

**CONSOLIDATED INVESTMENT FUND
ENDOWMENT INVESTMENT MANAGEMENT
POLICY**



THE UNIVERSITY OF NEW MEXICO

THE UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

Revisions:

1989 September
1992 February
1995 March
1997 February
1999 September
2001 May
2002 June
2003 October
2004 May
2005 October

**CONSOLIDATED INVESTMENT FUND
ENDOWMENT INVESTMENT MANAGEMENT POLICY**

**THE UNIVERSITY OF NEW MEXICO
THE UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**

Table of Contents

Section	Page
I. PREFACE	3
II. INVESTMENT OBJECTIVES	4
III. INVESTMENT POLICY	5
IV. INVESTMENT STRATEGY	13
V. SPENDING POLICY	16
VI. STANDARDS OF PERFORMANCE	17
VII. DUTIES AND RESPONSIBILITIES OF INVESTMENT COMMITTEE	20
VIII. GUIDELINES FOR THE CUSTODIAN	21
IX. COMMUNICATION and REPORTING	22
X. GUIDELINES FOR THE INVESTMENT CONSULTANT	23
XI. PROXY VOTING	24
XII. RE-BALANCING	24
XIII. OTHER INVESTMENTS	27
XIV. CHANGES TO THE CIF INVESTMENT POLICY	27
XV. CONFLICTS OF INTEREST	27

I. PREFACE

All investment Managers (“Managers”) employed by the Consolidated Investment Fund (CIF, or Fund) shall either be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940 and provide the most recent investment advisor registration form (ADV Part II) filed with the (SEC), or be exempted from registration under the Investment Advisors Act of 1940 exclusion for organizations regulated by the Bank Holding Company Act of 1956. Organizations exempted from Federal-level registration due to having assets under management of less than \$25,000,000 are not permitted. Further, no more than 50% of the total endowment assets may be assigned to any one Manager. The Investment Committee may, in its discretion, waive these requirements for Managers selected for alternative investments arrangements.

It is the intention to fully diversify endowment assets over time into viable asset categories via professional management in order to eliminate dependence on one or two asset categories, which could adversely affect the total return.

This policy will structure its philosophy around the concept of complementary Managers who shall be responsible for specific asset categories and management styles. In implementing its philosophy the CIF may use separate accounts, commingled funds or mutual funds to accomplish its objectives. This document shall outline the following:

- A. The risk/growth posture of the Funds.
- B. An appropriate set of goals and objectives for the selected Managers.
- C. The overall investment objectives and guidelines of the Foundation and the University.
- D. Standards of performance
- E. Communication and reporting requirements.

Management of the Fund is a long-term responsibility. Therefore, long-term objectives are the standard to be observed.

II. INVESTMENT OBJECTIVES

- A. The objective of the total return investment management program is to produce growth and income sufficient to support both donor goals and fund objectives. The long-term objective of total return shall be the rate of change of the CPI plus 5.0% (See Standards of Performance, Section VI). Total return is the sum of earned interest and dividends and realized and unrealized gains or losses less all investment management costs. As income distributions shall be taken from the total return of the funds (see Spending Policy, Section V), the Managers should concentrate their efforts on total return, which will increase the corpus of the fund and thereby increase the purchasing power of the assets under management.
- B. Each asset class approved by the Investment Committee will have a primary benchmark and target allocation. The primary benchmark may be a combination of one or more benchmarks to more closely match the Manager structure of that asset class. The target allocation specified for each asset class will be reviewed and reconfirmed periodically.
- C. Given the objective, the investment Managers shall recognize the long-term responsibilities and purposes of the CIF and manage its assets utilizing the same care, skill, prudence and diligence under the circumstances then prevailing that experienced investment professionals would use in like activities for like funds with like aims in accordance and compliance with all applicable laws, rules, and regulations from local, state, federal, and international political entities as it pertains to fiduciary duties and responsibilities.
- D. A complementary investment objective is that the rate of return of each Manager should compare favorably over comparable periods to that of other Managers of a like style and discipline.
- E. When active management is employed, active Managers are expected to add value as established per Section VI, Standards of Performance. When passive management is employed, the passive Managers are expected to track the index appropriate for the passive investment.
- F. As it is anticipated that inflation will continue to be a part of our economic system and the CIF shall attempt to distribute 5.0% as defined in the Spending Policy (Section V), the target objective for the total (net of all investment management costs) portfolio return is the rate of change of the CPI + 5.0%.
- G. If donor funds are accepted by the Foundation or the University with specific restrictions as to investments, they shall fall outside the dictums of this policy and

shall be administered by the Investment Committee or its designee in accordance with donor specifications (Section XIII, Other Investments).

