UCONN UNIVERSITY OF CONNECTICUT

UConn Foundation

Statement of Investment Policy and Objectives for Assets Invested in the Long-Term Investment Portfolio

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I. Purpose of Policy

This Investment Policy Statement ("IPS") is authorized by the Board of Directors of The University of Connecticut Foundation, Inc. ("Foundation") to provide a framework for the management of assets invested in the long-term investment portfolio ("Portfolio"). The role of this Investment Policy Statement is to establish objectives, policies and guidelines for management of the Foundation's Portfolio. The objectives and policies presented within the statement govern the actions of the Foundation Investment Committee, the Outsourced Chief Investment Officer ("OCIO"), and staff as they carry out fiduciary responsibilities regarding investment of endowment and similar assets.

II. Long-Term Investment Portfolio

A. **Financial and Investment Objectives**
The overall financial objectives of the Portfolio are two-fold:

1. To provide a steady stream of spending in support of the Foundation's mission, and
2. To preserve the real (inflation-adjusted) purchasing power of the assets in perpetuity.

The overall investment objective is to attain an average annual compound real total return that is equal to or greater than the spending rate set forth below.

The Portfolio has a long-term investment horizon. The primary investment objectives of the portfolio assets are:

- To preserve the long-term, real purchasing power of endowed assets while providing a relatively predictable and stable stream of distributions in support of the Foundation's spending requirements.
- To enhance the purchasing power of the Foundation over time by generating an average real total return in excess of spending and inflation over the long-term. Inflation will be defined by the Consumer Price Index (CPI-U).
- To achieve these return goals through a diversified investment portfolio that is constructed to manage risk and moderate volatility.
- To invest the portfolio in compliance with all applicable laws and regulations.

B. **Spending Rate**
As summarized in the Foundation's Policy on Expenditures from Endowed Funds, the Foundation will withdraw funds from the Portfolio periodically to meet cash requirements. The amount withdrawn will cover restricted spending distributions as well as support the operational needs of the Foundation. The

goal is to set a sustainable policy for total withdrawals, which enables the Portfolio to maintain the real (inflation adjusted) purchasing power of endowment assets over a perpetual time horizon. The following items represent the components of the Foundation's spending rate:

- Spending Policy: The Foundation will utilize a "Moving Average Spending Policy" in which the Foundation will spend 4.25% of the rolling, prior 12-quarter average of the portfolio's total Unitized Market Value.
- Endowment Administrative Fee: The Foundation assesses a fee sufficient to offset its operational needs. This fee will not exceed 2.0 percent annually. The fee is calculated in the same manner as that used to calculate spending distributions.

C. **Underwater Endowments**

The Foundation's Policy on Underwater Endowments governs the management of endowments that have fallen below their Historic Dollar Value ("HDV"). Historic Dollar Value is defined as the aggregate value of all contributions to an endowment fund at the time they were made. The Foundation strives to balance the donor's desire to fund current program, faculty, and scholarship needs with the commitment to preserve, over time, the HDV of endowments.

In the event an endowment falls underwater by greater than 20% of its HDV, an analysis of the fund will be undertaken in order to make a determination on future spending distributions. In the event an endowment falls underwater by greater than 25% of its HDV, future spending distributions, and the assessment of administrative fees, will be suspended until the fund again exceeds the 25% level.

D. **Investment Management Structure**

The Foundation Board of Directors has fiduciary responsibility over the management of assets invested in the Portfolio, and developing all related investment policies. The Board delegates selection of investment managers and vehicles consistent with Board-approved policy to the Investment Committee. On November 10th, 2015 the Investment Committee has approved the use of an Outsourced Chief Investment Officer Firm ("OCIO") to manage a portion of the Long-Term Investment Portfolio on a discretionary basis, this recommendation was approved by The University of Connecticut Foundation Board of Directors on November 13th, 2015.

For the purposes of managing the relationship with the OCIO, the Total Long-Term Investment Portfolio will be divided into two parts, "Account Assets" and "Non-Account Assets." Account Assets are those under the discretionary authority of the OCIO. The Non-Account Assets are those under the authority of the Foundation Investment Committee.

