



Endowment Investment Policy

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Approved by the Board of Trustees
December 15, 2007

Purdue University Endowment Investment Policy

Introduction

This Investment Policy governs the investment management of Purdue University's Unitized Endowment Pool, also known as the Purdue Endowment, and the Separately Held Endowments, and will be effective until modified by the Board of Trustees as conditions warrant. Both the Investment Committee and investment consultant are expected to propose revisions to the policy whenever the existing policy would impede meeting the Endowment's investment objectives.

A. Investment Objectives

The overall financial objectives of the Endowment are to support the current and future operations of Purdue University and to preserve and enhance the purchasing power of the Endowment. To accomplish these goals, the Endowment must generate real returns from investments greater than its spending rate over the long term.

The investment objective of the Endowment is to attain an average annual real total return (net of investment management fees and after inflation) in excess of the spending rate over the long term, defined as rolling five-year periods, and to outperform the median endowment within a universe of other similarly-endowed universities. It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods.

Over a three- to five-year market cycle, the returns earned by the Endowment's managers should exceed the rates of return of the appropriate style benchmarks. The Investment Committee also will compare returns of the total portfolio to an appropriate composite benchmark and/or the returns of a universe of comparable managers (Appendix A).

B. Spending Policy

The spending policy is meant to ensure that Endowment's purchasing power (real market value) is maintained over time by keeping the long-term rate of annual spending from the Endowment equal to or less than the long-term real (inflation-adjusted) investment return of the Endowment. The Investment Committee will routinely review spending policy and practices to ensure that the policy remains aligned with financial objectives.

The Endowment consists of True, Term, and Quasi Endowments. True Endowments are funds for which a donor or other outside agency has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing current and future income. Term Endowments are similar to True Endowment funds except that, upon the passage of a stated period of time, or the occurrence of a stated event, all or part of the principal may be expended. Quasi Endowments are defined as funds for which the University, rather than the donor, has determined that the corpus is to be retained and invested. Since these funds are internally designated rather than externally restricted, the management of the University has the right to decide at any time to expend the principal.

To facilitate equitable allocation of investment returns and income distribution among the various endowed funds that participate in and comprise the Endowment, the Endowment employs unitized fund accounting.

True and Term Endowments that participate in the Unitized Endowment Pool will receive a distribution of current income (interest and dividends less appropriate expenses) plus capital appreciation semi-annually based on the most recently available market values.

The distribution for True and Term Endowments will be at the annualized rate of four and one half percent (4.5%) of the average of the ending market values of the Unitized Endowment Pool for the prior twelve quarters. Distribution will be based on participating units during the current period.

Quasi Endowments that participate in the Unitized Endowment Pool may have a separate distribution policy as established by the Executive Vice President and Treasurer.

C. Core Beliefs

The Investment Committee has adopted a diversified approach to investment that balances its goals of maximizing return and preserving the Endowment's purchasing power. By diversifying among asset classes and rebalancing toward policy target allocations, the Investment Committee expects to enhance the Endowment's real market value and provide a significant long-term funding source for the University's spending requirements.

Rebalancing asset allocations to policy targets is essential for maintaining the risk profile adopted by the Committee. The Endowment's actual asset allocation will be monitored regularly, relative to established policy targets and ranges. The Committee recognizes adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but will make efforts to rebalance as appropriate. Cash flows in or out of the Endowment may create an opportunity to rebalance allocations to policy targets. The rebalancing process will be reviewed by the Investment Committee at least annually.

D. Portfolio Composition and Asset Allocation

1. To achieve its investment objectives, the Endowment shall make equity and fixed income investments within the approved policy ranges.
2. The purpose of the equity investments (common stocks, marketable alternative investments, private equity and venture capital) is to provide a total return that will provide for growth in principal and current income (along with income from the fixed income investments) sufficient to support spending requirements, while at the same time, preserving and enhancing the purchasing power of the Endowment's assets over the long term. It is recognized that the equity investments entail the assumption of greater market variability and risk than the fixed income investments.
3. The primary purpose of the fixed income investments (bonds, high yield securities and cash equivalents) is to serve as a partial hedge against periods of economic contraction and to decrease the probability that the Endowment will be forced to liquidate equity securities at depressed prices to meet spending requirements. Additional allocations to fixed income assets may serve the secondary purpose of contributing to overall return or helping reduce the overall volatility of the Endowment's return.
4. Inflation represents a significant threat to the real value of the Endowment. Common stocks provide an intermediate- to long-term hedge against inflation but a weak short-term hedge against unexpected inflation. Consequently, investments in real assets like natural resources and real estate will serve as supplementary inflation hedges. Natural resources include oil and gas, timber, land and commodities.

