2. Investment Policies

I. DEFINITIONS

PURPOSE

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and the investment objectives for The University at Albany Foundation (hereinafter, “Foundation”). This document will further describe the standards that will be utilized by the Investment Sub Committee in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Fund.

SCOPE

This Investment Policy Statement applies only to those assets that are a part of the Foundation Pools and for which the Investment Sub-Committee has discretionary authority, subject to further explanation below:

The Sub-Committee is responsible for three distinct portfolio pools:

- General Endowment Accounts
- Gift Annuity / Pooled Income Programs (Asset allocation decisions are to be made in compliance with the New York State Insurance department, which requires a more conservative approach than the General Endowment and may not invest in all classes available to the General Endowment)
- UAIM Department Account (a separately directed account invested in short term cash and cash equivalents)

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the policy, the Investment Sub-Committee and its members shall exercise prudence and appropriate care in accordance with the New York Estates, Powers, and Trust Law section 11-2:3, The Prudent Investor Act (PIA). PIA states that a trustee has a duty to invest and manage property held in a fiduciary capacity in accordance with the Prudent Investor Standard defined by this section, except as otherwise provided by the express terms and provisions of a governing instrument within the limitations set forth in PIA.

Prudent Investor Standard

The prudent investor rule requires a standard of conduct, not outcome or performance. Compliance with the prudent investor rule is determined in light of facts and circumstances prevailing at the time of the decision or action of a trustee. A trustee is not liable to a beneficiary to the extent that the trustee acted in substantial compliance with the prudent investor standard or in reasonable reliance on the express terms and provisions of the governing instrument. A trustee shall exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio, taking into account the purposes and terms and provisions of the governing instrument.

The Prudent Investor Standard requires a trustee

1) To pursue an overall investment strategy to enable the trustee to make appropriate present and future distributions to or for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio;
2) To consider, to the extent relevant to the decision or action, the size of the portfolio, the nature and estimated duration of the fiduciary relationship, the liquidity and distribution requirements of the governing instrument, general economic conditions, the possible effect of inflation or deflation, the expected tax consequences of investment decisions or strategies and of distributions of income and principal, the role that each investment or course of action plays within the overall portfolio, the expected total return of the portfolio (including both income and appreciation of capital), and the needs of beneficiaries (to the extent reasonably known to the trustee) for present and future distributions authorized or required by the governing instrument;

3) To diversify assets unless the trustee reasonably determines that it is in the interests of the beneficiaries not to diversify, taking into account the purposes and terms and provisions of the governing instrument; and

4) Within a reasonable time after the creation of the fiduciary relationship, to determine whether to retain or dispose of initial assets.

The prudent investor standard authorizes a trustee

1) To invest in any type of investment consistent with the requirements of this paragraph, since no particular investment is inherently prudent or imprudent for purposes of the prudent investor standard;

2) To consider related trusts, the income and resources of beneficiaries to the extent reasonably known to the trustee, and also an asset's special relationship or value to some or all of the beneficiaries if consistent with the trustee's duty of impartiality;

3) To delegate investment and management functions if consistent with the duty to exercise skill, including special investment skills; and

4) To incur costs only to the extent they are appropriate and reasonable in relation to the purposes of the governing instrument, the assets held by the trustee and the skills of the trustee.

All investment actions and decisions must be based solely on the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Sub-Committee of all material facts regarding any potential conflicts of interests. No University or Foundation representative, employee, or agent shall take any action prohibited by or fail to take any action required by all applicable laws in carrying out this Policy.

In addition, the Sub-Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Sub-Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

DUTIES

Investment Sub-Committee

The University at Albany Foundation by-laws, section 5.4.1, created the Investment Sub-Committee as a standing sub-committee of the Finance Committee. The Sub-Committee is hereby charged with the following responsibilities:

- Recommend to the Finance Committee / Board of Directors policy for investing funds or changes to existing policy,
- Ascertain compliance with investment policy,
- Recommend and develop investment strategy and asset allocation parameters,
- Recommend selection, retention and termination of investments and/or investment managers,
- Review and monitor investment performance,
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- To report to the Finance Committee / Board of Directors concerning portfolio performance and composition
- Direct the CFO (or his designee) to execute transactions

Chief Financial Officer (CFO)
The CFO has daily responsibility for administration of the investment portfolio and will consult with the Investment Sub-Committee and the investment consultant on matters relating to the investment of the portfolio. The CFO (or his designee) will serve as primary contact for the portfolio's investment managers, investment consultant, and custodians.

