken to achieve those objectives
    c. Attribution of returns to various investment decisions and risks
    d. Adherence to budgets set for total and active risk
    e. Compliance with policy guidelines, particularly asset allocation policy, and
    f. The costs of managing the _________'s assets.
I. Investment performance results shall be calculated and verified at least monthly by an external, independent performance consultant.
J. The Treasurer, in conjunction with the various investment consultants, will monitor the investment managers for compliance with their investment guidelines, achievement of specific objectives, and individual risk exposures.
K. The Treasurer shall monitor the conduct of the custodian of the _______.
L. The Treasurer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the Office of the Treasurer and relevant consultants and managers. These are found at http://www.cfainstitute.org/cfacentre/pdf/English2006CodeandStandards.pdf

and incorporated by reference. The Treasurer shall develop and enforce other ethics guidelines for the Office of the Treasurer as needed, consistent with other ________ policies and guidelines.

M. The Committee will review this Policy from time to time to determine if modifications are necessary or desirable.

4. Performance Objectives

Performance objectives shall be established for the total _________, asset class composites and individual manager portfolios. These objectives will be incorporated in the quarterly reviews of the ________'s performance.

The investment strategy articulated in the asset allocation policy found in Appendix 1 has been developed in the context of long-term capital market expectations, as well as multi-year projections of contributions, spending, and inflation. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Committee acknowledges that over short time periods (i.e. one quarter, one year, and even three to five year time periods), returns will vary from performance objectives and the investment policy thus serves as a buffer against ill-considered action.

There are four principal factors that affect an _________ fund's financial status: 1) contributions from donors, 2) annual payout to ________endowment recipients____, 3) inflation, and 4) investment performance. Only the last factor is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.

Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute. Returns will be calculated by the performance consultant and will be reported net of all fees and costs.

The performance of the overall _________ will be measured relative to:

- Inflation
- Policy benchmarks

A. Total __________ return should exceed the Consumer Price Index on a consistent basis over time.
   a. This objective is to achieve a positive return above inflation. The ________'s assets are invested with an infinite time horizon, and failure to keep pace with inflation may jeopardize the endowments' intended purposes.

B. Total _________ return should match or exceed the total _______ weighted benchmark return, net of all fees and expenses on a consistent basis over time. See Appendix 1 for the composition and calculation of the _______ policy weighted benchmark.
   a. This objective is to match or exceed a passively managed fund with a similar asset mix, net of all fees and expenses. The value added above the policy benchmark measures the effectiveness of the Treasurer's implementation and management decisions. The policy benchmark should also be adjusted for the costs of passive investing. Additional metrics with respect to risk are found in the Risk Policy Appendix 2.

5. Asset Class and Manager Guidelines

The general guidelines that apply to all investment managers are:

A. Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.

B. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The ___Members___ have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." The Treasurer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur. The Committee recognizes that the establishment of social investing restrictions limits investment opportunities and should be accompanied by adjusting performance evaluation standards appropriately.

C. The direct purchase of property owned or a security issued by the ________, its subsidiaries and affiliates, is prohibited
D. The purchase of non-negotiable securities is prohibited in the equity and fixed income asset classes.
E. The use of derivative securities or contracts to create economic leverage in the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 4.
F. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.
G. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.
H. Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the guidelines appropriate, the Treasurer shall seek review and approval by the Committee to make such an exception.

Managers are required to inform the Treasurer of significant matters pertaining to the investment of ________ assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses or growth of new business. Managers must inform the Treasurer in the event of discovering an unintended or involuntary violation of their guidelines or of any of the Policies herein pertaining to them.

Managers are required to submit periodic reports to the Treasurer summarizing investment activity and strategy, as per Appendices 6 and 7 and individual guidelines. Managers are required to reconcile investment returns with the custodian each month.

Specific guidelines for each major asset class will be found in Appendix 7. Manager guidelines will contain specific provisions to ensure that performance objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of their larger asset class. However, all individual manager guidelines will be consistent with broad asset class guidelines and this Policy.

APPENDIX 1 Date Reviewed __________ Date Revised ________

ASSET ALLOCATION, PERFORMANCE BENCHMARKS, AND REBALANCING POLICY

Based on the risk budget for the _________, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total _________.

Criteria for including an asset class in the strategic policy include:

- widely recognized and accepted among institutional investors
- has low correlation with other accepted asset classes
- has a meaningful performance history
- involves a unique set of investors

The Current Policy Allocation recognizes the current under-investment in illiquid asset classes (private equity and real estate) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk.

