



# University of Pittsburgh Board of Trustees

**Investment Committee  
Public Meeting  
January 25, 2023  
2:05 p.m. – 2:30 p.m.**

## **Agenda**

- |      |  |          |
|------|--|----------|
| I.   | Welcome and Opening Remarks  | Cestello |
| II.  | Approval of the Minutes of the June 10, 2022<br>Public Meeting of the Investment Committee   | Cestello |
| III. | Resolution of the Investment Committee Amending and<br>Restating the Statement of Governance, Investment Objectives,<br>and Policies for the Consolidated Endowment Fund | Choudhry |
| IV.  | New Business/Adjournment   | Cestello |

# **Approval of the Minutes of the June 10, 2022 Public Meeting of the Investment Committee**

**MINUTES OF THE PUBLIC MEETING  
OF THE INVESTMENT COMMITTEE  
OF THE BOARD OF TRUSTEES  
OF THE UNIVERSITY OF PITTSBURGH**

**June 10, 2022**

Committee Members Present

Edward J. Grefenstette, Committee Chairperson  
Louis R. Cestello, Vice Chairperson of the Board of Trustees and Committee Vice Chairperson  
Patrick Gallagher, Chancellor  
Michael A. Bryson  
Bradley J. Franc  
Robert M. Hernandez  
Marlee S. Myers  
Herbert S. Shear  
Marna Cupp Whittington

Other Trustees Present

Lisa A. Golden

University Staff Present

David Almodovar, Managing Director of Investments  
Jeffer Choudhry, Committee Liaison, Chief Investment Officer  
Ann E. Cudd, Provost  
Patricia Francioni, Chief Financial Officer-Endowment  
Dawn M. Gould, Executive Assistant  
Michael Imbrogno, Managing Director of Investments  
Rosalyn E. Jones, Vice Chancellor and Secretary of the Board of Trustees  
John Kaye, Chief Operating Officer-Endowment  
Narahari Sastry, Senior Vice Chancellor and Chief Financial Officer  
Shelly Sheffield, Executive Administrator

A public meeting of the Investment Committee of the Board of Trustees was held remotely on Thursday, June 10, 2022, at 11:40 a.m.

Committee Chairperson Edward J. Grefenstette convened the meeting of the Investment Committee and stated that the meeting had been duly advertised as a public meeting in accordance with the Sunshine Act and was, therefore, open to the public as observers. The meeting was held remotely and was streamed to the University's YouTube channel. A quorum of Investment Committee members was present for the transaction of business.

Approval of Minutes. On motion duly made and seconded, the Committee approved the minutes of the public meeting of June 10, 2021.

**Resolution of the Investment Committee Authorizing Income Percentages from the Consolidated Investment Pool of the University of Pittsburgh Endowment Fund for Fiscal Year 2023.**

Narahari Sastry, Senior Vice Chancellor and Chief Financial Officer, presented the Background Statement and Resolution authorizing income to be distributed from the consolidated investment pool of the University’s endowment fund for Fiscal Year 2023, which are included as pages 3 through 5 of these minutes. Mr. Sastry stated that the Spending Policy for the Consolidated Endowment Funds (CEF) will remain unchanged from Fiscal Year 2022: (i) the income percentage for the University’s Operating Funds Quasi-Endowment, which is used to support student financial aid, will be 4.75% of the three-year average market value; and (ii) the income percentage for the other funds in the CEF will be 4.25% of the three-year average market value.

*Upon a motion duly made and seconded, the Investment Committee approved the Resolution Authorizing Income Percentages from the Consolidated Investment Pool of the University of Pittsburgh Endowment Fund for Fiscal Year 2023.*

**New Business/Adjournment.** There being no new business to come before the Committee, Committee Chairperson Grefenstette thanked those in attendance and adjourned the meeting.

**Attachments.** Copies of the following documents are filed with the official minutes of this meeting.

- Background Statement and Resolution of the Investment Committee Authorizing Income Percentages from the Consolidated Investment Pool of the University of Pittsburgh Endowment Fund for Fiscal Year 2023

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Jeffer Choudhry, CFA  
Chief Investment Officer

These minutes were reviewed and approved by the Investment Committee at the meeting held on January 25, 2023.

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Rosalyn E. Jones, Vice Chancellor and  
Secretary of the Board of Trustees

**BACKGROUND STATEMENT FOR THE  
RESOLUTION OF THE INVESTMENT COMMITTEE  
AUTHORIZING INCOME PERCENTAGES  
FROM THE CONSOLIDATED INVESTMENT POOL OF THE  
UNIVERSITY OF PITTSBURGH ENDOWMENT FUND  
FOR FISCAL YEAR 2023**

The consolidated investment pool of the University of Pittsburgh Endowment Fund (“Consolidated Endowment Fund” or “CEF”) is comprised of a number of individual funds having a variety of designated purposes and restrictions. While each fund is distinct, they are consolidated for investment purposes and managed on a unitized basis similar to a mutual fund. In addition to donor-restricted endowed funds, University management-restricted funds – including the University Operating Funds Quasi-Endowment – are also invested through the CEF.

**Spending Policy**

As set forth in the Statement of Governance, Investment Objectives and Policies for the Consolidated Endowment Fund (the “Statement of Governance”), the Committee has adopted the following Spending Policy for the CEF (excluding the University Operating Funds Quasi-Endowment):

“The income distributed from the consolidated investment pool of the University’s endowment fund for any fiscal year shall be an amount equal to the greater of: (i) 4.25 percent of the three-year average fair market value of the assets, determined on a per share basis, or (ii) the prior fiscal year’s income distribution per share for the CEF; provided, however, that in no event shall any such income distribution be less than 2 percent nor more than 7 percent of the three-year average fair market value of the assets, determined on a per share basis.”

As permitted by the Statement of Governance, the “Committee may adopt a separate Spending Policy for the University Operating Funds Quasi-Endowment.” At a duly advertised public meeting held on June 10, 2021, the Committee adopted a Spending Policy for Fiscal Year 2022 for the University Operating Funds Quasi-Endowment of 4.75 percent of the three-year average fair market value of such assets.

**CEF (excluding the University Operating Funds Quasi-Endowment)**

The Senior Vice Chancellor and Chief Financial Officer (the “Officer”) is recommending no change in the Spending Policy for the CEF (excluding the University Operating Funds Quasi-Endowment). For Fiscal Year 2023, the proposed amount of income to be distributed from the CEF (excluding the University Operating Funds Quasi-Endowment), based on 4.25 percent of the three-year average fair market value of the assets, is \$5.4927460 per share. This figure represents a 12.1 percent increase above the income distribution amount of \$4.9020925 per share in effect for Fiscal Year 2022.

## **University Operating Funds Quasi-Endowment**

The Officer is recommending no change to the Spending Policy for the University Operating Funds Quasi-Endowment. For Fiscal Year 2023, the proposed amount of income to be distributed from the University Operating Funds Quasi-Endowment, based on 4.75 percent of the three-year average fair market value of the assets, is \$6.1389514 per share. This figure represents a 12.1 percent increase above the income distribution amount of \$5.4788093 per share in effect for Fiscal Year 2022.

Accordingly, the attached resolution has been prepared to authorize the aforementioned income percentages for the CEF for Fiscal Year 2023.

**RESOLUTION OF THE INVESTMENT COMMITTEE  
AUTHORIZING INCOME PERCENTAGES  
FROM THE CONSOLIDATED INVESTMENT POOL OF THE  
UNIVERSITY OF PITTSBURGH ENDOWMENT FUND  
FOR FISCAL YEAR 2023**

WHEREAS, pursuant to Article 5.7 of the University's Bylaws, the Investment Committee has been delegated the authority to approve the Spending Policy for the consolidated investment pool of the University of Pittsburgh Endowment Fund ("Consolidated Endowment Fund" or "CEF"); and

WHEREAS, the Senior Vice Chancellor and Chief Financial Officer (the "Officer") has recommended no change to the income percentage for the CEF (excluding the University Operating Funds Quasi-Endowment) for Fiscal Year 2023 and has advised that the proposed income percentage as set forth in the existing Spending Policy is consistent with the long-term objective of preserving the real value of the donor-restricted endowment assets held in trust and invested through the CEF; and

WHEREAS, the Officer has recommended no modifications to the separate Spending Policy for the University Operating Funds Quasi-Endowment and has advised that the income percentage remains consistent with the long-term objective of having a higher rate of income distributed from such University management-restricted fund than from the remaining funds in the CEF; now, therefore, be it

RESOLVED, that, in accordance with Pennsylvania Act 141 (15 Pa. C.S.A. §5548(c)), the Investment Committee hereby (i) approves the recommended income distribution amount from the CEF (excluding the Operating Funds Quasi-Endowment) for Fiscal Year 2023 of \$5.4927460 per share, which represents an income percentage of 4.25 percent of the three-year average fair market value of the assets, and (ii) determines that such percentage is consistent with the long-term preservation of the real value of assets held in trust by the University; and be it further

RESOLVED, that the Investment Committee hereby approves the recommended income distribution amount from the University Operating Funds Quasi-Endowment for Fiscal Year 2023 of \$6.1389514 per share, which represents an income percentage of 4.75 percent of the three-year average fair market value of such assets.