Investment Consultant
The Investment Consultant is responsible for assisting the Investment Sub-Committee in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- Provide the Investment Sub-Committee with quarterly performance reports, with more frequent intra-quarter communication conducted as needed.
- Monitor the activities of each investment manager or investment fund;
- Supply the Investment Sub-Committee with other reports (e.g. asset allocation studies) or information as reasonably requested;
- Provide proactive recommendations; and
- Review this Investment Policy Statement with the Investment Sub-Committee

The investment consultant does not have discretionary authority over portfolio decisions

II. OBJECTIVES
The principal objective of the Foundation’s investment program is to preserve real purchasing power with an acceptable level of risk and provide a growing stream of income to fund the University’s programs. Therefore, over time, the Foundation must achieve an average annual total rate of return (actual income plus appreciation) equal to inflation plus actual spending. The assets are to be managed in a manner that will meet the long-term investment objective, while at the same time attempting to limit the volatility.

Strategy
The Investment Sub-Committee believes that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g. absolute return hedge funds) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

The Foundation may invest in any combination of active managers and/or passive instruments. The portfolio may also invest with managers, who in turn, invest in other managers (fund of funds). The Board has approved investing in the following asset classes:

EQUITIES
- U.S. Equities;
- International Equities;

FIXED INCOME
- Global Fixed Income;

ALTERNATIVES

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- Private Equity;
- Real Estate;
- Natural Resources; and
- Hedge Funds

**Asset Allocation**
The asset allocation decision is regarded as the single largest determinant of a portfolio's long-term return. The underlying premise for this process is that equities and equity equivalent investments (such as hedge funds that hold marketable securities) would continue as the dominant asset class, but that further diversification could not only reduce the portfolio's volatility (riskiness), but would also improve its long-term returns.

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category. On an annual basis, the Investment Sub-Committee will review the portfolio’s asset allocation against its predetermined targets and determine if any allocation adjustments should be made for the next year or any rebalancing of underlying investments.

To ensure broad diversification, the asset allocation will be set with the following target percentages and within the following ranges:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EQUITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>25%</td>
<td>15-40%</td>
</tr>
<tr>
<td>Large Cap</td>
<td>10</td>
<td>5-25</td>
</tr>
<tr>
<td>Mid Cap</td>
<td>8</td>
<td>0-15</td>
</tr>
<tr>
<td>Small Cap</td>
<td>7</td>
<td>0-15</td>
</tr>
<tr>
<td>International Equity</td>
<td>20</td>
<td>10-30</td>
</tr>
<tr>
<td>Large Cap Developed</td>
<td>10</td>
<td>5-20</td>
</tr>
<tr>
<td>Small Cap Developed</td>
<td>5</td>
<td>0-10</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5</td>
<td>0-10</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>25</td>
<td>10-40</td>
</tr>
<tr>
<td>Core</td>
<td>10</td>
<td>5-20</td>
</tr>
<tr>
<td>Treasury Inflation Protected</td>
<td>5</td>
<td>0-10</td>
</tr>
<tr>
<td>High Yield/Distressed Debt</td>
<td>5</td>
<td>0-10</td>
</tr>
<tr>
<td>Floating Rate Loans</td>
<td>5</td>
<td>0-10</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>0-10</td>
</tr>
<tr>
<td><strong>ALTERNATIVES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>5</td>
<td>0-15</td>
</tr>
<tr>
<td>Diversified Private Equity</td>
<td>5</td>
<td>0-15</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Investment Styles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research indicates that value stocks outperform growth stocks over the long-term and this is more pronounced for smaller market capitalizations. Therefore, the portfolio will employ a strategic overweight to value stocks, with a larger value overweight to mid and small cap stocks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rebalancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>The CFO, with advice from the investment consultant, will monitor the asset allocation structure of the investment pool and work to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges, the CFO will develop a plan of action to rebalance the portfolio and report to the Investment Sub-Committee.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(a) ILLIQUID INVESTMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>An “illiquid” investment is defined as one that cannot be sold, redeemed or liquidated during a period of less than one month. Each illiquid investment will require a signed Subscription Agreement and a Limited Partnership Agreement or some other legal document describing the ownership arrangement of the investment. There are four asset classes that may be implemented with illiquid investments: Private Equity, Real Estate, Natural Resources, and Hedge Funds. Each will be discussed below. Some investments may incur &quot;Unrelated Business Taxable Income&quot; (UBTI), which the Investment Sub-Committee would generally seek to avoid by investing in offshore vehicles, but each investment will be considered in its entirety to arrive at the best overall solution for the portfolio.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(b) SPENDING POLICY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending is defined as funds made available from the endowment portion of the portfolio for University programs, exclusive of management, brokerage and custodial fees.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Endowments above their historic dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A spending formula governs the portion of total return made available each year for use by endowment accounts with the objective of maintaining purchasing power relative to inflation. Under current policy, 4% of the twelve quarter average market value of the principal is calculated and transferred to the spending account for each endowment. (Market value of an endowment account is equal to the endowment account’s opening balance, increased or decreased by the annual portfolio appreciation or depreciation, less the annual management fee and less the spending account transfer).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Endowments below their historic dollar value</th>
</tr>
</thead>
<tbody>
<tr>
<td>For endowments that are below their historic dollar value (&quot;underwater&quot;), only realized earnings, i.e. interest and dividends, are available for spending in accordance with the terms of the New York State Uniform Management of Institutional Funds Act (UMIFA).</td>
</tr>
</tbody>
</table>
III. IMPLEMENTATION, GUIDELINES AND RESTRICTIONS