A. Strategic Asset Allocation and Ranges

	Long Term Policy	Current Policy			Allowable Ranges			
	Allocation	Allocation		Minimum		Maximum		
U S Equity	32%	32%		40		70		
Developed Non US Equity	20%	20%				Combined Equity Exposure		
Emerging Market Equity	5%	5%						
U S Fixed Income	8%	8%						
High Yield Income	3%	3%		10		30		
Non USD Fixed Income	3%	3%				Combined Fix Income		
Emerging Market Fixed Income	3%	3%						
TIPS	6%	6%						
Absolute Return	10%	8%						
Private Equity	3%	3%		5		35		
Real Estate	2%	2%				Combined Altenative		
Liquity	0%	2%						
Alternatives	5%	5%						
	100%	100%						

* Alternatives category including, but not limited to: Real Estate, Private Equity, and Absolute Return Strategies

B. Asset Class Performance Benchmarks

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with The Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflecting Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

Asset Class	**Benchmark**
U.S. Equity	Russell 3000 Tobacco Free Index
Non US Eq. Devel.	MSCI World ex-US Net Tobacco Free
Emerging Mkt Eq	MSCI Emerging Market Free Net
Fixed Income	Barclays Aggregate Bond Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Non USD Fixed Income	Citigroup World Government Bond Index ex-US
Emg Mkt Fixed Income	JP Morgan Emerging Market Bond Plus Index
TIPS	Barclays TIPS Index
Absolute Return	1 Month T-Bill + 450 bp
Private Equity N/A (see below)	
Real Estate Public:	Dow Jones-Wilshire REIT Index
Private:	NCREIF Property Index, lagged 3 months

Notes on asset class benchmarks: 1. Private Equity: Long term portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for short term performance evaluation or decision making.

C.Total _________ Performance Benchmark

This is the composition of the total _________ performance benchmark referred to in the Investment Policy Statement, Part 4(b). The percentages below add to 100%.

Percentage	**Benchmark**
37% - [A]	Russell 3000 Tobacco Free Index
20	MSCI World ex-US Net Tobacco Free
5	MSCI Emerging Market Free Net
8	Barclays Aggregate Bond Index
3	Merrill Lynch High Yield Cash Pay Index
3	Citigroup World Government Bond Index ex-US
3	JP Morgan Emerging Market Bond Plus Index
6	Barclays TIPS Index
15	1 Month T-Bill + 450 bp
Acutal weight [P.E]	Actual returns of private equity portfolio
Acutal weight [public P.E]	Dow Jones Wilshire REIT Index
Actual weight [private P.E.]	NCREIF Property Index, lagged 3 months

where [A] = Actual P.E. Weight + Actual Total R.E. Weight

Notes on Total Fund benchmark:

1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation.
2. The total fund benchmark contains the actual weights of Private Equity and Real Estate, rather than their policy weights. This is in recognition of the difficulty in quickly increasing or decreasing allocations in these illiquid asset classes. The difference between policy and actual weight is added to the US equity percentage, as shown. Thus the percentage to US Equity = 32% + 3% (private equity) + 2% (real estate) = 37%.
3. The calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.
4. In the event of a significant change in asset allocation, The ___Members___' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

D. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the _________. Accordingly, the Investment Committee authorizes the Treasurer to rebalance the _________ when necessary to ensure adherence to the Investment Policy.

The Treasurer will monitor the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts [in accordance with Appendix 4] to rebalance the portfolio.

The Treasurer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Treasurer may delay a rebalancing program when the Treasurer believes the delay is in the best interest of the _________. Results of rebalancing will be reported to the Committee at quarterly meetings.

APPENDIX 2

RISK MANAGEMENT POLICY RISK PHILOSOPHY

In its broadest sense, risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken. The Committee recognizes that the assumption of risk is necessary to meet _________ objectives; that is, there are no “risk free” assets, which are sufficient to generate the return needed to support planned spending. Thus __________ risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad; it is a resource used to generate investment returns. The Committee recognizes that “The essence of investment management is the management of risks, not the management of returns.”

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, __________ fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the __________.

Fiduciaries set the framework for risk management through the investment policy and guidelines, 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 metrics for risk (volatility) and acceptable budgets and ranges for those metrics. Where appropriate, the Committee shall define these metrics and budgets for risk and establish acceptable ranges for them (see below).

The Treasurer is responsible for managing both total and active 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 (see definitions in section 1 of the Policy above). Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible, that is the Treasurer may allocate risk exposures within and between asset classes in order to optimize return.

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. The Treasurer shall report on risk exposures and the values of the several risk measures to the Committee, either quarterly or annually as required below.

