

## Investment Performance and Policies June 30, 2017

### The Portfolio and its Management

At June 30, 2017 the market value for total investments of the University at Buffalo Foundation and Affiliates (UBF) amounted to \$940.4 million, as compared to \$842.5 million at June 30, 2016 and \$867.7 million at June 30, 2015. Endowment funds included in total investments amounted to \$659.2 million at June 30, 2017, as compared to \$601.0 million at June 30, 2016 and \$619.3 million at June 30, 2015. 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 \$896.1 million at June 30, 2017, 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 Year 2017

Investment performance, on a total return basis net of fees, is most appropriately reviewed over the longer term with benchmarking to proper indices. Policy Benchmark returns are average returns of indices weighted consistent with portfolio allocation (see Key to Indices).

		<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	13.1%	4.7%	8.3%					
	Policy Benchmark	9.8%	3.7%	7.4%					
	CPI +5%	6.7%	6.0%	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	17.6%	10.4%	14.3%		16.3%	8.8%	10.1%	
	Dow Jones US Total	18.5%	9.0%	14.5%		NCREIF Townsend			
	S&P 500	17.9%	9.6%	14.6%		Blended	9.8%	12.7%	12.7%
<u>International Equity</u>					<u>Hedge Funds</u>				
	Long-Term Portfolio	21.0%	2.6%	8.5%		Long-Term Portfolio	8.3%	2.6%	6.5%
	MSCI AC World ex USA	20.5%	0.8%	7.2%		HFRI Fund of Funds	6.4%	1.5%	3.8%
<u>Global Equity</u>					<u>Private Equity</u>				
	Long-Term Portfolio	20.1%	N/A	N/A		Long-Term Portfolio	11.0%	8.4%	10.8%
	Barclays US Aggregate	18.8%	N/A	N/A		Burgiss Global Private Equity	7.6%	10.0%	12.5%
<u>Fixed Income</u>									
	Long-Term Portfolio	0.0%	2.0%	2.5%					
	Barclays US Aggregate	-0.3%	2.5%	2.2%					

#### Key to Indices

Policy Benchmark: 15% CRSP Total Market Index / 5% S&P 500 / 13% MSCI EAFE / 2% Barclays US TIPS / 9% Barclays Capital Aggregate / 20% HFRI Fund of Funds Composite Index / 2% MSCI Emerging Markets / 3% Vanguard Spliced Emerging Markets Index / 7% MSCI ACWI / 6% NCREIF Townsend Blended Index / 13% Burgiss Global Private Equity Index / 4.0% 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.

CPI: Consumer Price Index

ACWI: All Cap World Index

CRSP: Center for Research on Security Prices

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

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

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

	Return	NCSE Mean	IF Median
2016	-0.4%	-1.9%	-1.8%
2014-2016	5.5%	5.2%	4.8%
2012-2016	5.5%	5.4%	5.0%
2007-2016	4.5%	5.0%	4.9%

NCSE: NACUBO - Commonfund Study of Endowments (over 800 colleges and universities)  
IF: InvestorForce (over 700 endowments and foundations)  
NACUBO: National Association of College and University Business Officers

**Asset Allocation Policy**

The proper and prudent 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, 2017 was as follows:

<u>Manager Type</u>	<u>Long-Term Portfolio</u>	<u>Current Target</u>	<u>Long-Term Target</u>
<b><u>GROWTH ASSETS</u></b>			
• <u>US Equity</u>			
- All Cap	20.8%	20.0%	16.0%
• <u>International Equity</u>			
- Large	13.4%	13.0%	10.0%
- Emerging Markets	4.6%	5.0%	4.0%
• <u>Global Equity</u>	7.1%	7.0%	7.0%
• <u>Private Equity</u>	13.3%	13.0%	20.0%
<b><u>RISK REDUCTION ASSETS</u></b>			
• Cash	0.3%	----	----
• US Fixed Income	8.8%	9.0%	8.0%
• US Inflation Protected Fixed	1.8%	2.0%	----
• Hedge Funds	19.4%	20.0%	20.0%
<b><u>INFLATION PROTECTED ASSETS</u></b>			
• Real Assets	10.5%	11.0%	15.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

NOTE: Long term target is goal for 2022.