GENERAL
The decisions made by the Investment Sub-Committee when implementing the investment portfolio are to be guided by The Prudent Investor Rule (see prior section titled “Fiduciary Duty”).

The overall Portfolio will remain broadly diversified across a range of asset classes. Any investment in these areas must be made with a highly diversified solution such that individual security risk is distributed across multiple securities. The purpose of the diversification is to enhance returns and reduce the risk of significant declines in the market value of the Fund. Unless specifically authorized by the Investment Sub-Committee, each investment manager shall:

- Manage the assets as a prudent investor would, in light of the purposes, terms, distribution requirements and other circumstances of the Foundation;
- Immediately notify the Investment Sub-Committee in writing of any material changes in their investment outlook, strategy, portfolio structure, ownership, organizational structure, or senior personnel;

Performance shall be evaluated according to criteria which will include:
- Over the long-term
- Adherence to the stated philosophy and style of management at the time the investment manager was retained
- Continuity of personnel and practices at the firm; ability (in the case of active managers) to meet or exceed the median performance of other managers who adhere to the same or similar investment style
- Ability to outperform its respective benchmark index

TOTAL PORTFOLIO BENCHMARKS
The primary performance objective of the Fund is to achieve a total return, net of fees, in excess of spending and inflation.

Total Return greater than Consumer Price Index + 4.0%

A secondary objective is to achieve a total return in excess of the Broad Policy Index comprised of each broad asset category benchmark weighted by its target allocation.

The current Broad Policy Index is:

<table>
<thead>
<tr>
<th>Weight</th>
<th>Index</th>
<th>Asset Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>45%</td>
<td>Russell 3000</td>
<td>US Equity (public and private)</td>
</tr>
<tr>
<td>25%</td>
<td>MSCI ACWI Ex-US</td>
<td>International Equity (public and private)</td>
</tr>
<tr>
<td>30%</td>
<td>Lehman Brothers Aggregate</td>
<td>Fixed Income</td>
</tr>
</tbody>
</table>

U.S. AND FOREIGN EQUITY
The primary goal of equities in the portfolio is growth. It is understood that equities are generally more volatile than fixed income, but also that risk can, and should be reduced by investing with a highly diversified mix of equities. The equity portfolio is to be structured such that risk is mitigated through diversification and will achieve diversification across asset class (large capitalization, small capitalization), style (growth and value), and geographic region (U.S., international developed, emerging markets).

The philosophy for equities is one of achieving the return of markets defined as “efficient” with the lowest cost possible, with “efficient” defined as a market in which new information is quickly disseminated and any resulting changes in stock prices are immediate. The large cap U.S. stock
market is generally considered highly efficient. Active management will be permitted in the portfolio in areas of the market considered “inefficient,” defined as a market in which information is not always disseminated immediately and resulting changes in stock prices do not always change immediately. Many international markets are considered inefficient.