III. INVESTMENT POLICY

The Investment Committee has evaluated the various investment asset classes available, considering the historical rates of return and relative levels of risk associated with each. The Investment Committee recognizes that, over the long-term, the allocation among various asset classes may be the single most important determinant of the Endowment's investment performance. The Investment Committee further recommends the investment of all endowment assets in accordance with the following policy guidelines.

A. ASSET ALLOCATION

Asset allocation policy will be developed using appropriate best practice tools such as a mean/variance optimizer or other tools as appropriate. Endowment assets shall be invested according to the following maximum and minimum ranges for each asset class as stated below:

Percent of Total Assets Asset Class	Minimum	Maximum
Equities:		
Domestic Equity	10%	50%
International Equity	10%	30%
Fixed Income/Cash	10%	50%
Real Assets	5%	20%
Private Equity	0%	20%
Hedge Funds	5%	20%

The asset allocation policy is expected to have a high likelihood of meeting the objectives outlined in Section II of this policy statement.

The asset allocation ranges established by this Investment Policy represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic

conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature.

The Investment Committee will be responsible for re-balancing aggregate fund assets per Section XII and ensuring that the Managers keep divergences as brief as possible.

With regard to illiquid investments, including private equity and real assets, the total target allocation pertains to invested capital, not committed capital. Because of the way cash is normally drawn down for these types of investments, it is understood that it may be necessary to commit capital of up to 50% more than the target policy in order to achieve a given allocation.

The Managers shall have discretion to invest a portion of the assets in cash reserves when they deem it appropriate. However, the Managers will be evaluated against their peers and their predetermined benchmarks on the performance of the total funds under their direct management.

The Investment Committee will review the Asset Allocation target annually and may, upon majority vote by the Committee, recommend an appropriate Asset Allocation target within the above asset classes.

B. QUALITY STANDARDS

Unless otherwise authorized and with the exception of commingled funds, the following standards will be applied to investment securities contained in the endowment portfolio:

1. ALL SECURITIES

a) Best Execution:

All transactions are to be governed by negotiation for execution on a “best realized price” (best net price) basis. The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

b) Directed Commissions/Trades:

The Investment Committee reserves the right to direct trades (or a portion thereof) for the recapture of commission dollars as long as the principle of “best realized price” is maintained.

c) Diversification:

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations or industries.

d) Volatility:

Consistent with the desire for adequate diversification, the CIF Investment Policy is based on the expectation that the volatility of the portfolio will be similar to, or less than, that of a market portfolio with asset class weights identical to that of the CIF Investment Policy.

e) Liquidity:

Managers will be expected to regularly provide funds to the CIF. The CIF will notify the investment Managers well in advance of any changes in cash income draw requirements to provide sufficient time to adjust to the requirements.

f) International Constraints:

1. Non-international equity specialty Managers will be permitted to invest up to 30% of their portfolio holdings in international equities of similar quality and marketability.
2. International equity specialty Managers will be permitted to invest up to 20% of their portfolio holdings in emerging markets and other non-developed international equity markets.

In addition to the above, the following standards will apply to specific asset classes:

2. TRADITIONAL EQUITY INVESTMENTS (Except those made by Private Equity, Real Asset, and Absolute Return Managers)

a) Quality Constraints:

Equity holdings shall be restricted to high quality, readily marketable securities of corporations that are actively traded on the major exchanges including NASDAQ.

b) Exclusions:

The following categories of securities are not permissible for investment at this time without prior approval by a majority vote of the Investment Committee:

- 1) Unregistered or restricted stock
- 2) Commodities, including gold or currency futures except those used for hedging activities.
- 3) Conditional sales contracts
- 4) Options, including the purchase, sale or writing of options
- 5) Warrant
- 6) Margin buying
- 7) Short selling
- 8) Security lending programs

3. TRADITIONAL FIXED INCOME INVESTMENTS

Types of Issues:

- 1) US Government or agencies of the US government
- 2) Domestic corporations, including convertibles, of investment grade industrial firms and utilities.
- 3) Domestic banks and other financial institutions of the US
- 4) Mortgage pass-through securities issued by an U.S. Agency and Collateralized Mortgage Obligations as detailed below.
- 5) International fixed income investments of similar quality and marketability.
- 6) Tax exempt securities, either state, federal or political subdivisions.
- 7) Private Placements.

