

Investment Performance and Policies June 30, 2016

The Portfolio and its Management

At June 30, 2016 the market value for total investments of the University at Buffalo Foundation and Affiliates (UBF) amounted to \$842.5 million, as compared to \$867.7 million at June 30, 2015 and \$864.4 million at June 30, 2014. Endowment funds included in total investments amounted to \$601.0 million at June 30, 2016, as compared to \$619.3 million at June 30, 2015 and \$624.8 million at June 30, 2014. These funds are managed under the supervision of UBF's board investment committee. More than ninety professional investment managers currently share in the administration of the portfolio, with performance monitored by the trustees. Included in this total are certain investments, known as the Long-Term Portfolio and having a market value of \$799.8 million at June 30, 2016, which are managed and administered on a pooled basis.

Long-Term Portfolio Investment Strategy

The primary investment objective is to maximize total investment return while preserving the inflation-adjusted purchasing power of the portfolio. This should provide a relatively predictable, constant and stable (in real terms) stream of funds for current use. Total investment return is the sum of interest, dividends and capital appreciation.

Long-Term Portfolio Performance Compared to Benchmarks for Fiscal 2016

| | | <u>Total Annualized Return</u> | | | | | | | |
|-----------------------------|----------------------|--------------------------------|---------------|---------------|-----------------------|------------------------|---------------|---------------|---------------|
| | | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | | | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> |
| | Long-Term Portfolio | -0.4% | 5.5% | 5.5% | | | | | |
| | Policy Benchmark | -0.4% | 5.7% | 5.2% | | | | | |
| | CPI +5% | 6.1% | 6.1% | 6.4% | | | | | |
| | | | | | | | | | |
| | | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | | | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> |
| <u>US Equity</u> | | | | | <u>Real Assets</u> | | | | |
| | Long-Term Portfolio | 6.1% | 11.7% | 12.1% | | -0.9% | 2.8% | 1.3% | |
| | Dow Jones US Total | 2.0% | 11.0% | 11.5% | | S&P North American | | | |
| | S&P 500 | 4.0% | 11.7% | 12.1% | | Natural Resources | -5.6% | -2.2% | -3.1% |
| | | | | | | | | | |
| <u>International Equity</u> | | | | | <u>Hedge Funds</u> | | | | |
| | Long-Term Portfolio | -8.2% | 2.3% | 2.0% | | Long-Term Portfolio | -4.7% | 3.4% | 4.4% |
| | MSCI AC World ex USA | -10.2% | 1.2% | 0.1% | | HFRI Fund of Funds | -5.4% | 1.9% | 1.6% |
| | | | | | | | | | |
| <u>Fixed Income</u> | | | | | <u>Private Equity</u> | | | | |
| | Long-Term Portfolio | 5.7% | 3.7% | 3.9% | | Long-Term Portfolio | 5.9% | 11.4% | 9.7% |
| | Barclays Aggregate | 6.0% | 4.1% | 3.8% | | Burgiss Global Private | | | |
| | | | | | | Equity | 9.9% | 14.2% | 12.6% |

Key to Indices

Policy Benchmark: 24% S&P 500 / 16% MSCI EAFE / 2% Barclays US TIPS / 10% Barclays Capital Aggregate / 20% HFRI Fund of Funds Composite Index / 2% MSCI Emerging Markets / 4% Vanguard Spliced Emerging Markets Index / 3% S&P North American Natural Resources Sector Index / 3.5% NCREIF Townsend Blended Index / 12% Burgiss Global Private Equity Index / 3.5% Mercer Illiquid Natural Resources Index

S&P 500: Standard and Poors 500 Index
 MSCI: Morgan Stanley Capital International
 NCREIF: National Council of Real Estate Investment Fiduciaries

EAFE: Europe, Australia, Far East
 HFRI: Hedge Fund Research, Inc.

Long-Term Portfolio Performance Compared to Benchmarks for Fiscal 2007-2016

The accompanying chart reflects the ten-year performance for the Long-Term Portfolio in comparison with over 800 other colleges and universities across the country.