**Resolution of the Investment Committee Amending and Restating the Statement of Governance, Investment Objectives, and Policies for the Consolidated Endowment Fund**



**BACKGROUND STATEMENT FOR THE  
RESOLUTION OF THE INVESTMENT COMMITTEE  
AMENDING AND RESTATING THE  
STATEMENT OF GOVERNANCE, INVESTMENT OBJECTIVES, AND POLICIES  
FOR THE CONSOLIDATED ENDOWMENT FUND**

At a public meeting on September 17, 2012, the Investment Committee authorized and adopted a Statement of Governance, Investment Objectives, and Policies for the Consolidated Endowment Fund (the “Statement of Governance”) pursuant to its responsibilities provided in Chapter I, Article 5.7 of the University’s Bylaws. The Statement of Governance was based on principles of good governance, best practices, and a thorough review of policies, practices, procedures, and applicable law pertaining to the University’s Consolidated Endowment Fund (“CEF”). Prepared by the Chief Investment Officer (“CIO”) with assistance from University investment staff, University legal counsel, the Investment Committee, and University investment advisors, the Statement of Governance is a comprehensive, compilation of objectives, policies, and guidelines for the purpose of, among other things, assisting the Investment Committee, the CIO, and University investment staff in fulfilling their respective roles and responsibilities in the oversight and management of the CEF.

At a public meeting on June 29, 2017, the Investment Committee amended and restated the Statement of Governance, which included changes to its purpose, quasi-endowment funds, the history and mission of the University, roles and responsibilities, investment objectives, investing philosophy, and investment risk parameters.

At a public meeting on June 24, 2019, the Investment Committee amended and restated the Statement of Governance, which included changes to the asset allocation and spending policies, clarifications regarding the use of co-investments, and the implementation of a portable alpha program.

Based on advice and guidance from the Investment Committee, the CIO has prepared and recommended additional changes to the Statement of Governance, including changes to its asset allocation policy and benchmarks in order to reflect refinements to the long-term investment strategy for the CEF.

Accordingly, the attached Resolution has been prepared to authorize adoption of an amended and restated Statement of Governance.

**RESOLUTION OF THE INVESTMENT COMMITTEE  
AMENDING AND RESTATING THE  
STATEMENT OF GOVERNANCE, INVESTMENT OBJECTIVES, AND POLICIES  
FOR THE CONSOLIDATED ENDOWMENT FUND**

WHEREAS, pursuant to Chapter I, Article 5.7 of the University's Bylaws, the Investment Committee's responsibilities include the approval of endowment investment guidelines, objectives, and spending policies; and

WHEREAS, the Investment Committee authorized and adopted a Statement of Governance, Investment Objectives, and Policies for the Consolidated Endowment Fund (the "Statement of Governance") at a public meeting on September 17, 2012, which was further amended and restated on June 29, 2017 and June 24, 2019; and

WHEREAS, the Chief Investment Officer recommended to the Investment Committee various amendments to the Statement of Governance, including amendments to its asset allocation policy and benchmarks; and

WHEREAS, the Investment Committee has reviewed these various amendments and desires to update the Statement of Governance accordingly; and

NOW THEREFORE BE IT RESOLVED, that the amended and restated Statement of Governance, attached as Exhibit A, is hereby approved and adopted by the Investment Committee.

# Exhibit A

**UNIVERSITY OF PITTSBURGH**

**STATEMENT OF GOVERNANCE,  
INVESTMENT OBJECTIVES, AND  
POLICIES**

*for the*

**CONSOLIDATED ENDOWMENT FUND**

Amended & Restated: January 25, 2023

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## I. PURPOSE

This Statement of Governance, Investment Objectives, and Policies (this "Statement") is issued by the Investment Committee of the Board of Trustees of the University of Pittsburgh (the "Committee") in order to:

- Identify roles and responsibilities for the oversight and management of the consolidated investment pool of the University of Pittsburgh Endowment Fund (commonly referred to as the "Consolidated Endowment Fund" or "CEF");
- Establish a clear understanding of the investment goals and objectives of the CEF;
- Outline the investing philosophy employed in constructing, managing, and evaluating the CEF;
- Set forth certain policies and guidelines applicable to the CEF;
- Provide a framework for regular monitoring of financial markets, reporting of investment performance, and evaluating results;
- Ensure that the CEF is managed in accordance with this Statement, industry best practices, and applicable law; and
- Ground each of these elements in the unique history and mission of the University.

## II. CONSOLIDATED ENDOWMENT FUND

The CEF is an investment pool comprised of thousands of individual endowment funds having a variety of designated purposes and restrictions. While each fund is distinct, they are commingled for investment purposes and managed on a unitized basis similar to a mutual fund. The CEF includes:

- True endowments – Donor-restricted endowed gifts which require the original corpus of the gift to be maintained in perpetuity; only income distributions generated from investing the gift corpus may be expended.
- Quasi-endowments – Non-endowed funds that lack donor restrictions against spending the corpus, which the University elects to treat as an endowment in accordance with procedures attached hereto as Appendix H.

This Statement does not govern certain endowment gifts and trust funds (i.e., charitable remainder trusts and life income assets) that due to unique legal and financial obligations, such as donor-imposed restrictions on investing and spending, prohibit such accounts (collectively, the "Non-Consolidated Endowment Funds") from being incorporated and managed as part of the CEF.

Such Non-Consolidated Endowment Funds are individually managed in accordance with their respective terms and restrictions.

### **III. HISTORY AND MISSION**

Founded in 1787, the University of Pittsburgh (the “University”) is one of the oldest institutions of higher education in the United States. The University’s mission is to provide high-quality undergraduate and graduate programs in the arts and sciences and professional fields; engage in research, artistic, and scholarly activities that advance learning through the extension of the frontiers of knowledge and creative endeavor; cooperate with industrial and governmental institutions to transfer knowledge in science, technology, and health care; offer continuing educational programs adapted to the personal enrichment, professional upgrading, and career advancement interests and needs of adult Pennsylvanians; and make available to local communities and public agencies the expertise of the University in ways that are consistent with the primary teaching and research functions and contribute to social, intellectual, and economic development in the Commonwealth, the nation, and the world.

As a state-related institution, the University receives an annual operating and capital appropriation from the Commonwealth. Appropriations are contingent upon the Commonwealth’s annual budget process, and there are no assurances that appropriations will continue to be made, when they will be made, nor at what level they will be made. Accordingly, the University must cultivate other sources of funding to ensure it has sufficient resources to fulfill its mission without unduly escalating tuition. Primary examples include research grants and contracts, gifts, and endowment distributions. In light of waning Commonwealth support, increasing government scrutiny, and a concerted effort to control tuition rates, these other sources of funding have considerably grown in significance and are vital to the University’s cause.

So as to promote the viability of the University and its mission for centuries to come, it is imperative that the Consolidated Endowment Fund be governed to protect the ongoing reliability of endowment distributions and other key sources of funding. Whether evaluating investment policy, setting the spending rate, or selecting investment managers, endowment management must therefore encompass a long-term perspective. Moreover, policies and actions must thoroughly evaluate and prudently balance risk in pursuit of any given objective. Above all, the endowment must be managed in a manner that safeguards all assets, upholds the University’s venerable reputation, and does not jeopardize any source of funding.

### **IV. ROLES AND RESPONSIBILITIES**

The Board of Trustees of the University (the “Board”) has established the Investment Committee. Pursuant to the University’s Bylaws, the members of the Committee are appointed by the Chairperson of the Board. In addition, the Committee may invite duly appointed representatives of the faculty, staff, students, and general community to attend Committee meetings as non-voting representatives (“Committee Representatives”). The University, as a state-related university, is subject to the provisions of the Pennsylvania Sunshine Act (65 Pa. C.S.A. § 701 et seq.). As such, official action and deliberations of the Committee are required to take place at meetings open to the public, unless specifically exempted under the Sunshine Act.



**A. Investment Committee**

In accordance with the University's Bylaws, the mission of the Committee is to provide general oversight, policy guidance and performance review of the University's CEF. The Committee provides assistance to the Chief Investment Officer ("CIO") in establishing overall investment objectives, investment policies and spending policies applicable to the CEF, as well as providing guidance to the CIO regarding investment guidelines in furtherance of such objectives and policies. Upon the advice and recommendation of the CIO and others, the Committee has approved the Asset Allocation Policy and the Spending Policy applicable to the CEF as specifically described herein. The Committee reviews the selection of investment professionals and monitors the management of the CEF portfolio for adherence to such policies and for meeting performance objectives over time. The Committee periodically reports to the Board on its activities and on the performance of the CEF.