Collateralized Mortgage Obligations (CMOs) may not exceed 20% of any traditional fixed income portfolio. In addition, no investment is permitted in interest-only (IO), principal-only (PO) or inverse floating range instruments in a traditional fixed income portfolio.

Investments in non-US dollar denominated issues may be made in those issues of foreign sovereigns who, at the time of investment, maintain diplomatic and economic ties with the United States and are not designated to be hostile or terrorist by the US State Department.

a) Quality Constraints:

The average rating of the traditional fixed income portfolio will be “A” or better as established by a recognized rating service and further reinforced by independent in-house credit analyses. In cases where the yield spread adequately compensates for additional risk, up to 25% of the market value of the fixed income portfolio may be in securities rated less than BBB or the equivalent.

Cash equivalent reserves shall consist of interest bearing or discount instruments of the US Government or agencies thereof, money market funds, corporate discounted instruments, corporate issued commercial paper rated at least A-1 by Standard & Poors and P-1 by Moody’s, time deposits of US or foreign banks, bankers acceptances and fully collateralized repurchase agreements. Both US and foreign offerings are permissible.

b) International Constraints:

With the Investment Committee’s prior approval, domestic fixed income Managers will be permitted to invest up to 20% of their portfolio holdings in international fixed income issues. Hedging to currency risk(s), will be permitted at the Manager’s discretion. International fixed-income Managers shall be limited to no more than 20% in domestic fixed-income issues except for cash equivalents.

c) Maturity Constraints:

Including all issues, the average weighted maturity of the total traditional fixed income portfolio shall be maintained at a level not to exceed the benchmark index by more than seven (7) years. However, since active bond management is encouraged, transactions may occur where the portfolio maturity may be temporarily lowered or raised in anticipation of market changes. In addition, there may be specific maturity constraints applied to specific management styles.

Cash equivalent reserves are securities whose maturity is less than or equal to one year.

Including all issues, the average weighted duration of the total traditional fixed income portfolio shall be at a level not to exceed the benchmark index duration by more than two (2) years.

d) Diversification:

Except for government and agency obligations, the fixed income account shall contain not more than 10% of any single issuer, at cost.

e) Marketability:

There shall be ready public market for each issue selected by any Manager of traditional fixed income investments.

Arbitrage swapping is permissible provided, however, that the above quality and maturity constraints are maintained in the investment objectives. Each account shall be invested with a total return orientation. Achievement of maximum yields is not a primary requirement.

f) Liquidation:

When portfolios of the account must be liquidated, the determination of what to dispose of shall be at the discretion of the investment Manager.

g) Use of Money Instruments:

At the discretion of the investment Manager, short-term money market instruments may represent a material portion (greater than 50%) of the portfolio, reflecting alternatives to longer-term debt.

4. REAL ESTATE INVESTMENTS

a) Quality Constraints:

Any real estate investment pool to be considered must have a minimum value of \$25 million and be comprised of a minimum of four properties. The pool should be structured to achieve diversification within the real estate sectors by geographic location, property type, economic region, lease terms and tenancy.

b) Income Constraint:

Properties comprising the pool shall be substantially income producing. Total return proformas shall be expected to provide a return equal to an agreed upon figure for the rate of the CPI + 5% for a 5-year period of time.

c) Management Oversight:

Real estate professionals who can provide via specific references, the following, shall manage all properties:

- 1) History and ownership of the management

- 2) Background of key personnel
- 3) Management style or organizational approach to decision-making
- 4) Professional designations
- 5) Specific history (track record) of the firm

5. NATURAL RESOURCE INVESTMENTS (such as Timber, Oil and Gas)

a) Capitalization:

Any natural resource pool or fund of assets shall have a minimum total capitalization of \$25 million.

b) Diversification:

Any pool shall be well diversified with a minimum of five investments to be made in five different companies, properties, or ventures, preferably over various sectors.

c) Management Oversight:

The management of any pooled investment shall have an established track record of managed natural resource pools of the type to be considered, with a positive rate of return to previous investors. The return from previous pools should be equal to the average “accepted” returns that were available over a like period of time to those investors.