E. **Investment Philosophy**

The investment policies for the Portfolio are rooted in the guiding principles of endowment investing which emphasize asset class and manager diversification, portfolios strategically designed for long-term investment horizons, an integrated approach to liquidity and risk management, and exposure to alternative asset classes. The Committee recognizes that the allocation of assets among various asset classes and categories is the most significant decision that may affect the overall performance and volatility of results. The portfolio should therefore be constructed to consider the following needs:

- Obtain long-term performance through equity growth
- Mitigate equity downside exposure through fixed income and hedge fund diversification
- Protect against inflation with the ownership of real assets

To achieve the long-term return objectives the Portfolio will rely on a total return investment approach in which returns are achieved through both capital appreciation (realized and unrealized) and from income (e.g., interest, dividends).

The investment goals are expected to be achieved over the long-term with success measured over a complete market cycle (generally expected to be 7 to 10 years), but will be monitored by the Committee on an ongoing basis. It is recognized that actual performance will at times fall short of the real return objective over shorter periods of time.

The Foundation is committed to creating and amending policies and procedures to facilitate compliance with all relevant Foundation by-laws, organizational concerns, industry standards, and federal and state laws and regulations, including without limitation the Connecticut Uniform Prudent Management of Institutional Funds Act.

F. **Asset Allocation Targets and Benchmarks**
The Total Portfolio (as executed through the Account Assets and Non-Account Assets) shall be allocated among the asset classes set forth below and shall be managed within the range and consistent with the strategic target for each such asset class set forth below. The Investment Committee shall have discretion to tactically overweight or underweight certain asset classes so long as each asset class remains within the range set forth below.

Fund Category	Asset Class	Long-Term Target	Range
Growth	Global Equity	30	10 – 60%
Growth	Hedge Funds – Directional	10	0 – 25%
Growth	Private Capital	25	5 – 45%
Risk Minimizing	Global Fixed Income	7.5	5 – 30%
Risk Minimizing	Hedge Funds – Non-Directional	7.5	0 – 20%
Risk Minimizing	Portfolio Diversification Strategies	5	0 – 15%
Risk Minimizing	Cash	0	0 – 25%
Inflation Hedging	Marketable Real Assets	0	0 – 10%
Inflation Hedging	Private Real Assets	15	0 – 30%
	Total	100%	

Asset Class	Passive Benchmark
Global Equity	MSCI ACWI Total Return Net USD Hedge
Funds — Directional	HFRI – Equity Hedge (Total) Index Private
Capital	Burgiss Private IQ: Buyout and Venture
Global Fixed Income	1/3 BarCap US Agg, 2/3 Citi WGBI USD
Hedge Funds — Non-Directional	HFRI – FoF Conservative Index Portfolio
Diversification Strategies	HRFI – Macro: Systematic Diversified
Marketable Real Assets	1/2 Bloomberg Commodity Index, 1/2 EPRA NAREIT

Asset Class	Passive Benchmark
Private Real Assets	Burgiss Private IQ: Real Assets (Energy and other) and Real Estate
Cash	Citigroup 3 Month T-Bill Index

G. **Performance Measurement**
Performance and volatility of the Long-Term Portfolio is expected to:

• Exceed the return of a policy portfolio benchmark, calculated as the weighted average performance of the asset class benchmarks as defined in Appendix A.
• Be consistent with the risk associated with the aforementioned policy benchmark. Risk will be measured by the annualized standard deviation of returns over a market cycle of 7 to 10 years.
The performance of the portfolio will be measured against these metrics on at least a quarterly basis, but also be evaluated over the long-term (over 7 to 10 years).

H. **Rebalancing**
The purpose of rebalancing is to maintain the long-term policy asset allocation within the targeted asset allocation ranges while contributing to controlling portfolio risk. At a minimum, asset allocation targets and ranges will be formally reviewed against current portfolio positioning on an annual basis and will be rebalanced as appropriate. Rebalancing shall also occur at any time to prevent a specific asset class allocation from falling out of compliance with the asset allocation policy. Given the highly integrated relationship between the Account Assets and Non Account Assets staff will seek to be highly collaborative with the OCIO when considering rebalancing options that impact the Account Assets. During the year, new cash flow shall be allocated to investment managers to rebalance the Portfolio in the direction of the target asset allocations as defined by the Investment Committee. Staff will recommend rebalancing related investments to the Investment Committee Chair for approval.