**B. Chief Investment Officer**

The CIO is responsible for executing the policies enacted by the Committee and for the day-to day investment, supervision and administration of CEF assets. The CIO shall furnish staff assistance to the Committee in its advisory capacity regarding the investments of the CEF. Upon seeking the advice of the Committee, the CIO shall be responsible for developing and maintaining investment guidelines, practices and procedures. In addition, the CIO may retain or dismiss the services of investment advisors, consultants, managers and/or custodians to whom the CIO may give authority for (i) the investment and reinvestment of funds, (ii) the purchase and sale of securities and other investment assets, (iii) the safeguarding of assets under custody, (iv) participating in co-investments or direct investments, (v) purchase and sale of exchange traded securities consistent with this Statement, and (vi) utilization of derivatives consistent with the exposures approved by this Statement.

**C. Investment Advisors**

The CIO may engage one or more independent investment advisors (an "Investment Advisor") to assist the CIO, University investment staff ("Staff") and the Committee in, among other things: developing policies and guidelines; evaluating financial markets, investment strategies and benchmarks; assessing portfolio structure; identifying and evaluating investment managers; monitoring investment performance; and offering other services as requested by the University. Each Investment Advisor shall perform its advisory services pursuant to written agreement between the University and the Investment Advisor and shall discharge its duties thereunder subject to specified standards of care. The CIO shall advise the Committee on any changes contemplated or undertaken by the CIO pertaining to the engagement or termination of Investment Advisors.

#### **D. Investment Managers**

The CIO shall have the responsibility for executing the policies and objectives set forth in this Statement; such responsibility shall include, without limitation, the selection and retention of investment managers (each an "Investment Manager"). Each Investment Manager shall exercise discretion in investing the assets assigned to it pursuant to written agreement between the University and the Investment Manager and shall discharge its duties thereunder subject to specified standards of care. The CIO shall allocate assets across one or more Investment Managers for each asset class such that the aggregate portfolio characteristics of the CEF, and the composite portfolios therein, properly reflect the intention of the policies, guidelines, and objectives established hereunder.

The CIO is also responsible for developing and implementing investment practices and procedures that govern the process throughout the course of selecting and retaining an Investment Manager. In general, an Investment Manager will be selected and retained on the basis of a number of considerations, including, but not limited to, the following:

##### Qualitative Factors

- Investment philosophy and process;
- Professional skills and experience;
- Regulatory compliance;
- Stability of firm's ownership and key personnel;
- Resources of the firm;
- Assets under management and plans for managing future capacity;
- Investment structure;
- Organizational structure, including administration, back office, risk management and reporting; and
- Alignment of the investment with portfolio needs and objectives.

##### Quantitative Factors

- Performance record;
- Demonstrated skill versus the benchmark;
- Consistency in investment approach; and
- Fees.

## V. FIDUCIARY DUTY

### A. **Prudent Investor Rule**

In accordance with Pennsylvania's Prudent Investor Rule (20 Pa. C.S.A. § 7201 et seq.), the University is charged with investing and managing the CEF as a prudent investor would, by considering the purposes, terms and other circumstances of the CEF and by pursuing an overall investment strategy reasonably suited to the CEF. The CIO has full responsibility for executing the investment objectives and policies set forth herein, and the CIO (or any authorized designee in the absence of the CIO or inability to serve) may delegate certain investment and management functions to third parties. In accordance with Pennsylvania's Prudent Investor Rule, the Committee members and the officers of the University are not responsible for the investment decisions or actions of an investment agent to which investment functions are delegated, as long as reasonable care has been exercised in the selection, delegation, and periodic monitoring of the investment agent's performance. A copy of Pennsylvania's Prudent Investor Rule is attached as Appendix A.

### B. **Conflicts of Interest**

Members of the Committee, Committee Representatives, CIO, Staff, and Investment Advisors (collectively, the "Investment Group") are expected to conform to certain fundamental duties of loyalty and impartiality. As such, the Investment Group shall avoid placing themselves or the University in any situation involving actual or perceived conflicts of interest. If the Committee considers any matter in which a member of the Investment Group (or person affiliated with them) has (i) a direct or indirect financial interest or (ii) other business or family relationship, the Committee shall resolve questions of real or apparent conflict of interest by adopting the following process:

- Every member of the Investment Group will disclose to the Committee any relevant facts which might give rise to a potential conflict of interest with respect to any manner to be considered by the Committee;
- Each member of the Investment Group so affected must abstain from the Committee's discussion of any such matters, unless the Committee specifically requests information from that Investment Group member. Such abstention shall be reflected in the minutes of the Committee meeting; and
- With respect to any affected member of the Investment Group who is a voting member of the Committee, such individual will withdraw from the meeting during Committee deliberations and voting on the related matters.

### **C. Confidentiality and Public Disclosure**

The University is subject to confidentiality obligations under the terms of its investment agreements, and there may be significant adverse consequences to the University for any unauthorized disclosure (whether accidental or intentional) of confidential information. Accordingly, members of the Investment Group shall refrain from discussing internal University matters (including, but not limited to, (i) the selection and retention of the University's Investment Advisors and Investment Managers and (ii) particular investments) with anyone outside of the University. Any media or similar inquiry regarding the University's investment activities should be referred to the CIO, who will consult with the Office of University Counsel and University spokespersons in providing an appropriate response.

## **VI. INVESTMENT OBJECTIVES**

It is expected that the University will have an infinite life and that the CEF will be capable of perpetually providing a reliable stream of meaningful income to the designated University beneficiaries. The primary investment objective of the CEF is to earn a rate of return over an extended period of time that, net of all costs, is sufficient to support a prudent spending policy and preserve the CEF's real (inflation-adjusted) asset value. For purposes of inflation adjustment, the relevant benchmark is the Higher Education Price Index (HEPI). Accordingly, it is anticipated that the CEF will be invested generally in a diversified, risk-controlled manner that optimizes long-term total return potential without sacrificing the integrity of the assets or the ability to meet ongoing spending obligations.

## **VII. RISK MANAGEMENT**

The Committee recognizes that the assumption of risk is necessary to meet the CEF objectives, as there are no "risk-free" assets that over an extended period of time are capable of generating the investment returns necessary to support spending and preserve the CEF's real asset value. Accordingly, risk management does not require the elimination of risk, but rather the prudent balancing of risk and expected return.

Risk management, therefore, is intertwined with investment management, not separate and distinct from it, and is addressed in a variety of ways throughout this Statement. At its core, the framework for balancing risk and return is instituted by the Committee in its establishment of the Asset Allocation Policy and Spending Policy for the CEF. The Asset Allocation Policy, for example, takes into consideration economic risks, sociopolitical risks, capital market risks, currency risks, interest rate risks, liquidity risks, and other strategic or systemic risks.

The CIO is further responsible for the prudent balancing of risk and expected return in his/her execution of the policies and objectives enacted by the Committee and in the daily activities and administration of the CEF. In assessing and selecting Investment Managers and portfolio structures, for example, the CIO takes into consideration manager risks, operational risks, strategy risks, tactical risks, legal risks, liquidity risks, leverage, counterparty risks and collateral risks, among others, in addition to and in context with the strategic and systemic risks enumerated above.

Certain investment guidelines, practices and procedures established by the CIO for the purpose of managing various investment risk considerations are identified in further detail in Article X of this Statement.

## VIII. ASSET ALLOCATION POLICY

To achieve the investment objectives outlined above, the Committee shall establish an asset allocation policy (the "Asset Allocation Policy") for the CEF. The Asset Allocation Policy shall be based upon long-term return, risk and correlation expectations, and it shall seek to properly balance the needs to support spending, preserve purchasing power, maintain sufficient liquidity, and satisfy risk tolerance. The Asset Allocation Policy shall be consistent with the investing philosophy set forth in Appendix G hereto (the "Investing Philosophy") and shall include strategic target allocations and ranges for a broad array of defined asset types or classes; it shall have a primary emphasis on strategies that are expected to grow the portfolio and shall also include strategies that are expected to hedge against deflation and inflation. It is expected that diversification among and within the various asset classes shall prevail both in establishing and implementing the Asset Allocation Policy for the purpose of precluding a single asset or sub-asset class, Investment Manager, or an individual holding from having a disproportionate impact on the CEF's aggregate performance.

The Committee has adopted the Asset Allocation Policy attached hereto as Appendix B and incorporated herein by this reference. It institutes strategic target allocations and ranges for various asset classes under the heading *Allocations by Asset Class*, based upon specific *Asset Class Definitions* which follow hereafter.

### Asset Class Definitions

#### EQUITY

**Domestic Equity** – publicly- and domestically-traded, U.S. dollar-denominated equity securities, including exposures to domestic equity achieved via enhanced indexing and net long hedging strategies. Enhanced indexing could include a Portable Alpha strategy.

**International Equity** – publicly-traded equity securities of foreign corporations domiciled in non-U.S. developed countries, including exposures to international equity achieved via enhanced indexing and net long hedging strategies. Enhanced indexing could include a Portable Alpha strategy.

**Emerging Markets Equity** – publicly-traded equity securities of foreign corporations domiciled in non-developed countries, including exposures to emerging markets equity achieved via enhanced indexing and net long hedging strategies. Enhanced indexing could include a Portable Alpha strategy.

## FIXED INCOME

**Fixed Income** – publicly-traded U.S. and/or non-U.S. debt instruments, including nominal, inflation-indexed (real), and variable rate bonds, notes, loans, and other credit instruments.