RISK METRICS AND BUDGETS

There are different types of risk important at each level of __________ investment management and thus different risk metrics are appropriate at each level.

- __________ level
  - Spending Risk (insufficient assets to meet planned spending)
  - Measures the risk of inappropriate investment policy and strategy
- Asset class level
  - Total Investment Risk (volatility of total return)

- Measures the risk of ineffective implementation of strategy
- Portfolio level
    - Active Risk or "Tracking Error" (volatility of deviation from style or benchmark)
    - Measures the risk of unintended exposures or inadequate diversification
    -
- Spending risk
    - The Treasurer shall report on this measure to the Committee annually, in conjunction with endowment financial reviews. However, no objective levels (budget) will be set for this metric due to the separation of responsibility for investment management and spending policy, and the unpredictability of donor contributions. Thus results will be presented for information and use in policy reviews.
        - Metric: Projected year-to-year change in real spending per student, over a long term forecast horizon

__________ Total Investment risk

- The basis for the risk budget at the total asset level is the Policy benchmark, or neutral position. Thus the risk budget starts with the risk of the benchmark index. Assuming an expected benefit from active management, the impact of deviations from the benchmark is added to the benchmark risk to derive the total risk budget. The Treasurer shall report on this metric to the Committee quarterly.
    - Metric: __________ Total Investment Risk, defined as the annualized standard deviation of the monthly __________ returns, exponentially weighted over the previous 12 months. Benchmark Risk (i.e., the Capital Market risk of the strategic asset allocation) is measured similarly (using returns on the policy benchmark).
    - Budget: __________ Total Investment Risk shall be maintained at a level equal to the square root of the sum of the squares of Benchmark Risk and the Active Risk budget (see below).
    - Range: If __________ Total Investment Risk is greater (less) than 20% above (below) the budgeted level at any quarterly measurement date, the Treasurer will take appropriate steps to reduce (increase) total __________ risk to its budget level, including but not limited to rebalancing asset class weights within allowable ranges. (For example, if the risk budget is 12%, the allowable range is +/- 2.4% [20% x 12%].)

__________ Active Risk

- There is no neutral or natural budget for active risk. The budget for active risk is determined to be consistent with the tolerance for active risk and the expectation to earn active return due to market inefficiencies and/or investment skill. This budget for active risk includes all of the following types of variation from policy:
  - Temporary asset weights different from strategic policy, but within the allowed ranges [Tactical/strategic risk]
  - Aggregate manager benchmarks different than asset class benchmark [Investment style risk]
  - Aggregate active manager risks [Manager value-added risk], including
  - Aggregate portfolio systematic exposures different from the benchmark
  - Aggregate portfolio security selection decisions
  - Aggregate portfolio currency exposures different from the benchmark
- The Treasurer shall report on this metric to the Committee quarterly.
  - Metric: Tracking Error, defined as annualized standard deviation of the difference between monthly __________ returns and monthly policy benchmark returns, exponentially weighted over the previous 12 months
  - Budget: Tracking Error budget shall be 4.5% annual standard deviation. It is understood that this budget may change when there is a change in § asset allocation, or § risk tolerance
  - Range: If Tracking Error is greater (less) than 1.0% (one percentage point) above the budget level at any quarterly measurement date, the Treasurer will take appropriate steps to reduce tracking error to its budget level, including but not limited to rebalancing asset class and/or manager weights within allowable ranges.

Both Total Investment Risk and Active Risk for the __________ shall be computed without the impact of Private Equity. For this calculation, it will be assumed that Total Fund performance excludes Private Equity performance and the Total Fund benchmark has no Private Equity component. Private Equity is the asset class defined in Appendix 7K.

APPENDIX 3

SPENDING POLICY

The ___Members___ have adopted a Total Return Policy, that is, annual spending may be comprised of income, realized capital gains, or unrealized capital gains, or any combination thereof.

Annual spending shall be calculated as: a percentage times the average of the past 60 months market value of endowment assets, where the percentage may range between 4.35% and 4.75%, inclusive. Even with this smoothing of the impact of investment returns, there is a possibility that both nominal and inflation adjusted spending may experience year-to-year declines.

There are four principal factors that affect an endowment fund's financial status: 1) contributions from donors, 2) annual payout to endowment recipients, 3) inflation, and 4) investment performance. Only the latter is dependent upon the investment policy and guidelines contained herein. However, the Committee's level of risk tolerance will take into account all four factors. At certain levels of assets and a given spending policy, it could be impossible for the investments to achieve the necessary performance to meet the desired spending. The result is that either spending policy has to be changed, contributions increased or risk tolerance changed.