5. The Endowment will be diversified by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and capitalization). The primary purpose of diversification is to enhance returns and reduce the risk of significant declines in the market value of the Endowment. The Investment Committee has adopted the following long-term asset allocation “Policy Portfolio.”

Purdue Endowment
Policy Portfolio Asset Allocation

Asset Class	Long-Term Targets	Range
Equity	85.0%	80% - 90%
U.S. Equity	26.0	20 - 35
International Developed Market Equity	15.0	10 - 20
Emerging Markets Equity	5.0	0 - 10
Marketable Alternative Assets	15.0	10 - 20
Venture Capital and Private Equity	10.0	5 - 15
Real Estate	7.0	2 - 10
Natural Resources	7.0	0 - 10
Fixed Income	15.0%	10% - 20%
Cash and Cash Equivalents	0.0	0 - 10
Total	100.0%	

6. For audit purposes the Investment Committee will classify the individual managers within one of the asset classes listed in the Policy Portfolio Asset Allocation table.

E. Guidelines for Equity Investments

- Equities include all “ownership” positions, not just common stocks. The Investment Committee has adopted a Policy Portfolio allocation which seeks to achieve investment objectives without exposing the Endowment to unacceptable levels of systematic (U.S. stock market) risk. In addition to U.S. and non-U.S. marketable securities, at the discretion of the Investment Committee and within parameters established by these policies, the Endowment’s funds may be invested in other forms of equity investments with the objective of enhancing returns and/or reducing the Endowment’s volatility.
- The capitalization and style characteristics of the U.S. equity component of the equity investments should not be overly different from the broad market.
- Equity managers may invest in common stocks, preferred stocks or fixed income instruments convertible into common stocks, and ADRs of domestic and foreign corporations. All common stocks, and common stocks into which convertible securities may be converted, must be listed on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), or the National Association of Securities Dealers Automated Quote System (NASDAQ), or, for foreign securities, equivalent exchanges in their country of domicile.
- The return objective for the equity investments is to outperform (net of fees) the blended benchmark as established by the Investment Committee. Performance will be monitored on a regular basis and evaluated over rolling five-year periods. It is recognized that the return

objective may be difficult to attain in every five-year period, but should be attainable over a series of five-year periods.

5. Diversification will be achieved at the equity investments level and not necessarily at the level of individual stock portfolios. To produce overall diversification, investment managers may be selected to employ different equity management philosophies, which together achieve the desired degree of diversification. Portfolios will be monitored for adherence to these philosophies.
6. Decisions as to individual security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence. No equity manager shall invest or have invested more than 10 percent (at market) of the Endowment assets entrusted thereto in the stock of one company, nor more than 40 percent (at market) of the Endowment assets entrusted thereto in any single major economic sector.
7. With the approval of the Investment Committee an investment manager may place funds in commingled investment vehicles, including mutual funds. These investment vehicles may have investment guidelines that are not in strict compliance with the Endowment Investment Policy guidelines in this section. In these cases, the Investment Committee will review and authorize the manager's investment guidelines for the specific investment.
8. Equity managers may, at their discretion, hold investment reserves of either cash equivalents or bonds, with the understanding that performance will be measured against Investment Committee assigned benchmarks.