## ALTERNATIVES

**Marketable Alternatives** – commonly referred to as *absolute return strategies*, the underlying assets are long and/or short positions in marketable securities. Marketable alternatives (or *absolute return strategies*) are dedicated to exploiting inefficiencies in marketable securities prices and include:

- (i) event-driven strategies, such as merger arbitrage, event equity and distressed security investing;
- (ii) value-driven strategies, such as low net exposure long/short credit or equity, market neutral credit or equity, convertible arbitrage and other types of hedge funds; and
- (iii) higher volatility strategies such as macro, trend following, activist and long-biased long/short equity.

This asset class may also include co-investments across any of these categories.

**Non-Marketable Alternatives** – commonly referred to as *private equity*, the underlying assets are non-marketable equity or equity-like securities. Non-marketable alternatives (or *private equity*) include equity, mezzanine and subordinated debt holdings in venture capital, buyout, and recapitalized companies or properties. This asset class may also include co-investments across any of these categories.

**Real Assets** – physical or identifiable assets, as well as financial assets whose income streams and/or market values tend to rise with inflation. Real assets include real estate, natural resources, commodities, infrastructure, and other hard assets.

**Private Credit** – mandates that invest in less liquid credit instruments. Typically, the securities are more senior in the capital stack and capitalize on principal appreciation in addition to income.

## CASH EQUIVALENTS

**Cash & Equivalents** – cash and highly-liquid, short-term, fixed income securities.

The Committee, with advice from the CIO, Staff, and Investment Advisors, will review the Asset Allocation Policy periodically for its continued appropriateness. In light of the investment objectives for the CEF and the bases for establishing the Asset Allocation Policy, it is anticipated that changes to such policy will be made on an infrequent basis.

## **IX. REBALANCING**

Rebalancing asset allocations to keep any individual asset class within the range set forth in the Asset Allocation Policy is essential for maintaining the risk profile adopted by the Committee. The CEF's actual asset allocation will be monitored regularly by the CIO relative to the established strategic targets and will be rebalanced as appropriate and practicable, utilizing cash flows into or out of the CEF whenever possible to minimize transaction costs.

Causes for periodic deviations include market movements, cash flows and varying portfolio performance. The Committee recognizes that allocation adjustments may be constrained from time to time by practical limits with respect to market liquidity and that temporary deviations from the Asset Allocation Policy may be unavoidable. Any deviations from the policy ranges shall be reported by the CIO to the Committee at the next Committee meeting, along with any actions taken or anticipated to be taken in connection with such deviations.

The CIO is responsible for assessing and managing the trade-off between the cost of rebalancing and the active risk associated with deviations from the Asset Allocation Policy. In the event that the allocation to an asset class falls outside of the policy range set forth in the Asset Allocation Policy and the CEF cannot be immediately rebalanced due to market liquidity constraints, an offsetting adjustment may be made to the allocation of the most closely correlated asset class(es) for which there exists sufficient market liquidity to reallocate. Such interim adjustments to strategic allocation targets may be undertaken until market factors allow the CEF to be rebalanced within the policy ranges.

## **X. IMPLEMENTATION**

In a manner that is consistent with the Investing Philosophy, the CIO shall be responsible for executing the objectives and policies established for the CEF, as well as overseeing the daily activities and administration of the CEF. Such responsibilities include (i) developing and establishing appropriate investment guidelines, practices and procedures; (ii) review, selection, and termination of Investment Advisors, Investment Managers, custodians, record-keepers and other administrative agents; (iii) monitoring and reporting investment performance and portfolio compliance with CEF policies and objectives, and (iv) establishing internal controls, processes and systems for effectively administering, analyzing and supervising the CEF. The CIO may delegate specific authority to Investment Managers for the investment and reinvestment of funds and the purchase and sale of securities and other investment assets in accordance with the investment policies established by the Committee.

Certain investment guidelines, practices and procedures (the "Investment Risk Parameters") established by the CIO for the purpose of managing various investment risk considerations are attached hereto as Appendix C. The Investment Risk Parameters may be amended from time to time, as considered necessary and appropriate by the CIO in consultation with the University's Chief Financial Officer and the Chairperson of the Committee. Any updates or modifications to the Investment Risk Parameters shall be presented by the CIO to the Committee at the next Committee meeting.

## XI. SPENDING POLICY

The University's spending policy for the CEF (the "Spending Policy") shall balance the need for reliable and predictable income distributions to support current University activities with the desire to maintain the purchasing power of the CEF assets so that they can continue providing meaningful financial support *ad infinitum*.

### A Statutory Requirements

In accordance with the provisions of Pennsylvania Act 141 (15 Pa. C.S.A. §5548(c) and referred to herein as the "141 Act"), the University's Board of Trustees elected on October 21, 1999 to employ a "total return" approach that takes into account all sources of earnings, including interest income, dividends, realized and unrealized gains and losses. In accordance with the 141 Act, "income" is defined as a percentage of the fair market value of the CEF. At least annually, the Investment Committee, with advice from the Chief Financial Officer and/or CIO, shall select an income percentage and determine that it is consistent with the long-term preservation of the real value of the assets, but in no event shall the percentage be less than two percent (2%) nor more than seven percent (7%) per year. A copy of the 141 Act is attached hereto as Appendix D.

### B Spending Policy

The Committee has adopted the following Spending Policy for the CEF (excluding the University Operating Funds Quasi-Endowment):

The income distributed from the consolidated investment pool of the University's endowment fund for any fiscal year shall be an amount equal to the greater of: (i) 4.25% of the three-year average fair market value of the assets, determined on a per share basis, or (ii) the prior fiscal year's income distribution per share for the CEF; provided, however, that in no event shall any such income distribution be less than two percent (2%) nor more than seven percent (7%) of the three-year average fair market value of the assets, determined on a per share basis.

The Spending Policy for the CEF (excluding the University Operating Funds Quasi-Endowment) shall be in effect until modified by the Committee. The Committee, with advice from the CIO and Staff, will review the Spending Policy periodically to ensure its continued appropriateness. It is anticipated that changes to the Spending Policy will be made on an infrequent basis.

The Committee may adopt a separate Spending Policy for the University Operating Funds Quasi-Endowment, which shall be in effect until modified by the Committee. The Committee, with advice from the CIO and Staff, will review the Spending Policy for the University Operating Funds Quasi-Endowment periodically to ensure its continued appropriateness.

### C Distribution of Income

In general, the University's practice is to distribute CEF income on a monthly basis. A copy of the University's current CEF payout procedures is attached hereto as Appendix E. The payout procedures may be amended from time to time as considered necessary and appropriate by the



CIO in consultation with the University's Chief Financial Officer and the Chairperson of the Committee. Any updates or modifications to the payout procedures shall be presented to the Committee at its next Committee meeting.

## **XII. REPORTING, MONITORING, AND EVALUATING RESULTS**

*Reporting* – The CIO shall cause to be prepared periodic reports containing information necessary for the Committee to appropriately exercise its oversight responsibilities, which reports shall be distributed to the Committee in advance of its meetings.

*Ongoing Monitoring* – The Committee and the CIO will monitor the CEF to ensure (i) compliance with the policies and objectives enacted by the Committee, (ii) the continuing appropriateness of the portfolio structures and strategies that have been implemented, and (iii) the effectiveness and consistency of targeted asset classes, relative to their investment mandates and with respect to critical qualitative factors. In addition, the CEF shall be monitored for exposure to extreme economic conditions and market volatility.

*Evaluating Results* – The Committee and the CIO will evaluate the CEF based on its investment performance over various periods of time to determine whether overall investment objectives of the CEF are being met. Since the CEF's investment objectives have a long-term horizon, the Committee will view short-term results with appropriate perspective and will generally focus on rolling returns over longer periods of time. For purposes of this evaluation, investment rates of return will be calculated net of management fees for the overall CEF as well as for each asset class, and, as appropriate, for individual Investment Managers. These rates of return will be compared to benchmarks that reasonably reflect the nature of the strategic allocation or individual mandate, as the case may be.

## **XIII. BENCHMARKS**

The specific performance benchmarks and weights for the CEF are set forth in [Appendix F](#). The performance benchmarks and weights may be amended from time to time as considered necessary and appropriate by the CIO in consultation with the University's Chief Financial Officer and the Chairperson of the Committee. Any updates or modifications to the benchmarks shall be presented by the CIO to the Committee at the next Committee meeting.

## **XIV. SOCIAL RESPONSIBILITY**

To fulfill the University's stated mission and meet the expectations of the donors who have entrusted gifts to the University, the University must manage its CEF wisely. As stated previously, the primary investment objective established for the CEF is to maximize the financial return on such assets, taking into account risk and other considerations as more specifically set forth in this Statement, in order to provide a reliable stream of meaningful income while preserving the CEF's real asset value. Accordingly, the Committee shall not apply non-financial constraints pertaining to investment holdings of the CEF unless there is a situation of such magnitude that the Board specifically directs the Committee to consider such non-financial parameters.