**Average Annual Compounded Nominal Return
Fiscal Years Ended June 30**

| | Return | NCSE Mean |
|-----------|--------|-----------|
| 2016 | -0.4% | -1.9% |
| 2014-2016 | 5.5% | 5.2% |
| 2012-2016 | 5.5% | 5.4% |
| 2007-2016 | 4.5% | 5.0% |

NCSE: NACUBO - Commonfund Study of Endowments

Asset Allocation Policy

The proper distribution of investments among various asset classes allows UBF to honor spending policies, maintain risk tolerance and stability, produce appropriate investment returns, and achieve long-term objectives.

Asset allocation at June 30, 2016 was as follows:

| <u>By Manager Type</u> | <u>Long-Term Portfolio</u> | <u>Current Target</u> | <u>Long-Term Target</u> |
|------------------------------------|----------------------------|-----------------------|-------------------------|
| <u>Growth Assets</u> | | | |
| • <u>US Equity</u> | | | |
| - Large | 14.8% | 15.0% | 11.0% |
| - Large Quality | 5.8% | 6.0% | 5.0% |
| • <u>International Equity</u> | | | |
| - Large | 12.3% | 13.0% | 10.0% |
| - Emerging Markets | 4.9% | 5.0% | 4.0% |
| • <u>Global Equity</u> | 4.7% | 7.0% | 7.0% |
| • <u>Private Equity</u> | 12.5% | 12.0% | 20.0% |
| <u>Risk Reduction Assets</u> | | | |
| • Cash | 2.7% | ---- | ---- |
| • US Fixed Income | 9.9% | 10.0% | 8.0% |
| • Hedge Funds | 20.1% | 20.0% | 20.0% |
| <u>Inflation Protection Assets</u> | | | |
| • US Inflation Protected Fixed | 1.8% | 2.0% | ---- |
| • Real Assets | 10.5% | 10.0% | 15.0% |
| TOTAL | 100.0% | 100.0% | 100.0% |

NOTE: Long term target is goal for 2022.

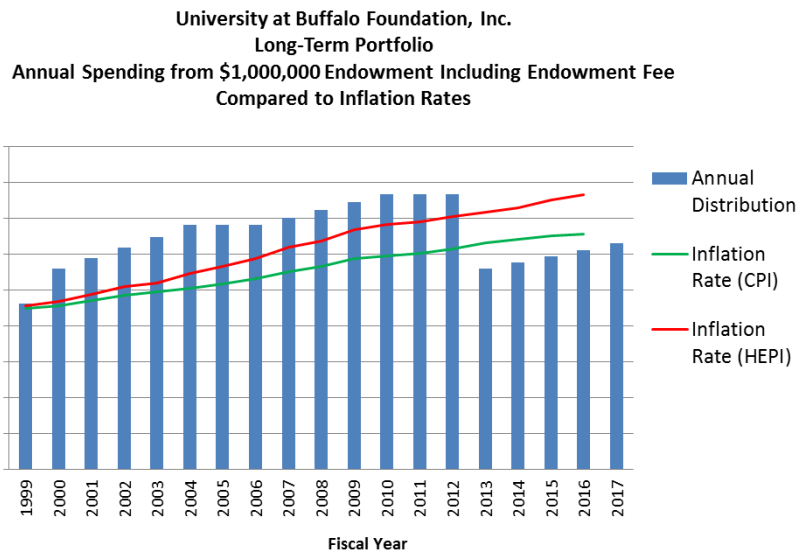
Spending Policy

Spending is defined as funds made available from the portfolio for university programs and administrative expenses, exclusive of management, brokerage and custodial fees.

Generally, a formula governs the portion of total return made available each year for spending with an objective of maintaining purchasing power relative to inflation. This formula allows spending to increase by the predetermined annual growth rate of 3% as long as spending stays within 4% and 6% of the three-year average market value of principal. Special spending rules are followed for individual endowments where the value has fallen below historic dollar value.

Long-Term Portfolio Performance – Fiscal 1997 to Fiscal 2016

A \$1,000,000 gift on July 1, 1996 invested in the Long-Term Portfolio would have generated \$44,098 for spending in Fiscal Year 1998, with the annual distribution growing to \$63,008 for Fiscal Year 2017. This annual growth in spending is compared to inflation rate growth over this same period.



A \$1,000,000 gift on July 1, 1996 invested in the Long-Term Portfolio would have been worth \$1,268,996 as of June 30, 2016, prior to the Fiscal Year 2017 distribution. In addition, \$1,280,996 would have been distributed for spending needs from Fiscal Year 1998 through Fiscal Year 2017.

Performance of \$1,000,000 Endowment