F. Guidelines for Fixed Income Investments

1. As a partial hedge against periods of economic contraction, when equity investments tend to perform poorly, a commitment to intermediate- and long-term bonds should be maintained. This is intended to enable the Endowment to maintain its spending stream without forcing the sale of equities during periods of depressed market valuations.
2. The return objective of the fixed income investments is to equal or exceed the benchmark established by the Investment Committee. Performance will be monitored on a regular basis and evaluated over rolling five-year periods.
3. Fixed Income managers may invest in the following types of debt securities:
 - Government and agency bonds, notes, bills, and similar obligations.
 - Any evidence of indebtedness, the principal and interest of which is absolutely and unconditionally guaranteed by the United States Government.
 - Bonds, debentures, notes and other evidences of indebtedness issued by United States domestic corporations.
 - Other dollar denominated securities (e.g., Yankees and Eurodollars).
 - Preferred stocks.
 - Convertible bonds (when considered a debt issue).
 - Mortgage and other asset-backed securities.
 - Tax exempt and taxable municipal bonds.
 - The Investment Committee may hire a dedicated fixed income manager that may invest 100 percent of the assets in foreign fixed income.
 - A U.S. investment manager may invest in foreign fixed income securities equivalent in quality to permitted domestic securities, but not to exceed 20 percent of the assets entrusted

to the manager. All currency exposures are to be hedged into the U.S. dollar unless otherwise approved by the Investment Committee.

4. There is no limit on the amount of holdings of United States Government bonds, notes, bills, agency obligations or obligations, the interest and principal of which are fully, absolutely and unconditionally guaranteed by the full faith and credit of the United States Government. Otherwise, no fixed income manager shall have invested, at any point in time, more than 5 percent of the Endowment's assets entrusted thereto in the fixed income obligations of a single issuer.
5. Portfolios will be invested in securities that result in a weighted average credit quality rating of "AA" or better. No fixed income manager shall have invested, at any point in time, more than 10 percent of the Endowment assets entrusted thereto, in fixed income obligations rated less than BBB (or its equivalent) by Moody's or Standard & Poor's. Should an issue have a split rating, the lower rating will apply.
6. With the approval of the Investment Committee an investment manager may place funds in commingled investment vehicles, including mutual funds. These investment vehicles may have investment guidelines that are not in strict compliance with the Endowment Investment Policy guidelines in this section. In these cases, the Investment Committee will review and authorize the manager's investment guidelines for the specific investment.

G. Guidelines for Alternative Investments

1. The Investment Committee may from time to time employ investment managers or funds of funds to pursue investments in "alternative assets" for the purpose of diversifying the market exposure of the Endowment, to lower correlations to equity and fixed income investments, and/or to enhance returns. These might include, without limitation, managers or partnerships investing in marketable alternative strategies (e.g., arbitrage, long/short equity, and distressed securities), private equity, venture capital, natural resources, private real estate or other asset classes. These investments will not generally fall within the guidelines established for the more traditional asset classes that make up the majority of the Endowment's investments.
2. The Investment Committee shall consider certain criteria, including, but not limited to, the following in its evaluation of alternative asset managers:
 - Tenure and track record of management as a team
 - Expertise in targeted areas of investment
 - Diversification relative to other investments
 - Use of leverage
 - Liquidity of investments
 - General Partner investment, fees and potential conflicts of interest
 - Unrelated Business Income Tax ("UBIT")

H. Guidelines for Cash Equivalent Holdings

1. Equity and fixed income managers may invest in the following cash equivalent vehicles as a means for the temporary employment of funds:
 - Repurchase agreements, providing that contemporaneous with the disbursement of the funds, the Endowment's agent receives, as collateral, physical possession of United States Government securities having a market value at least equal to 102 percent of the amount disbursed. Additionally, the collateral should be marked to market on at least a weekly basis

and additional collateral provided if the coverage drops below 102 percent of the amount disbursed.

- Money market funds and other commingled short-term cash investment vehicles.
 - Commercial paper not exceeding 180 days to maturity at the time of purchase.
 - Bankers acceptances.
 - Certificates of deposit.
 - United States Government and agency obligations.
2. Commercial paper must be rated A-1/P-1 by each rating service rating said credit. Bankers acceptances and certificates of deposits must be issued by a bank having a Keefe Bruyette & Woods rating of A or A/B or B. All securities discussed herein must be issued by domestic entities.