In evaluating any specific social responsibility concern as directed by the Board, the Committee may consider the gravity of the social impact, the University's need to maintain a sound financial investment policy, the potential effectiveness of the Committee's investment or voting decisions to influence positive change, and such other considerations as the Committee may deem appropriate. In no event will a recommendation be made that an investment be selected or retained solely for the purpose of encouraging or expressing approval of a company's activities or, alternatively, for the purpose of placing or leaving the University in a position to contest a company's activities.

## **XV. PROXY VOTING**

The Committee recognizes that publicly-traded securities and other assets of the CEF may include the right to vote on shareholder resolutions at annual and other special meetings of the companies' shareholders.

Because of the complexity of issues and because of the direct impact on investment values, it is the 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 that they manage. Therefore, responsibility for voting such proxies shall be delegated to the respective Investment Managers. In the event of any regulatory or other statutory requirement that prohibits the Investment Manager from voting on behalf of the University, the CIO shall assume responsibility for voting such proxies.

## **XVI. AMENDMENTS**

The Committee shall oversee the investment and management of the CEF in accordance with this Statement. In providing policy guidance, the Committee will at the request of the CIO periodically review the Statement to consider any modifications that might be necessary or desirable. Any Committee resolution amending any portion of this Statement shall be deemed to be automatically incorporated herein effective as of the date of such approval by the Committee. The CIO shall be responsible for incorporating such amendments into this Statement and for circulating revised versions of this Statement to the members of the Investment Group.

**APPENDIX A**  
**PENNSYLVANIA PRUDENT INVESTOR RULE**

## **20 Pa.C.S.A. § 7201 - § 7214**

### **§ 7201. Definitions.**

The following words and phrases when used in this chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Fiduciary." Includes guardians and trustees, whether domiciliary or ancillary, individual or corporate, subject to the jurisdiction of the orphans' court. The term shall not include a custodian under Chapter 53 (relating to Pennsylvania Uniform Transfers to Minors Act), an agent acting under a power of attorney, a personal representative, an administrator of a municipal pension or retirement plan or a person whose fiduciary duties are, by statute, governed by the principles of Chapter 73 (relating to municipalities investments).

"Mutual fund." The securities of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 et seq.).

"Trust." Includes guardianships and trusts subject to the jurisdiction of the orphans' court and having property owned or managed by a fiduciary. The term shall not include custodianships, agencies created by a power of attorney, decedents' estates or municipal pension or retirement plans.

(July 7, 2006, P.L.625, No.98, eff. imd.)

### **§ 7202. Default rule.**

(a) General rule.--Except as otherwise provided by the governing instrument, a fiduciary shall invest and manage property held in a trust in accordance with the provisions of this chapter.

(b) Exception.--Where the instrument establishing a trust contains a restriction on the fiduciary's power of investment and the court having jurisdiction over the trust finds that adherence to the restriction is impractical or that the existing or reasonably foreseeable economic conditions are so far different from those prevailing at the creation of the trust that adherence to the restriction might deprive the respective beneficiaries of income and principal of the full benefits the testator or settlor intended them to enjoy, the court may release the fiduciary from the restriction to the extent and on conditions, if any, as the court may deem appropriate.

(c) Court direction.--A fiduciary appointed by the court and not acting under a trust instrument, in addition to or in place of the investments authorized by this chapter, may make, and retain without liability for resulting loss, investments as the court, upon petition of the fiduciary or of any party in interest, after notice as it shall direct, aided by the report of a master if necessary, shall authorize or direct, subject only to the conditions and limitations as shall be fixed by the court in the decree authorizing or directing the investment.

### **§ 7203. Prudent investor rule.**

(a) General rule.--A fiduciary shall invest and manage property held in a trust as a prudent investor would, by considering the purposes, terms and other circumstances of the trust and by pursuing an overall investment strategy reasonably suited to the trust.

(b) Permissible investments.--A fiduciary may invest in every kind of property and type of investment, including, but not limited to, mutual funds and similar investments, consistent with this chapter.

(c) Considerations in making investment and management decisions.--In making investment and management decisions, a fiduciary shall consider, among other things, to the extent relevant to the decision or action:

- (1) the size of the trust;
- (2) the nature and estimated duration of the fiduciary relationship;
- (3) the liquidity and distribution requirements of the trust;
- (4) the expected tax consequences of investment decisions or strategies and of distributions of income and principal;
- (5) the role that each investment or course of action plays in the overall investment strategy;
- (6) an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries, including, in the case of a charitable trust, the special relationship of the asset and its economic impact as a principal business enterprise on the community in which the beneficiary of the trust is located and the special value of the integration of the beneficiary's activities with the community where that asset is located;
- (7) to the extent reasonably known to the fiduciary, the needs of the beneficiaries for present and future distributions authorized or required by the governing instrument; and
- (8) to the extent reasonably known to the fiduciary, the income and resources of the beneficiaries and related trusts.

(d) Requirements for charitable trusts having voting control of certain publicly traded business corporations.--

(1) Notwithstanding any other legal requirement or process which may include court review of the activities of a charitable trust, a fiduciary for a charitable trust with a majority of its beneficiaries at a principal location within this Commonwealth having voting control of a publicly traded business corporation received as an asset from the settlor shall not consummate any transaction, or vote to permit consummation of or otherwise act to consummate any transaction, which would result in the trust no longer having voting control of that corporation, by sale, merger, consolidation or otherwise, without:

- (i) serving notice upon the Attorney General at least 60 days prior to the consummation of the transaction; and
- (ii) directing that at least 30 days' prior notice of the consummation of the transaction be provided by the publicly traded business corporation controlled by the trust to employees of that corporation who are located in this Commonwealth.

(2) In addition to any other power or duty provided by law, the Attorney General also has the power to seek judicial review pursuant to this subsection from the court having jurisdiction over the trust if the Attorney General concludes that the consummation of a transaction described in paragraph (1) is unnecessary for the future economic viability of the corporation and would constitute a failure to comply with the provisions of subsection (c) or an impairment of the charitable purpose of the trust.

(3) In a judicial proceeding commenced by the Attorney General under this subsection, the Attorney General must prove by a preponderance of the evidence that consummation of a transaction which would result in the charitable trust no longer having voting control of the corporation is unnecessary for the future economic viability of the corporation and must be prevented in order to avoid noncompliance with the provisions of subsection (c) or an impairment of the charitable purpose of the trust.

(3.1) If a fiduciary provides the notice under paragraph (1)(i), the following apply:

- (i) Except as set forth in subparagraph (ii), upon expiration of the notice period under paragraph (1)(i), the fiduciary may:
  - (A) vote to permit consummation of a transaction described in paragraph (1); or
  - (B) otherwise act to consummate the transaction described in paragraph (1).
- (ii) The fiduciary has no authority under subparagraph (i) if the Attorney General has, within 30 days of receiving the notice under paragraph (1)(i), commenced a judicial proceeding under paragraph (2).

(iii) If the fiduciary is enjoined in a judicial proceeding under subparagraph (ii), the fiduciary shall not have authority under subparagraph (i)(A) or (B) unless the injunction is dissolved by:

(A) stipulation of the fiduciary and the Attorney General; or

(B) an order of a court of competent jurisdiction which is not subject to further judicial review as of right.

(4) In the event court approval to consummate a transaction described in paragraph (1) is obtained pursuant to this subsection, the court shall ensure that the provisions of 15 Pa.C.S. Ch. 25 Subchs. I (relating to severance compensation for employees terminated following certain control-share acquisitions) and J (relating to business combination transactions - labor contracts) apply to the business corporation described in paragraph (1) upon the consummation of the transaction.

(5) A fiduciary of a charitable trust with a majority of its beneficiaries at a principal location within this Commonwealth having voting control of a publicly traded business corporation received as an asset from the settlor shall not be subject to liability for the commercially reasonable sale of certain shares of the corporation not necessary to maintain voting control and for which no control premium is realized if the fiduciary reasonably determined that such sale was authorized in a manner consistent with the requirements of this section and other applicable provisions of this title.

(6) The requirements of this subsection shall not apply to a noncharitable trust, including a noncharitable trust with a charitable remainder and a charitable trust which reverts to noncharitable purposes.

(7) As used in this subsection, the term "voting control" means a majority of the voting power of the outstanding shares of stock entitled to vote on the election of directors.

(Nov. 6, 2002, P.L.1101, No.133, eff. imd.; Nov. 30, 2004, P.L.1525, No.194, eff. imd.)

#### **§ 7204. Diversification.**

(a) Requirement.--Except as provided in section 7205 (relating to retention of inception assets), a fiduciary shall reasonably diversify investments, unless the fiduciary reasonably determines that it is in the interests of the beneficiaries not to diversify, taking into account the purposes, terms and other circumstances of the trust and the requirements of this chapter.

(b) Applicability.--Subsection (a) does not apply to any of the following:

(1) A trust which became irrevocable prior to December 25, 1999. This paragraph applies even if the action of the trustee occurs after December 25, 1999.