Alternative investment Managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such Managers. Instead, the Committee may choose to terminate a Manager, subject to the Manager’s liquidation policy, if they are dissatisfied with the Manager and/or his strategy.

6. PRIVATE EQUITY INVESTMENTS

a) Capitalization:

Any private capital pool shall have a minimum total capitalization of \$25 million.

b) Diversification:

Any pool shall be well diversified with a minimum of five investments to be made in five different companies or ventures, preferably over various sectors.

c) Management Oversight:

The management of any pooled investment shall have an established track record of managed private pools of the type to be considered, with a positive rate of return to previous investors. The return from previous pools should be equal to the average “accepted” returns that were available over a like period of time to those investors.

Alternative investment Managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such Managers. Instead, the Committee may choose to terminate a Manager, subject to the Manager’s liquidation policy, if they are dissatisfied with the Manager and/or his strategy.

7. HEDGE FUND INVESTMENTS

a) Capitalization:

Any hedge fund pool shall have a minimum total capitalization of \$100 million.

b) Prior Performance:

It is understood that past performance is no guarantee of future results. However, any hedge or pooled fund to be considered by the Investment Committee shall exhibit performance, risk and other characteristics deemed appropriate by the Committee.

Alternative investment Managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such Managers. Instead, the Committee may choose to terminate a Manager, subject to the Manager’s liquidation policy, if they are dissatisfied with the Manager and/or his strategy.

8. MUTUAL OR POOLED FUNDS

(Other than Private Equity, Hedge Funds, or Real Assets)

- a) Quality Constraints:
Mutual or pooled fund holdings shall be restricted to high quality and readily liquefiable funds.
- b) Assets of Fund:
Investment in any mutual or pooled fund shall be limited to those funds having total assets of \$25 million minimum.
- c) Prior Performance:
It is understood that past performance is no guarantee of future results. However, any mutual or pooled fund to be considered by the Investment Committee shall exhibit performance, risk and other characteristics deemed appropriate by the Committee.
- d) Fee Structure:
Mutual funds fees structures will be closely researched. Should it be found that the University is in a position to reclaim any sales loads, dealer concessions or 12b-1 fees, the Investment Committee may, with the assistance of the University's consultant, initiate a program to reclaim these fees.

IV. INVESTMENT STRATEGY

The management of the Fund shall adhere to a maximum diversification approach utilizing complementary styles of management, whether separate accounts, commingled or mutual funds are used. Investments in emerging markets shall be limited to no more than 20% of the portfolio.

A. EQUITY FUND

The Equity Fund shall consist of diversified domestic and international stocks. The purpose of the Equity Fund is to provide a growing stream of current income and appreciation of principal that more than offsets inflation. It is recognized that pursuit of this object could entail the assumption of greater market variability and risk.

The Equity Fund should normally represent 40% of the total portfolio at market value. Although the actual allocation will vary with market conditions, the Committee will

closely monitor levels in excess of 50% or below 30% and re-balancing will automatically be implemented if the ratio falls outside the approved range.

Within the Equity Fund, the 50% allocation to domestic equities will be across capitalization ranges and investment styles. The allocation to international equities will be represented by a diverse allocation to emerging markets and developed non-US large or small companies and with the developed international Managers having the latitude of investing in emerging markets.

B. FIXED INCOME FUND

The Fixed Income Fund shall consist of a portfolio well diversified by sectors. The Fixed Income Fund should normally represent 15% of the Funds at market value. Although the actual allocation will vary with market conditions, levels in excess of 30% or below 10% will be closely monitored by the Committee and re-balancing will, in accordance with policy, be implemented if the ratio falls outside the approved ranges.

Within the Fixed Income Fund, no target allocation to international fixed income will be established as part of the Investment Policy Statement. However, no more than 50% of the Fixed Income Fund may be allocated to international fixed income securities.

The fixed income portfolio will be managed under complementary styles of management, which may include an intermediate and long term fixed Manager. Each account shall be managed in an active manner to achieve the total return objective as established and preserve principal while maintaining a competitive yield as market conditions dictate. No limitations are suggested as to turnover.

C. REAL ESTATE FUND

The Real Estate Fund may be used as another asset class in the portfolio to further diversify the risk exposure of the endowment Funds. No more than 20% of the endowment assets may be invested in this sector, with no more than 30% committed.