I. Guidelines for Derivatives

1. Investment managers will utilize derivative securities only in a manner that is consistent with the policies stated in their manager-specific guidelines.
2. The primary intent of derivative security transactions will be to hedge risk in portfolios or to implement investment strategies more efficiently and at a lower cost than would be possible in the cash market. In the case of equity portfolios, derivative securities primarily include index futures, options on stock or index futures, and currency futures and forwards. In the case of bond portfolios, derivative securities primarily include interest rate futures, options on interest rate futures, currency futures and forwards, and collateralized mortgage obligations. With the exception of hedge fund managers so authorized, derivatives will not be used to leverage portfolios, and derivative-based investment strategies will not expose the portfolios to greater risk than would be typical under a strategy utilizing only cash securities.
3. Investment managers will have in place processes and procedures to control and measure risk related to derivative positions.
4. Derivatives will not be used for funds managed internally by the Office of Investments' staff.

J. Miscellaneous Guidelines

1. As a general guideline, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price.
2. The master trustee/custodian shall handle the voting of proxies and tendering of shares in a manner consistent with the objectives contained in the Investment Policies and in the best interest of the University, reserving the right for the Investment Committee to provide specific directions as it deems appropriate.
3. A securities lending program may be administered through the master trustee/custodian. The proceeds of the securities lending program may be collateralized through the master trustee/custodian's securities lending temporary investment funds or collateralized in a form acceptable to the Investment Committee.

K. Monitoring of Objectives and Performance Results

1. All objectives and policies are in effect until modified by the Board of Trustees. They will be reviewed at least annually for their continued appropriateness.

2. The Endowment will be monitored on a continual basis for consistency in each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. On a regular basis the Investment Committee will review external investment manager performance and all internally managed holdings. Results will be evaluated over rolling three to five-year periods. However, the Office of Investments, on behalf of the Investment Committee, will regularly review managers in order to confirm that the factors underlying performance expectations remain in place and report any findings to the Investment Committee.
3. Each investment manager will report to the Office of Investments, master trustee/custodian, and investment consultant within 45 days of quarter-end (except limited partnership arrangements such as private equity and venture capital managers which typically report on a one-quarter lagged basis) total return net of all commissions and fees, returns for the equity and fixed income portions of the account, additions and withdrawals from the account, current holdings at cost and at market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Purdue University Office of Investments of any significant change in firm ownership, organizational structure, professional personnel, account structure (e.g., number, asset size and account minimums), or fundamental investment philosophy. Annually, the University requires reporting on all of the above information as of the end of its fiscal year. The Investment Committee or the staff of the Office of Investments shall meet with investment managers at least every 18 months to review performance. Meetings may be by telephone conferences.
4. On an annual basis, each manager will provide a copy of its form ADV.

L. Delegation of Responsibilities

1. Board of Trustees

- The Board of Trustees of Purdue University has fiduciary responsibility for the Endowment. The Board will ensure that appropriate policies governing management of the Endowment are in place and that these policies are being effectively implemented. The Endowment Investment Policies are approved by the Board of Trustees and delegated to the Treasurer and the Investment Committee for implementation under the oversight of the Finance Committee of the Board of Trustees.

2. Finance Committee

- The Finance Committee of the Board of Trustees has oversight responsibilities for the Investment Committee and will submit an annual report to the Board of Trustees.

3. Investment Committee

- The Investment Committee responsibilities include the development of the Endowment Investment Policies, selection and termination of the master trustee/custodian, selection and termination of investment consultants and investment managers, monitoring performance of investment managers and the entire portfolio on a regular basis, maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Endowment Investment Policies, and submitting periodic reports to the Finance Committee and the Board of Trustees.
- The Investment Committee will establish and modify as necessary the appropriate performance benchmarks for the portfolio and the individual managers and monitor performance.