(2) A trust created by a revocable instrument executed prior to December 25, 1999, if such instrument is not amended after December 24, 1999. This paragraph applies even if the action of the trustee occurs after December 25, 1999.

(Nov. 6, 2002, P.L.1101, No.133, eff. imd.)

#### **§ 7205. Retention of inception assets.**

A fiduciary, in the exercise of reasonable care, skill and caution, may retain any asset received in kind, even though the asset constitutes a disproportionately large share of the portfolio.

#### **§ 7206. Delegation.**

(a) Permissible delegation.--A fiduciary may delegate investment and management functions that a prudent investor of comparable skills might delegate under the circumstances.

(b) Duties of fiduciary.--A fiduciary shall not be responsible for the investment decisions or actions of the investment agent to which the investment functions are delegated if the fiduciary exercises reasonable care, skill and caution in selecting the investment agent, in establishing the scope and specific terms of the delegation and in reviewing periodically the investment agent's actions in order to monitor the investment agent's performance and compliance with the scope and specific terms of the delegation.

(c) Duties of investment agent.--The investment agent shall comply with the scope and terms of the delegation and shall exercise the delegated function with reasonable care, skill and caution and shall be liable to the trust for failure to do so. An investment agent who represents that he has special investment skills shall exercise those skills.

(d) Jurisdiction.--An investment agent who accepts the delegation of a fiduciary's function from a fiduciary who is subject to the jurisdiction of a court of this Commonwealth shall be deemed to have submitted to the jurisdiction of that court even if the delegation agreement provides for a different jurisdiction or venue.

(e) When cofiduciary may delegate to another cofiduciary.--A cofiduciary may delegate investment and management functions to another cofiduciary if the delegating cofiduciary reasonably believes that the other cofiduciary has greater investment skills than the delegating cofiduciary with respect to those functions. The delegating cofiduciary shall not be responsible for the investment decisions or actions of the other cofiduciary to which the investment functions are delegated if the delegating cofiduciary exercises reasonable care, skill and caution in establishing the scope and specific terms of the delegation and in reviewing periodically the other cofiduciary's actions in order to monitor the cofiduciary's performance and compliance with the scope and specific terms of the delegation.

(f) Mutual funds.--Investment in a mutual fund is not a delegation of investment function, and neither the mutual fund nor its advisor is an investment agent.

#### **§ 7207. Retention of cash; temporary investments.**

(a) Uninvested cash.--A fiduciary may hold cash uninvested:

- (1) which the fiduciary reasonably expects to:
  - (i) distribute to beneficiaries as income on a quarterly or more frequent basis;
  - (ii) use for payment of debts, taxes, expenses of administration or reinvestment within the next 90 days; or
- (2) when the amount available for investment does not justify the administrative burden of making the investment determined in the light of the facilities available to the fiduciary.

A corporate fiduciary may deposit uninvested funds in its own or an affiliate's commercial department.

(b) Temporary investments.--A fiduciary may make temporary investment of funds which the fiduciary is entitled to hold uninvested or which the fiduciary wishes to hold in liquid form in short-term interest-bearing obligations or deposits, or other short-term liquid investments, selected in each case in compliance with the standards of section 7203 (relating to prudent investor rule) but without regard to any investment restrictions imposed by the governing instrument and may make a reasonable charge, in addition to all other compensation to which the fiduciary is entitled, for services rendered in making the temporary investment.

#### **§ 7208. Life insurance.**

A trustee may acquire or retain a contract of life insurance upon the life of the settlor or the settlor's spouse, or both, without liability for a loss arising from the trustee's failure to:

- (1) determine whether the contract is or remains a proper investment;
- (2) investigate the financial strength of the life insurance company;
- (3) exercise nonforfeiture provisions available under the contract; or
- (4) diversify the contract.

**§ 7209. Mutual funds.**

Notwithstanding that a bank or trust company or an affiliate provides services to the investment company or investment trust, including that of an investment advisor, custodian, transfer agent, registrar, sponsor, distributor or manager, and receives reasonable compensation for those services and notwithstanding any other provision of law, a bank or trust company acting as a fiduciary, agent or otherwise may invest and reinvest in a mutual fund if the portfolio of the mutual fund consists substantially of investments not prohibited by the governing instrument. With respect to any funds invested, the basis upon which compensation is calculated, expressed as a percentage of asset value or otherwise, shall be disclosed by prospectus, account statement or otherwise to all persons to whom statements of the account are rendered.

**§ 7210. Common trust fund and mortgage investment fund.**

Any corporate fiduciary and its cofiduciary, if any, may invest in:

- (1) A common trust fund or collective trust fund containing only investments authorized for fiduciaries, established and maintained by the corporate fiduciary or by any affiliate of the corporate fiduciary within the meaning of section 1504 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 1504) and otherwise in conformity with the laws of this Commonwealth and of the United States.
- (2) A mortgage investment fund containing only mortgages and other investments authorized for fiduciaries, established and maintained by the corporate fiduciary in conformity with the laws of this Commonwealth and of the United States.

**§ 7211. Further investment authority.**

Unless a contrary intent is clearly expressed in the instrument, the authority to invest in specified types of investments includes authorization to invest in a mutual fund, or in any common or collective trust fund established and maintained by a corporate fiduciary, or by any affiliate of a corporate fiduciary within the meaning of section 1504 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 1504) or any successor provision, if the portfolio of the mutual fund or of the common or collective trust fund consists of the specified types of investments and is otherwise in conformity with the laws of this Commonwealth and of the United States.

**§ 7212. Degree of care.**

A fiduciary shall exercise reasonable care, skill and caution in making and implementing investment and management decisions. A fiduciary who represents that he has special investment skills shall exercise those skills.



**§ 7213. Judgment of fiduciary's decisions.**

The rules of this chapter are standards of conduct and not of outcome or performance. Compliance with the rules of this chapter shall be determined in light of the facts and circumstances prevailing at the time of the fiduciary's decision or action and not by hindsight. A fiduciary is not liable to the extent the fiduciary acted in substantial compliance with the rules of this chapter or in reasonable reliance on the terms and provisions of the governing instrument. A fiduciary's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent.

**§ 7214. Language invoking chapter.**

The following terms or words or words of similar import in the provisions of a trust, unless otherwise limited or modified, shall authorize any investment or investment strategy permitted under this chapter: "investments permissible by law for investment of trust funds," "legal investments," "authorized investments," "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their own funds, considering the probable income as well as the probable safety of their capital," "prudent man rule," "prudent trustee rule," "prudent person rule" and "prudent investor rule."

**APPENDIX B**  
**ASSET ALLOCATION POLICY**

**University of Pittsburgh  
Consolidated Endowment Fund**

**ASSET ALLOCATION POLICY**

(as % of Market Value)

Allocations by Asset Class	<u>Target</u>	<u>Range</u>
<b>EQUITY</b>		
Domestic Equity	12	7-17
International Equity	8	3-13
Emerging Markets Equity	<u>8</u>	3-13
<b>Total Equity</b>	<b><u>28</u></b>	
<b>FIXED INCOME</b>		
	<u>8</u>	5-11
<b>Total Fixed Income</b>	<b><u>8</u></b>	
<b>ALTERNATIVES</b>		
Marketable Alternatives*	10	5-15
Non-Marketable Alternatives*	40	30-50
Real Assets*	<u>14</u>	9-19
<b>Total Alternatives</b>	<b><u>64</u></b>	
<b>CASH &amp; EQUIVALENTS</b>	0	(5)-5
<b>TOTAL</b>	100	

\*Includes co-investment allocations

**APPENDIX C**

**INVESTMENT RISK PARAMETERS**

## University of Pittsburgh Consolidated Endowment Fund

### INVESTMENT RISK PARAMETERS

#### Account Structure

***Separately Managed Accounts*** - Whenever feasible, an investment preferably will be made using a separate University account, subject to specific investment guidelines for that mandate and for which a recognized custodian is appointed to hold the investment securities and cash on behalf of the University.

***Commingled Funds*** - When a separately managed account structure is not viable or warranted, an investment may be made with a manager using a commingled fund whose fund structure and documents have been properly reviewed and vetted and for which the University shall receive annual financial statements, audited by a recognized independent accountant.

Any investment utilizing a commingled fund shall be further subject to the following additional guidelines.

#### EQUITY, FIXED INCOME, CASH & EQUIVALENTS

Any commingled fund that is utilized for a public equity or fixed income mandate or for holdings of cash and equivalents shall provide frequent redemption rights and use one or more recognized custodians and/or prime brokers to hold the investment securities and cash on behalf of the fund investors, *provided further* that

- o any target allocation for an actively managed mandate greater than 5% and/or actual exposure in excess of 6% of the CEF shall be presented to the Committee for its review, *except that*
- o if the fund is permitted to hold short positions, any target allocation greater than 3% and/or actual exposure in excess of 4% of the CEF shall be presented to the Committee for its review.

#### ALTERNATIVE ASSETS

For any investment in an alternative asset fund that provides periodic redemption rights, any target allocation greater than 2.0% and/or actual exposure in excess of 2.5% of the CEF shall be presented to the Committee for its review.