**Spending Policy**

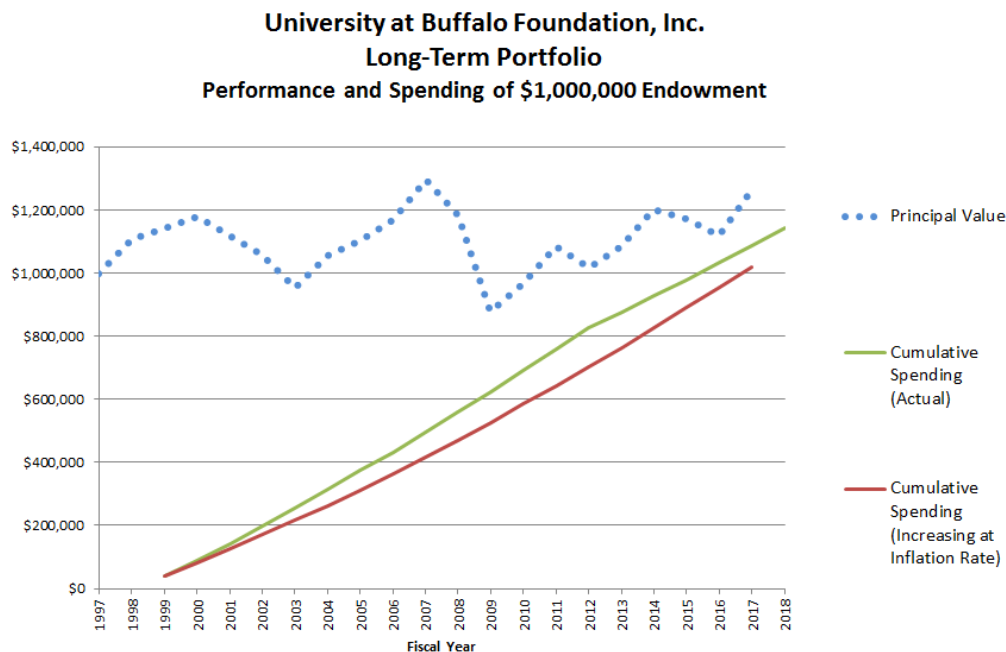
Spending is defined as funds made available from the Long-Term Portfolio for university programs and administrative expenses, exclusive of management, brokerage and custodial fees.

The Spending Rate will be determined and approved annually by the Investment Committee. The desired result is to achieve a year to year spending increase for individual funds that approximates the Inflation Rate<sup>1</sup>, not to exceed 3%.

Total Spending is limited to a floor of 4% and a ceiling of 6% of the three-year average market value of the Long-Term Portfolio, measured on a quarterly basis. Special spending rules are followed for individual endowments where the value has fallen below historic dollar value.

**Long-Term Portfolio Performance and Spending– Fiscal Year 1998 to Fiscal Year 2018**

A \$1,000,000 gift on June 30, 1997 invested in the Long-Term Portfolio would have been worth \$1,265,983 as of June 30, 2017, prior to the Fiscal Year 2018 distribution. In addition, \$1,144,836 would have been cumulatively distributed for spending needs from Fiscal Year 1999 through Fiscal Year 2018, with annual spending growing from \$40,780 in Fiscal Year 1999 to \$56,391 in Fiscal Year 2018. The cumulative total of spending is compared to the blended inflation rate over this same period.



<sup>1</sup> Inflation Rate is the average of the Higher Education Price Index (HEPI) and the Consumer Price Index (CPI) for the most recent three calendar years.