- The Investment Committee will consist of the Treasurer of Purdue University as Chairman, the Assistant Treasurer of Purdue University, the Senior Vice President and Treasurer of the Purdue Research Foundation, the Senior Director of Investments, and other members as appointed by the Chairman. The President of the University serves as an ex officio member of the Investment Committee.
- The Investment Committee shall advise the Treasurer on investment strategies and specific investment management decisions. The Treasurer may engage an external investment consultant to advise the Investment Committee.
- The Investment Committee shall submit an annual report to the Board of Trustees and three quarterly reports to the Finance Committee of the Board of Trustees.
- The Investment Committee will routinely review the Endowment Investment Policy and make recommendations to the Finance Committee and the Board of Trustees as needed.

4. **The Office of Investments**

- The Office of Investments is responsible for managing the Endowment in accordance with the Endowment Investment Policy under the direction of the Investment Committee.
- The Office of Investments is responsible for oversight and interactions with the portfolio managers, the preparation of analysis and materials for the Investment Committee, the execution of rebalancing actions as directed by the Investment Committee, management of the custodial relationship, coordination of the annual audit process, performance monitoring and accounting reconciliations.
- The Office of Investments will immediately inform the Investment Committee of any material events that are discovered or reported during the ongoing due diligence process or that are required to be reported by the investment managers to the Office of Investments.

5. **Investment Managers**

- The investment manager will select specific portfolio holdings in accordance with the Endowment Investment Policy and manager-specific guidelines.
- The investment manager will notify the Office of Investment immediately of (1) any guideline that impairs or prevents the achievement of performance objectives; (2) new developments or circumstances that warrant a change in the guidelines; (3) verification that the manager is in compliance with all professional standards (such as AIMR) to which it subscribes, and any disciplinary action by any regulatory authority or non-compliance with any AIMR, SEC or other professional standards; (4) any significant change in investment strategy and/or portfolio structure; (5) a material change in portfolio managers, analysts, or ownership control of the manager; (6) a list of new clients and clients that have terminated the manager; (7) any soft dollar use and its impact on the Endowment; (8) any affiliated broker relationships; and (9) performance reporting as specified previously in this document.

6. **Investment Consultant**

- The consultant will meet quarterly with the Investment Committee, or more often if needed.
- The consultant will provide the Investment Committee with an annual review of the Endowment Investment Policy statement.
- The consultant will monitor investment managers on a regular basis and report investment manager performance within 45 days of quarter-end.

- The consultant will report on issues and developments that may have a material impact on the performance of the Endowment and other such information as reasonably requested.

7. **Master Trustee/Custodian**

- The master trustee/custodian will provide monthly portfolio transaction reports and monthly asset reports no later than the tenth business day following month end.
- The master trustee/custodian will provide the Investment Committee, the Office of Investments, its investment managers, and investment consultant special reports as reasonably requested.
- The master trustee/custodian will communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

Appendix A
Current Asset Class Performance Benchmarks

Adopted by the Investment Committee on November 1, 2005

<u>Asset Classes</u>	<u>Benchmarks</u>
U.S. Equity	Russell 3000
International Developed Market Equity	MSCI EAFE
Emerging Market Equity	S&P/IFC Investable Composite
Marketable Alternatives	91 Day T-Bills + 600 Basis Points
Private Equity and Venture Capital	Russell 3000 + 400 Basis Points ²
Real Estate	
Private REITs	NACREIF Property Index ¹ NAREIT Property Index
Natural Resources	CPI - U + 500 Basis Points
Total Equity	Benchmarks A, B, C (see below)
Fixed Income	Lehman Bros. Aggregate Bond Index
Cash and Cash Equivalents	91 Day T-Bills
Total Endowment	CA Endowment Median Benchmarks A, B, C (see below)

Blended Benchmark A (by Target Allocation) ^{1,2}

Measures success of tactical asset allocation

*45 percent R3000 + 10 percent MSCI EAFE + 3 percent MSCI EMF +
15 percent T Bills plus 6 percent + 2 percent CPI-U plus 5 percent + 20 percent LBA*

Blended Benchmark B (by Actual Allocation)

Measures success of manager selection

Actual allocation at quarter-end applied to target policy asset class indices

Blended Benchmark C (by Overall Strategy)

Measures success of asset allocation decisions

80 percent R3000 + 20 percent LBA

¹ NAREIT index will be used pending full allocation to Private Real Estate

² R3000 index will be used pending higher actual allocation to VC/PE