For any investment in an alternative asset fund that does not provide periodic redemption rights (a "*private strategy fund*"), no commitment when made shall exceed 2.0% of the CEF without first being presented to the Committee for its review, *provided further* that no commitment will be made to a private strategy fund without first being presented to the Committee for its review if *aggregate private strategy exposure* exceeds 95% of the CEF, whereby "aggregate private strategy exposure" means the sum of net asset values plus uncalled capital for all private strategy funds in the CEF.

## **Derivatives**

Any use of derivatives shall be in a manner consistent with the CEF's overall investment objectives and policies. Direct investments in derivatives are permitted for the purpose of reducing portfolio market risk or adjusting exposures, but are not permitted for the explicit purpose of creating leveraged (i.e., not fully-collateralized) directional exposure, except as outlined under "Portable Alpha" below.

Derivatives exposure may be obtained via exchanged-traded instruments or "Over-the-Counter" ("OTC") contracts. In the event that OTC contracts are utilized, any exposure to a single counterparty exceeding 7.5% of the CEF shall be presented to the Committee for its review.

A manager may be permitted to use derivatives to achieve specific investment objectives in accordance with the manager or fund documents, provided that such manager has demonstrated skill in effectively utilizing such derivatives. The use of derivatives will vary by strategy and shall be consistent with the discipline for which such investment is made. Any use of derivatives will be carefully monitored by the Staff and presented to the Committee for its review on a regular basis.

Derivatives positions may only be established pursuant to the following process:

1. The CIO will prepare a signed directive letter outlining the targeted derivative position;
2. The CFO will review the directive letter and execute it if the CFO concurs with the targeted derivative position; and
3. The letter executed by both the CIO and CFO will be forwarded to an external investment manager that will review the targeted derivative position and ensure it is consistent with this Statement. If deemed to be consistent with this Statement, the position will be executed by the external investment manager and will reside at the University's custodian to ensure all derivative positions are properly reflected in the periodic exposure and performance reports.

## **Leverage**

Leverage may not be directly utilized by the CEF, except as permitted by the policy allowance for cash borrowings or as outlined under "Portable Alpha" below. The use of derivatives for the purpose of reducing portfolio market risk or adjusting exposures, must be consistent with the Derivatives section above and is not intended to be included in the foregoing limitation.

The use of leverage by any manager within a separate investment account or commingled fund will vary by strategy and shall be consistent with the discipline for which such investment is made. Any use of leverage will be governed by the manager or fund documents. The use of leverage by the CEF will be carefully monitored by the Staff and presented to the Committee for its review on a regular basis.

## **Liquidity**

Liquidity, a measure of the degree to which an asset can be easily converted into cash, is generally determined by the type of investment, the account structure, and present market conditions. Sufficient liquidity is required to meet ongoing spending obligations, capital calls, operating costs, potential quasi-endowment withdrawals, and to facilitate orderly rebalancing. In addition to controlling for liquidity through the Asset Allocation Policy and the investment guidelines set forth above under "Account Structure," liquidity of the CEF shall be carefully monitored by the Staff and presented to the Committee for its review on a regular basis.

### **Securities Lending**

Lending of securities held in separate University accounts is permissible, subject to terms and conditions established with the custodian of the CEF; such terms and conditions shall include, without limitation, specific guidelines regarding the holding and investment of collateral. Any such program, if employed, shall be presented to the Committee for its review on a regular basis.

Lending of securities within any commingled funds in which the University is invested shall be governed by the fund documents.

### **Portable Alpha**

Portable Alpha may be utilized within the CEF, subject to the conditions outlined herein. Portable Alpha entails using derivatives to obtain synthetic, leveraged beta exposure to a market index (e.g., obtaining \$100 of market exposure while only posting \$10 of collateral for the derivatives position) in combination with a portfolio of investments funded via cash freed up through the embedded leverage of the derivatives (e.g., using the remaining \$90 to invest in hedge funds, for example). The use of leverage via Portable Alpha increases gross exposure (i.e., \$190 of investments made using \$100), but should be structured in a way that net exposure to the market does not materially increase (i.e., investments made with the \$90 should exhibit little-to-no beta and should be close to market-neutral). The non-derivatives pool of investments may be comprised of:

1. Low Volatility Hedge Funds, constructed as a portfolio to have minimal equity or fixed income sensitivity;
2. Floating Rate Securities, such as investment grade corporate debt, bank loans or securitized debt; or
3. U.S. Treasury Securities, including both fixed and floating rate securities.

Aggregate market exposure should emulate or mimic long-only index exposure as defined in Appendix F ("Benchmarks").

Should Portable Alpha be employed, to ensure there is sufficient liquidity to fulfill any cash flow requirements associated with the derivatives contract, a committed line of credit equal to 25% of the derivative contracts notional value must be utilized.

The use of Portable Alpha is limited to the U.S. equity portfolio with a maximum exposure equal to 6% of the total CEF portfolio. This constraint can only be lifted by additional approvals from the Committee.

### **Co-Investments**

Direct equity or fixed income investments in individual securities is permissible if the investment

is managed by an external investment manager. Co-Investments can be made in any strategy contained in Appendix B. Constraints on maximum position-sizing are as follows:

1. Buyouts, Credit, Real Estate, Commodities, Marketable Alternatives: 0.4% of CEF balance at position inception;
2. Venture Capital: 0.2% of CEF balance at position inception; and
3. Large Portfolio: 3.0% of CEF balance at position inception if a co-investment in a portfolio containing a large number of assets or securities and, in the CIO's opinion, the portfolio is broadly-diversified by number or geographic region.



**APPENDIX D**

**141 ACT**

**15 Pa.C.S.A. § 5548. Investment of trust funds.**

**(a) General rule.**--Unless otherwise specifically directed in the trust instrument, the board of directors or other body of a nonprofit corporation incorporated for charitable purposes shall have power to invest any assets vested in the corporation by such instrument or the proceeds thereof separately or together with other assets of the corporation, in the manner authorized for fiduciaries by 20 Pa.C.S. Ch. 72 (relating to prudent investor rule), and to retain any investments heretofore so made. Any such nonprofit corporation may, by appropriate action of its board of directors or other body, keep any investments or fractional interests in any investments, held by it or made by it, in the name of the corporation or in the name of a nominee of the corporation.

**(b) Use and management.**--Except as otherwise permitted under 20 Pa.C.S. Ch. 77 (relating to trusts), the board of directors or other body shall apply all assets thus received to the purposes specified in the trust instrument. The directors or other body shall keep accurate accounts of all trust funds, separate and apart from the accounts of other assets of the corporation.

**(c) Determination of income.**--

(1) Unless otherwise specifically directed in the trust instrument, the board of directors or other body may elect to be governed by this subsection with respect to assets thus received, including any participation in any common trust fund.

(2) To make an election under this subsection, the board of directors or other body shall adopt and follow an investment policy seeking a total return for the assets held by the corporation or in the name of a nominee of the corporation or by an institutional trustee pursuant to section 5549 (relating to transfer of trust or other assets to institutional trustee), whether the return is to be derived from capital appreciation, earnings or distributions with respect to the capital or both. The policy constituting the election shall be in writing, shall be maintained as part of the permanent records of the corporation and shall recite that it constitutes an election to be governed by this subsection.

(3) (i) If an election is made to be governed by this subsection, the term "income" shall mean a percentage of the value of the assets so held by or for the corporation.

(ii) Except as otherwise provided in subparagraph (iii), the board of directors or other body shall in a writing maintained as part of the permanent records of the corporation annually select a percentage and determine that it is consistent with the long-term preservation of the real value of the assets, but in no event shall the percentage be less than 2% nor more than 7% per year.

(iii) The board of directors or other governing body shall, in selecting a percentage, consider both the long-term preservation of the real value of the assets and the corporation's need for capital to fulfill its mission and may select a percentage of not more than 10% per year. This subparagraph shall only apply during calendar years 2020, 2021, and 2022, or for the corporation's fiscal years that end during those calendar years.

(4) The board of directors or other body may revoke an election to be governed by this subsection if the revocation is made as part of an alternative investment policy seeking the long-term preservation of the real value of the assets thus received. The revocation and alternative investment policy shall be in writing and maintained as part of the permanent records of the corporation.

(5) For purposes of applying this subsection, the value of the assets of the corporation shall be the fair market value of the assets so held by or for the corporation, determined at least annually and averaged over a period of three or more preceding years. However, if the assets have been held for less than three years, the average shall be determined over the period during which the assets have been held.

**(d) Scope of section.**--This section shall apply to assets hereafter received pursuant to section 5547 (relating to authority to take and hold trust property), to assets heretofore so received and held at the time when this article takes effect and to reinvestments of all such assets.

**(e) Definition.**--(Deleted by amendment).

(Dec. 21, 1988, P.L.1444, No.177, eff. Oct. 1, 1989; Dec. 21, 1998, P.L.1067, No.141, eff. imd.; June 25, 1999, P.L.212, No.28, eff. 6 months; Oct. 27, 2010, P.L.837, No.85, eff. 60 days; July 9, 2013, P.L.476, No.67, eff. 60 days; July 23, 2020, P.L.681, No.71, eff. imd.)