I. **Risk Management**
Risk management practices are focused on the Portfolio's investment and operational risks with the goal of efficiently meeting investment objectives. Practices include:

• Prudent diversification among asset classes and individual investments
• Limiting total investments with any one firm to 10% of the Portfolio at time of investment (exceptions are permissible to passive long-only investment managers, subject to the Investment Committee's discretion). However, if the total investment with any one firm grows beyond 10%, the Investment Committee will discuss and approve the continued investment in such firm at the prevailing excess value beyond 10% at each succeeding in-person meeting of the Committee.

III. Roles and Responsibilities

The Investment Committee is responsible for:

- Development and review of all Board approved investment policies and ensuring compliance with those policies
- Monitoring the performance and risk of the portfolio and of each investment manager, including an OCIO firm
- Identify investment vehicles for investment consistent with Board approved policies, and appoint and replace investment managers as needed

The Outsourced Chief Investment Officer is responsible for:

- Proposing asset allocation targets and ranges for approval and periodic review by the Staff and Investment Committee
- Selecting and monitoring third-party investment managers and investment vehicles, and redeeming investments as necessary to implement the Account Asset's asset allocation
- Rebalancing asset classes in accordance with targeted asset class exposure and allowable ranges as described in this policy
- Managing liquidity of the Account Assets to meet cash requirements as requested
- Managing the day-to-day operational aspects of the Account Assets in conjunction with a third-party custodian
- Providing quarterly investment performance and commentary to the Staff and Committee
- Providing quarterly performance and risk reporting on the Total Portfolio, inclusive of Non-Account Assets
- Providing additional reporting as requested by the Committee
- Managing the Account Assets in accordance with all existing investment policies and applicable laws
- The OCIO will communicate openly with the Staff and Committee on significant matters affecting the Portfolio. The OCIO will advise the Staff as to major changes in investment outlook, investment strategy, recommended asset allocation, portfolio structure, market value of portfolio assets, and any other substantive matters affecting the investments. Further, the OCIO will inform the Staff promptly of any significant changes in their ownership, organizational structure, financial condition, or senior personnel staffing. The OCIO will report on these changes to the Committee on a quarterly basis.

Foundation Management and Staff are responsible for:

- Managing Non-Account Assets in accordance to this IPS
- Overseeing the OCIO's portfolio management including, but not limited to, adherence to asset allocation targets and ranges, risk management, and reporting
- Providing the OCIO with the necessary monthly and quarterly information to compute Total Portfolio performance and risk on a quarterly basis
- Monitoring ongoing performance on monthly and quarterly basis
- Researching and preparing proposals for strategy considerations within the non-marketable segments of long-term assets
- Communicating and recommending portfolio rebalancing options of available assets to the Investment Committee Chair for approval
- Implementing Board approved investment policies and Investment Committee approved guidelines

IV. Effective Date

This Policy is effective immediately and replaces and supersedes any preceding policy concerning this subject matter. This Policy is subject to review on its first anniversary and once every five years thereafter.

Appendix A: Asset Class Definitions

Growth

- Global Equity:
  Overview: This asset class includes domestic, international and global long-only underlying funds that employ a variety of investment and trading strategies generally utilizing publicly traded equity securities.

  Details: The underlying managers may be generalists or they may specialize by investment style, market capitalization, sector, country or geographic region. A material portion of the underlying managers may have value- oriented and/or fundamentally-based investment processes and concentrated portfolios. These underlying funds may therefore have significantly different portfolios than their underlying benchmarks and their performance may materially diverge from their respective benchmarks for extended periods of time. However, a material portion of the asset class may also be invested for a temporary or extended period of time in underlying funds that seek to replicate the returns associated with a benchmark as well as any number of sub-indices or other global equity indices.

- Hedge Funds Directional:
  Overview: This asset class includes underlying funds with long-biased equity or long-biased distressed debt hedge fund strategies.