**Implementation**

The investment in efficient markets is to be made through passive strategies such as index funds as well as low-tracking error strategies such as enhanced indexing. This approach is founded upon research that shows the probability of achieving consistent excess return through a traditional all active, multi-manager approach is low. To complement this passive approach, active managers may be added selectively in “inefficient” markets. Active managers may be used in certain inefficient asset classes and styles, meaning that opportunities for outperformance derived from security selection are available within, but importantly, those managers must be of the highest quality.

**FIXED INCOME**

The goal of fixed income investments in the portfolio is to provide income and stability for overall performance and as a diversifier to equities and other investments. The fixed income portfolio should be diversified across sectors with low correlations relative to one another. This may be achieved with a highly diversified broad fixed income fund that serves as the core portion of the fixed income allocation. This allocation may be enhanced with a “core plus” manager that seeks outperformance of the core fixed income portfolio, but volatility is expected to remain in line to modestly higher when compared to a broad fixed income benchmark such as the Lehman Brothers Aggregate Bond Index.

**Implementation**

In order to enhance returns and further reduce risk through diversification, the Investment Sub-Committee may make a dedicated investment in one or more of the following fixed income subcategories:

- Treasury Inflation Protected Securities (TIPS)
- High yield bonds
- Bank loans
- Emerging market bonds (hedged to the U.S. dollar)
- Non-U.S. denominated bonds (hedged to the U.S. dollar)

**PRIVATE EQUITY**

The goal for private equity in the portfolio is long term capital appreciation. Private equity has the potential for high long-term returns due to the tremendous growth opportunities prevalent in this segment of the market. Private equity broadly refers to investments in privately held companies. Generally these investments are made as equity but may also include mezzanine or sub-debt structures. There is no public market to trade these private interests.

These strategies are commonly segmented into two categories: Venture capital investing and buyout investing. Venture capitalists typically invest in newly formed companies. They will often build a management team, provide technical expertise, and develop strategic plans to grow the firm. Buyout managers typically invest in more established companies. The managers may take a control (buyout) or non-control (growth equity) position and often will develop or change management, improve operations, or merge with another other firm to make the firm more profitable. Profits from a private equity investment are realized via a public offering of shares or an acquisition by another firm. Additional private equity strategies include mezzanine finance and distressed debt.
Implementation
Investments in private equity should be diversified by vintage year and strategy, and made with those investment managers identified as most likely to provide exemplary long term returns. The dispersion between average and top tier private equity managers is larger than that observed in traditional equity and fixed income markets. Therefore, the Investment Sub-Committee will endeavor to invest only with top tier managers who are expected to achieve return well in excess of the public equity markets.

Private equity investing can be implemented through direct funds, fund of funds, or combination of the two. Private equity investments will be made only through funds and/or fund of funds – no individual private equity investments or direct investments in companies/ventures will be made.

REAL ESTATE
Real estate is to be included in the portfolio because of its expected contribution to performance and the risk reducing diversification it is expected to provide. Real estate investments have exhibited a low correlation with other major asset classes, particularly fixed income. Additionally, real estate yields are usually higher than those of traditional equity investment and are more in-line with those of fixed income investments. Finally, real estate prices generally increase along with inflation, providing an expected inflation hedge while other asset classes may be performing poorly.

Implementation
The investment in real estate should be well diversified and may include public real estate securities, both domestic and international, and private real estate investments, both domestic and international.
Public real estate equity (REITs) are defined as publicly traded shares held directly, managed in a separate account or mutual fund. Private real estate ownership structures include direct, commingled funds, or limited partnerships. Funds may be open-ended or have defined investment and liquidation periods.
The investment in real estate will be made through a diversified pool of real estate assets including U.S. REIT funds, foreign REIT funds, and private real estate funds. The Foundation will not own individual real estate properties in the investment portfolio.

NATURAL RESOURCES
Natural resources are defined as investments in energy, metals and other commodities. An investment in natural resources is expected to enhance the total return of the portfolio, provide diversification for other investments in the portfolio, as well as a hedge against inflation.

Although past performance is not necessarily indicative of future results, natural resources have performed well in inflationary environments. Historically, inflationary environments have been difficult for equity and fixed income investments, so an investment in natural resources may serve as a source of positive returns when other asset classes are posting below-average returns.