D. PRIVATE EQUITY FUND

The Private Equity Fund will not exceed 20% of the total endowment portfolio that may be under the Investment Committee's area of responsibility. The Investment Committee will not consider providing monies for individual private capital projects or developmental projects of any type in any type of industry. Pooled, well-diversified venture capital projects will be considered on a case-by-case basis contingent upon the standards in Section III.

Private Equity investments shall be defined as follows:

1. Venture Capital Pools
2. Research and Development Pools
3. Leveraged Buyout Pools
4. Special Situations like Distressed Securities
5. Funds of Private Equity Funds
6. Any other special investment categories not listed here may be considered as a private equity investment upon a majority vote of the Investment Committee.

E. HEDGE FUNDS

The Hedge Fund Portfolio shall not exceed 20% of the total endowment portfolio under the Investment Committee's area of responsibility. Pooled, well-diversified hedged strategy portfolios will be considered on a case-by-case basis contingent upon the standards in Section III. Hedge Fund investments shall be defined as follows:

1. Directional Strategies (such as long/short equity, short-biased Managers or global macro Managers)
2. Event Driven Strategies (such as merger arbitrage or distressed securities)
3. Relative Value Strategies (such as equity market neutral, convertible arbitrage, or fixed income arbitrage)
4. Funds of Hedge Funds

5. Any other special investment categories not listed here may be considered a hedge fund investment upon a majority vote of the Investment Committee.

F. MUTUAL OR POOLED FUNDS

As situations warrant, the Investment Committee may consider the use of mutual or pooled funds to manage all assets or as a means to further diversify the endowment portfolio.

In general, Mutual or Pooled Funds may include, but not be limited to, the following active or passively managed fund types:

1. Index Funds
2. Specialty Mutual Funds (international, small cap, etc.)

For purposes of asset allocation, such funds will be considered as EQUITY assets and will be subject to all constraints as stipulated in Section III pertaining to equity investments. In addition, performance of mutual or pooled funds will be measured in accordance with the standards described in Section VI.

V. SPENDING POLICY

The University and the Foundation recognize the need for spendable income by the beneficiaries of the Funds under their custodianship. The following spending policy reflects an objective to distribute as much Total Return as is consistent with the overall investment objectives defined herein while protecting the real value of the principal.

The Spending Policy shall be based on the following definitions:

- | | |
|---------------------------|---|
| Total Return: | Total Return is defined as the sum of earned interest and dividends and realized and unrealized gains or losses less all investment management costs. |
| Net Current Yield: | Net Current Yield is defined as the sum of total interest and dividends earned less all investment management costs. |

Spendable Income: Spendable Income is defined as that portion of Total Return allocated for spending in the fiscal year immediately following the year in which it was earned for the purpose(s) defined by the donor at the time of establishment of the Fund.

Consistent with the overall investment goals, the following rules for distribution are set forward:

- A. The total annual distribution of Spendable Income to each unit of the Consolidated Investment Fund (CIF) shall not exceed 6% nor be less than 4% of the Average Market Value of a unit of the CIF. The Average Market Value of a unit will be based on the average unit values of the CIF for the preceding 12 quarters. The TARGET annual distribution rate shall be 5% of the average unit market value.
- B. If, in any given twelve quarter rolling period, Total Return is less than Target annual distribution, actual distribution shall not be less than 4% of the average unit market value for such twelve quarter rolling period. The distribution may exceed 5% of the Average Market Value of a unit of the CIF if in the determination of the Committee, such higher distribution is warranted.
- C. Distribution obligations of the endowment must be met on a timely and regular basis. Distributions are made to each individual endowment comprising the CIF within 30 days of the close of the fiscal year, June 30th. Such distributions may require cash withdrawals from managed funds.

VI. STANDARDS OF PERFORMANCE

The performance of the endowment will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the maximum commitment levels by asset class as set forth by this investment policy.