**APPENDIX E**  
**DISTRIBUTION PROCEDURES**



# University of Pittsburgh

**To:** Deans, Directors of Development and Business Managers

**From:** Amy Marsh, Office of Finance  
Al Novak, Office of Institutional Advancement  
Clyde Jones, Health Sciences Foundation

**Date:** April 13, 2009

**Subject:** Endowment Spending - Commencement of Payout for New Gifts

In benchmarking the University's endowment spending policies and procedures against other endowments and foundations, we have been aware for some time that the University's practice of commencing spending distributions in the month immediately following when a new gift is processed and invested (assuming no other restrictions apply) is unusual. Most institutions require a gift to be invested for a year or more before commencing a payout. During periods of strong investment returns, the University's practice has not posed an issue for donors or the recipient schools. During extended periods of low or negative investment returns, however, the principal amount of the gift can be impaired if monthly endowment payouts commence before the gift has had an opportunity to appreciate in value. To mitigate the potential for such negative consequences, the Office of Finance and Office of Institutional Advancement have agreed to modify the University's payout procedures for new endowment gifts.

Effective July 1, 2009, any endowed gift processed and invested during the first half of the fiscal year (July 1st - December 31st) will begin receiving monthly spending distributions the subsequent July 1st (assuming no other restrictions apply). Likewise, any endowed gift processed and invested during the second half of the fiscal year (January 1st - June 30th) will begin receiving monthly spending distributions the subsequent January 1st.

This procedural change affects endowed gifts received on or after July 1, 2009 and will not impact gifts received and processed prior to June 30, 2009. Please feel free to contact our offices should you have any questions or concerns.

cc: David Dalessandro  
Patricia Francioni  
Michael LaFrankie  
Sharon Malley  
Cynthia Moore  
Arthur Ramicone  
Gayle Tissue  
Thurman Wingrove

**APPENDIX F**  
**BENCHMARKS**

**University of Pittsburgh**  
**Consolidated Endowment Fund**

**BENCHMARKS**

The **Policy Benchmark** for the Consolidated Endowment Fund is the weighted average return derived from using the asset class benchmarks and weights that have been established in accordance with the Statement of Governance, Investment Objectives, and Policies. The weights and benchmarks currently in effect are set forth below.

<b>Asset Class</b>	<b>Policy Target</b>	<b>Benchmark Weight</b>	<b>Benchmark</b>
Domestic Equity	12.0%	12.0%	Russell 3000 Index
International Equity	8.0%	8.0%	MSCI EAFE Index
Emerging Markets Equity	8.0%	8.0%	MSCI EM Index
Fixed Income	8.0%	8.0%	Bloomberg U.S. Treasury Index
Marketable Alternatives	10.0%	10.0%	HFRI Fund of Funds Composite
Non-Marketable Alternatives	40.0%	40.0%	Non-Marketable Alternatives Benchmark
Real Assets	14.0%	14.0%	Real Assets Benchmark
Private Credit	0.0%	0.0%	Private Credit Benchmark

**Benchmark Definitions**

**Russell 3000 Index** is a free float-adjusted market capitalization index that measures the performance of the largest 3,000 U.S. Companies, representing approximately 96% of the investable U.S. equity market. The index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually.

**MSCI EAFE (Europe, Australasia, Far East) Index** is a free float-adjusted market capitalization index that measures the equity market performance of developed markets, excluding the U.S. & Canada, and is calculated on a net basis (whereby dividends are reinvested after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double-taxation treaties). The index consists of indices for the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

**MSCI EM (Emerging Markets) Index** is a free float-adjusted market capitalization index that measures the equity market performance of emerging markets and is calculated on a net basis (whereby dividends are reinvested after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double-taxation treaties). The index consists of indices for the following 24 emerging market countries: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

**Bloomberg U.S. Treasury Index** is a broad-based benchmark that measures the performance of the fixed-rate, nominal U.S. Treasury market, and includes bonds with at least one year until final maturity.

**HFRI Fund of Funds Composite** is an equally-weighted composite measure of performance published by Hedge Fund Research, Inc. for a large, diversified pool of fund of funds invested in an array of multi-manager hedge fund portfolios.

**Non-Marketable Alternatives Benchmark** is the mean return (lagged by one quarter) of the official Cambridge Associates Global Private Equity & Venture Capital manager universe.

**Real Assets Benchmark** is the mean return (lagged by one quarter) of the official Cambridge Associates Global Natural Resources Real Estate and Infrastructure manager universe.

**Private Credit Benchmark** is the mean return (lagged by one quarter) of the official Cambridge Associates Global Private Credit manager universe.



**APPENDIX G**  
**INVESTING PHILOSOPHY**

**University of Pittsburgh**  
**Consolidated Endowment Fund**

**INVESTING PHILOSOPHY**

This statement of Investing Philosophy articulates the foundational principles of the University's investment approach to the construction, management and ongoing evaluation of the CEF and shall be implemented in a manner that is consistent with the objectives, policies and guidelines set forth in the Statement of Governance, Investment Objectives, and Policies for the Consolidated Endowment Fund.

- Among CEF objectives, the most critical to the University's mission is the long-term preservation of assets on a real (inflation-adjusted) basis as they provide a steady, meaningful stream of income to University beneficiaries.
- These objectives cannot be achieved without the assumption of risk. Risks, however, must be fully understood, prudently managed, and offer appropriate return potential.
- The CEF portfolio must be biased toward equity investments based upon the expectation that equities will outperform fixed income over a complete market cycle, albeit with more risk.
- A long-term investing horizon is a competitive advantage that allows the CEF to accept substantial market risk in pursuit of total return. However, unanticipated short-term risk can cause permanent impairment of assets and cannot be ignored.
- The need to distribute income without interruption amplifies the potential impact an unexpected market event can have and, thereby, elevates the importance of managing the CEF in a manner that mitigates both short-term and long-term risks.
- Reputational risk can profoundly affect the University's ability to perpetuate its mission and, thus, cannot be ignored.
- While the primary determinant of investment returns is almost always the allocation of assets among various asset classes, subclasses and strategies, good manager selection has the potential to meaningfully enhance results.
- Over time, a broadly-diversified portfolio is expected to generate better risk-adjusted returns than a non-diversified portfolio.
- Over very long periods, select private strategies are expected to outperform liquid, publicly-traded investments and compensate for their illiquidity. Nevertheless, public investments can outperform private strategies for an extended timeframe.
- Maintaining sufficient liquidity to meet all portfolio obligations is vital to CEF performance and the University's mission; such obligations include spending distributions, capital calls, operating costs, and potential quasi-endowment withdrawals.

- Market timing strategies are not reliable since the direction, duration and magnitude of future near-term market movements are unknowable.
- However, valuations play a critical role in future returns and should be considered. Tactical or opportunistic allocations may be employed accordingly when valuation levels are extreme and/or unique market circumstances are present.
- Patience and discipline are essential to good investing decisions and thereby prescribe that results, net of costs, be evaluated over the long term.
- While a rigorous effort will be made to control costs and operate efficiently, expenses should not be the key driver of portfolio management decisions.
- The University's history, mission and reputation will be carefully parlayed as appropriate to cultivate investor relationships and the University's competitive advantage.

**APPENDIX H**  
**QUASI-ENDOWMENT FUNDS**

**University of Pittsburgh**  
**Consolidated Endowment Fund**

**QUASI-ENDOWMENT FUNDS**

From time to time, the University is the recipient or beneficiary of non-endowed gifts or funds that are completely free of donor restriction as to the gift corpus and when such funds are to be spent. The owner or steward of such non-endowed funds (i.e., the school or department under whose responsibility code these funds exist) may elect to invest the funds in the Consolidated Endowment Fund and have them treated as an endowed fund by establishing a quasi-endowment fund.

Procedures for the establishment of a quasi-endowment fund and any withdrawals therefrom are set forth below and, in all cases, require approval by both the Chief Financial Officer ("CFO") and Chief Investment Officer ("CIO").

- The school or department responsible for the funds recommends in writing to the CFO and CIO that a quasi-endowment fund be established with the intent that it be treated like a true endowment fund.
- Such recommendation shall include the stated purpose of the quasi-endowment fund and whatever evidence is necessary and appropriate to ensure that the gift or other fund sources do not preclude or conflict with establishing such quasi-endowment fund.
- The principal amount of the fund must be \$25,000 or more and is not eligible for withdrawal, in whole or in part, without the consent of the CFO and the CIO and in no event before a minimum period of five years has elapsed.
- All requests for withdrawal must be made in writing to the CFO and CIO and shall be subject to available endowment liquidity and the following stipulations:
  - o Total withdrawals over any twelve-month period shall not exceed 3% of the market value of the Consolidated Endowment Fund; and
  - o Total withdrawals over any sixty-month period shall not exceed 10% of the market value of the Consolidated Endowment Fund.
- A withdrawal may be suspended at any time if in the CIO's sole judgement the Consolidated Endowment Fund could be materially adversely impacted by making such redemption during prevailing market conditions.