Implementation
Vehicles such as private energy funds, timber funds, and in some cases, managed-futures strategies, that offer a more attractive means to gain exposure to those areas that have demonstrated long-term price appreciation are preferred because of their return potential and diversification characteristics. Direct energy and timber funds allow active managers to exploit inefficiencies that exist in these markets while still providing exposure to the underlying commodity price. Returns from these types of investments have shown a low correlation to equities and fixed income and therefore provide a diversification benefit to the portfolio.

Funds that invest in stocks of commodity-related companies will not be included in the portfolio. Such funds represent a less than optimal investment in commodities because the desired
diversification is diluted due to the stocks’ correlation with the stock market. Additionally, many of these funds are highly concentrated and may experience significant volatility.

HEDGE FUNDS

The objective of the hedge fund allocation is to provide diversification for the total fund, provide returns with low correlation to the equity and fixed income markets, and enhance the total fund’s risk/return profile.

For the hedge fund allocation to achieve the expected objectives, risk must be clearly understood and controlled. The most effective means of controlling risk with a hedge fund strategy is to invest with a high degree of diversification. Individual investments may be concentrated on a particular strategy, market or geographic region, but the overall absolute return allocation should be diversified.

Diversification is sought by investing in subcategories of hedge funds, which include market neutral hedge funds and directional hedge funds. Market neutral hedge funds are designed to achieve an absolute return target with little to no correlation to the equity or fixed income markets, while directional hedge funds are usually designed with a modest amount of exposure to the stock market in order to enhance expected returns.

Implementation

When investing in hedge funds, an allocation can be made through a fund of funds (FOF) and/or a direct placement, but must be made with high degree of diversification to limit risk. It is understood that private placements may be used to generate greater risk-adjusted returns. In addition the Investment Sub-Committee may invest in mutual funds that are utilized for absolute return investments regardless of market conditions. These funds must possess the desired risk/return characteristics and provide uncorrelated returns to traditional asset classes.

(c) DERIVATIVE SECURITIES

For definition purposes, derivatives include, but not limited to, structured notes*, lower class tranches of collateralized mortgage obligations (CMO’s)** principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, and options.

Under no circumstances shall equity and fixed income investment managers utilize derivative securities to leverage the portfolio.

For index fund and enhanced index managers only, financial futures and options may be utilized solely for the purpose of mirroring the performance and risk characteristics of the specified index.

The Investment Sub-Committee may invest in certain derivatives-based strategies if the investment is consistent with the Standards of Prudence outlined earlier in the section titled “Fiduciary Duty.” Each specific derivatives-based investment must be considered separately and meet certain minimum requirements including:

- The derivative investments (options, futures, forwards, swaps, etc.) must be traded on an established exchange or have reasonable expectations of liquidity. The portfolio will not invest directly in over the counter or off-market contracts (such as energy contracts)
- The behavior of the derivative securities and the structure of the total investment must be understood by the investment committee. All risks, including but not limited to counterparty risk, event risk, and liquidity risk must be understood by the Investment Sub-Committee and the aggregation of all risks must be considered in light of the standards of prudence mentioned earlier in the section titled “Fiduciary Duty”
- The derivatives based investment must improve the overall structure of the portfolio when both expected returns and potential risk are considered. The investment will not be made unless the net impact of both expected returns and potential risk will improve the overall structure of the portfolio
Strategies designed to protect the portfolio against catastrophic loss (portfolio insurance) may be implemented in certain situations at the Investment Sub-Committee’s discretion, but must also meet the Standards of Prudence outlined earlier in the section titled "Fiduciary Duty."

*Investment in "conservative" structured notes that are principal guaranteed, unlevered, and of short-to-intermediate maturity is permitted.

**Lower class as defined by Federal Financial Institutional Examination Council (FFIEC).

<table>
<thead>
<tr>
<th>(D) LEVERAGE</th>
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</thead>
</table>

Leverage will not be incorporated at the portfolio level. The portfolio may contain strategies that incorporate leverage as part of a fund of funds or some other highly diversified investment as long as making an allocation to that investment conforms with the Standards of Prudence mentioned earlier.

**Gifts of Securities**
It is the Foundation’s policy to liquidate gifts of marketable securities when received. The Committee may use its discretion as to the timing of such liquidations based on general market conditions, donor instructions / requests and specific security liquidity issues.

**CONCLUSION**
We recognize the importance of adhering to the mission and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are welcome.