In consideration of the endowment's goals and objectives, several standards will be utilized in evaluating investment performance as opposed to a single measure. These standards reflect several aspects of investment performance, including the specific

objectives and the market indices used to measure the performance of individual Managers. The specific basis for performance evaluation is as follows:

- A. The Investment Committee expects the total assets under management to perform in the upper third of an acceptable comparable Balanced Universe, over a market cycle or a three to five year period if shorter. Performance of the endowment will also be compared to other funds utilizing a similar investment policy. It is expected that the total assets perform above mean performance in an endowment sample of the performance measurement provider.
- B. Each Manager should exceed the passive standards or benchmarks for the style and type of management as established for each asset class.
- C. Each Manager is expected on a rolling 3 year basis to perform in the top 50 percentile of their peer group, as measured by an acceptable comparable professional performance measurement service that evaluates balanced, equity and fixed income Managers as to style, risk, return and responsibility who have like styles and requirements.
- D. The total rate of return over a full market cycle or a three to five year period, whichever occurs first, should, net of all investment expenses, exceed the rate of change in the Consumer Price Index + 5.0% per year in addition to exceeding the passive standards established herein.
- E. The extent to which the volatility objectives as established herein are satisfied or exceeded will be determined by computing the mean absolute deviation of the investment account's total rate of return from quarter to quarter and comparing this with the same statistic measured for a corresponding market portfolio with asset class weights identical to that of the CIF Investment Policy.
- F. Investment performance of various classes of securities will be compared, on a time and dollar weighted basis, with that of unmanaged market indices as well as with an appropriate universe of professionally managed funds for endowments and equity, fixed income and balanced universe as follows:
 - 1. Equity performance will be compared with nationally recognized equity indices such as the S&P 500, the Russell 3000 or the Russell 2000. Equity performances will also be compared with a nationally recognized style index depending on the Manager's orientation towards growth or value. Finally, equity performance will be compared to an appropriate peer group universe. The benchmark

measures adopted for equity performance will be mutually acceptable to the Manager(s) and the Investment Committee and explicitly stated in the Manager(s) contract.

2. Fixed income performance will be compared with nationally recognized bond indices such as the Lehman Brothers Aggregate or Government/Corporate Index. Fixed income performance will also be compared to an appropriate peer group universe. The benchmark measures adopted for fixed income performance will be mutually acceptable to the Manager(s) and the Investment Committee and explicitly stated in the Manager(s) contract.
3. International equity Managers or international pooled funds will be compared against a nationally recognized international equity index, such as the Morgan Stanley Capital International All Country World ex-US Index.
4. Real Estate performance will be compared with the total return of the National Council of Real Estate Investment Fiduciaries Index (NCREIF) and the National Association of Real Estate Investment Trusts (NAREIT).
5. Private Equity returns will be compared over the long term, 5-10 years, to the S&P 500 Index plus 5.0% and the comparable returns of the venture capital median Manager performance.
6. Hedge Fund performance will be compared to the Hedge Fund Research Fund of Funds (HFR FOF) equal weighted collection of fund of funds Managers.

An evaluation of the investment Managers' performance will be conducted quarterly to include not only measurement with respect to the standards described above, but also an overall qualitative evaluation of strategy during the quarter and the past year. However, specific quantitative measures, especially the more absolute oriented measures, will be considered of more importance over a full market cycle or a three to five year period, whichever ever occurs first.

Managers shall be evaluated quarterly against the appropriate benchmarks. If a Manager is meeting or exceeding performance standards, the Manager's status will be "satisfactory". When a Manager under performs by a margin outside the expected tracking error for the Manager for four consecutive quarters, said Manager will be

placed on “probation” until performance returns to “satisfactory”. If a Manager on probation continues to under perform for four more consecutive quarters, the Manager will be reviewed thoroughly by the Committee and its consultant, and may be cut back or terminated.

VII. DUTIES AND RESPONSIBILITIES OF INVESTMENT COMMITTEE

The Board is responsible for the overall stewardship of the Foundation. The Board has delegated to the Committee the responsibility to oversee the Foundation’s investment activities on the Board’s behalf.

The Committee has the responsibility to ensure that the assets of the Foundation are managed in a manner that is consistent with the policies and objectives of the Foundation. In so doing, the Committee will comply with all applicable laws.

The Committee members are required to discharge their duties solely in the interest of the University and for the exclusive purpose of meeting the financial needs of the University. The Committee is authorized to engage the services of Investment Managers who possess the necessary specialized research capabilities and skill to meet the investment objectives and guidelines of the Foundation. The Committee will require the Investment Managers to adhere to any policies adopted by the Board.

The Committee’s responsibilities include:

1. Developing and recommending to the Board investment objectives that are consistent with the financial needs of the University, and the policy asset allocation consistent with meeting those objectives;
2. Selecting investment managers;
3. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed; and
4. Recommending Spending Policy guidelines to the Board.

VIII. GUIDELINES FOR THE CUSTODIAN

The Investment Committee recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records.

The Investment Committee identifies the following as responsibilities of the custodian for the endowment:

- A. Provide complete custody and depository services for the designated accounts.
- B. Provide for investment of any cash to avoid lingering uninvested amounts.
- C. Implement in a timely and effective manner the investment actions as directed by the investment Manager(s).
- D. Collect all income and principal realizable and properly report on the periodic statements.
- E. Provide monthly and annual accounting statements as well as on-line real time accounting for the endowment, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Committee.
- F. Report to the University staff situations where security pricing is either not possible or subject to considerable uncertainty.
- G. Distribution to the investment Manager(s) in a timely manner all proxy voting materials.
- H. Provide assistance to the Investment Committee, the investment consultant, and staff, to complete such activities as the annual audit, transaction verification or unique issues.

IX. COMMUNICATION AND REPORTING

The Investment Manager(s) are responsible for frequent and open communication with the Investment Committee on all significant matters pertaining to investment policies and the management of the Fund's assets. Some of the key reporting responsibilities include the obligation to:

- A. Inform the Investment Committee of major changes in the investment Manager's investment outlook, investment strategy and portfolio structure.
- B. Advise the Investment Committee of any significant changes in the ownership, organizational structure, financial condition or senior personnel staffing of each investment Manager.
- C. Provide the Investment Committee with quarterly transaction, valuation and performance reports to coincide with the University and Foundation's fiscal quarters.
- D. Ensure that all documents, exhibits and written materials that will be used during the quarterly conferences between the Investment Committee and the investment Managers be submitted to and received by the Investment Committee at least 5 business days in advance of these conferences.
- E. Provide the Investment Committee with proof of liability and fiduciary insurance coverage.
- F. Acknowledge in writing an ability and agreement to invest within the guidelines set forth in this investment policy.
- G. Advise the Investment Committee of any changes in the portfolio Manager assigned to the account.
- H. Each Manager is expected to meet with the Investment Committee at least annually, if the Committee desires such a meeting.

X. GUIDELINES FOR INVESTMENT CONSULTANT

The Committee may elect to engage an independent investment-consulting firm to assist the Committee's activities. The Consultant is expected to be proactive in recommending changes in investment strategy, asset allocation, and investment Managers if the situation warrants change. The Consultant's responsibilities are as follows:

1. Assisting in the development of investment policies, objectives, and guidelines;
2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Foundation's objectives;
3. Recommending Investment Managers;
4. Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards;
5. Attending Committee meetings to present evaluation reports no less than semi-annually and at other meetings as requested;
6. Reviewing contracts and fees for both current and proposed Investment Managers and Custodians;
7. Providing research on specific issues and opportunities, and assisting the Committee in special tasks;
8. Assisting in the rebalancing;
9. Communicating investment policies and objectives to the Investment Managers, and monitoring their adherence to such policies and reporting all violations;
10. Notifying the Committee of any significant changes in personnel or ownership of the consulting firm;
11. Notifying the Committee of any significant changes in portfolio Managers, personnel or ownership of any investment management firm hired by the Endowment;
12. Notifying the Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved; and

13. Overall, being proactive with the Administration of the University and the Committee in the management of the Foundation.

XI. PROXY VOTING

The Investment Committee is mindful of its fiduciary obligations with respect to the voting of proxies of companies whose securities are owned by the University of New Mexico Foundation.

Because of the complexity of issues and further because of the direct impact on investment values, it is the Investment Committee's considered belief that the Investment Managers that are employed by the University are best suited to vote the proxies of shares held in the portfolios they manage.

Therefore, as part of the University's Investment Policy and the Investment Manager guidelines, the Investment Committee hereby instructs the Investment Managers to vote proxies of companies in accordance with their own guidelines and policies and in the best interest of the endowment.

All Managers voting proxies on behalf of the University may be asked by the Investment Committee to provide their firm's proxy policy and a report showing securities voted, issues involved and the vote made.

XII. RE-BALANCING

The Investment Committee has established specific asset allocation targets within the ranges of its Investment Policy. To assure allocations consistent with the policy, the Investment Committee has developed a systematic re-balancing policy.

A. ASSET CLASS RE-BALANCING

The following policies will be followed regarding equities and fixed income portfolios:

1. Valuation and monitoring of asset classes in relation to their targets will be done monthly as available from the custodian.
2. The allocations to each asset class will remain within 20% of its target weighting.

3. When all asset classes are within 20% of their targets, any cash will be allocated prorata among all the liquid asset classes.
4. When asset classes are not within this boundary, the following transaction priorities will be used in order to effect the necessary shifts:
 - a) Utilize cash first to bring asset classes to within 20% of their target allocations.
 - b) If the cash is insufficient, transfers among individual Managers in each asset class will be done so long as the rebalancing transaction represents not less than 2% of the aggregate portfolio value. In the event the transaction would not affect at least 2% of the portfolio's value, no rebalancing is deemed necessary. This is intended to provide a *de minimus* exception to the normal rebalancing rule. (Selection of the Managers to be affected should follow the appropriate procedures outlined below.)
 - 1) Manager cash balances will be transferred first.
 - 2) If cash is insufficient, instructions will be given to the appropriate Managers to liquidate a prorata share of their portfolio in order to make the necessary transfer.
 - 3) Transfers will be made only up to the Manager's maximum investment limits.
5. When asset classes are not within 20% of their target weights, shifts will be made to bring the asset classes within their 20% boundaries.
6. Non-marketable investments such as hedge funds, private equity, and real assets shall be maintained within 5% of their current targets if possible. Since little movement of capital can be made within these asset classes due to their illiquid nature, the Investment Committee must review the portfolio to determine whether investments within the asset classes will need to be sold to return to policy or if the out-of-balance levels may be extended temporarily.

B. MANAGER RE-BALANCING

When re-balancing the Managers, the procedures are as follows:

1. Valuation and monitoring of Managers in relation to their targets will be done at least quarterly.

2. Allocations to active Managers will be held to within 20% of their targets.
3. When all active Managers are within 20% of their targets, cash will be allocated prorata to the Managers according to their target allocations.
4. When the active Managers are not within 20%, the following transaction priorities will be used in order to effect the necessary shifts:
 - a) Utilize cash first to fund the under-weighted Manager(s). (This will have the effect of raising the under-weighted Manager(s) and lowering the over-weighted Manager(s).)
 - b) If the cash is insufficient, transfers between individual Managers will be made.
 - 1) Manager cash balances will be transferred from the over-weighted Managers to the under-weighted Managers first.
 - 2) If cash is insufficient, instructions will be given to the over-weighted Managers to liquidate a prorata share of their portfolio in order to make the necessary transfers to the under-weighted Managers.
5. When any of the active Managers are not within 5%, shifts will be made only to the extent that it brings the Managers within their 5% boundaries, not to their targets. However, in all cases, shifts shall be of sufficient size to be efficient, even if the result is to bring the Managers some distance inside the 5% boundary.
6. When more than one Manager is either over - or under-weighted, transfers will first be into or out of the Manager most out of balance. Once all the affected Managers are out of balance by the same amount, transfers will then be made equally.
7. When market conditions warrant and approved by the Investment Committee, the out-of-balance tolerance levels may exceed 5%.

XIII. OTHER INVESTMENTS

The Investment Committee will be responsible for overseeing and implementing a separate policy for the management of those gifts that are accepted by the Foundation

or University with specific restrictions as to investment, imposed by the donor. Such Funds are commonly referred to as “specific” or “non traditional” endowments.

Additionally, the Investment Committee will develop a policy for the investment management of life income Funds (charitable trusts, pooled income Funds, etc.) where the University or Foundation has been named as the remainder interest.

Current gifts (non-endowment or non-life income funds) to the Foundation will be deposited to the University’s short-term investment pool in accordance with the management agreement between the Regents of the University of New Mexico and the University of New Mexico Foundation Board of Directors.

The University’s short-term investment pool is subject to any and all investment restrictions imposed on such Funds by state statutes.

XIV. CHANGES TO THE CIF INVESTMENT POLICY

Any changes to this policy require the prior approval of both the University of New Mexico Board of Regents and the University of New Mexico Foundation Board of Directors.

XV. CONFLICTS OF INTEREST

All persons responsible for investment decisions or who are involved in the management of the Endowment or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee will require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions or who are involved in the management of the Endowment shall refuse any remuneration, commission, gift, favor, service or benefit that might influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Endowment. Failure to disclose any material benefit shall be grounds for immediate removal from the Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Endowment’s custodian(s),

Investment Managers, or Consultant in the course of their services on behalf of the Endowment.