  Details: The long-biased equity underlying funds may be focused on event, special situation or fundamental long/short equity hedge fund strategies. A material portion of the asset class may be invested in underlying funds managed by activist underlying managers that purchase large stakes in public companies in order to undertake strategic, operational, or financial or corporate governance improvements. At different points in the credit cycle, a material portion of the asset class may also be invested in underlying funds that purchase the debt or equity of companies that are financially stressed or in bankruptcy. This asset class may have a high correlation with underlying equity and/or debt markets.
  The underlying funds in which this asset class invests may have lock-up periods of varying durations and/or may impose early withdrawal fees. Accordingly, this asset class is expected to provide less liquidity than the other asset classes comprised of hedge fund portfolios and a material portion of the asset class may at times have very limited liquidity.

- Private Capital:
  Overview: This asset class includes underlying funds that invest in private equity, venture capital, mezzanine and special situations. This asset class portfolio may also invest in direct investments or co-investments alongside underlying funds or underlying managers.

  Details: Underlying managers may specialize by geographic region and it is expected that a portion will be invested in underlying funds that are based outside of the United States. The private capital asset class seeks to provide higher expected returns when compared to the return of the equity markets as a result of a higher liquidity risk and potential manager alpha.

Risk Minimizing

- Global Fixed Income:
  Overview: This asset class includes long-only underlying funds that are focused on domestic and international fixed income investments including those issued by governments, municipalities, agencies and corporations. Some or all of the underlying funds in which the asset class invests may seek to replicate the returns associated with a fixed income benchmark as well as any number of sub-indices or other global fixed income indices.

  Details: It is expected that the underlying funds in which this asset class invests will primarily invest in securities that have an investment grade or higher average credit quality although some underlying funds may invest in debt that is not investment grade or is not rated.

- Hedge Funds Non-Directional:
  Overview: This asset class includes underlying funds focused on higher hedge long/short equity, higher hedge long/short credit, fundamental and quantitative global macro, arbitrage and relative value hedge fund strategies. The asset class may also invest a portion of its capital in underlying funds specializing in longer- biased equity, long/short and short-only hedge fund strategies.

  Details: The underlying funds in which the asset class invests may have lock-up periods of varying durations and/or may impose early withdrawal fees. Traditionally, however, the lock-up period for these types of funds is generally less than one year.

- Portfolio Diversification Strategies:
  Overview: This asset class includes fundamental and systematic underlying funds that follow global macro and systematic trends.

Details: The underlying funds that follow global macro trends will generally be more fundamentally driven and will generally focus on money market, fixed income, currency or commodity markets, but may also trade in the equity index and credit index markets. The underlying funds that follow systematic trends will primarily utilize quantitatively driven trading and/or investment models across all major markets (equities, interest rates, commodities and currencies) driven by either short-, medium- or long-term trends or patterns in these markets. The underlying funds in which the asset class portfolio invests may have lock-up periods of varying durations and/or may impose early withdrawal fees.
Traditionally, however, the lock-up period for these types of funds is generally less than one year.

- Cash:
  Overview: This asset class includes high quality short-term money market instruments, including short-term treasury securities, short-term agency paper, repurchase agreements on government and agency debt, bank issued certificates of deposit, commercial paper and short-term corporate bonds.

Inflation Hedging

- Marketable Real Assets:
  Overview: This asset class includes underlying funds that invest in publicly traded securities and/or futures providing exposure to real estate investment trust (REIT), commodities and/or infrastructure funds.

  Details: The underlying funds that are hedge funds may utilize long/short equity and/or global macro-oriented investment approaches. The asset class portfolio may also invest in long-only equity and/or debt strategies, as well as domestic and global commodity indices and/or inflation-linked fixed income portfolios or indices. The underlying funds in which the asset class portfolio invests may have lock- up periods of varying durations and/or may impose early withdrawal fees. Traditionally, however, the lock-up period for these types of funds is less than one year.

- Private Real Assets:
  Overview: This asset class includes underlying funds that invest in private securities or properties providing exposure to real estate, commercial mortgage backed securities, energy, infrastructure, mining, timber and agriculture. This asset class portfolio may also invest primarily in direct investments or co-investments alongside underlying funds or underlying managers.

  Details: The underlying managers may specialize by geographic region and it is expected that a portion of the asset class portfolio will be invested in underlying funds that are based outside of the United States. These funds seek to provide higher expected returns when compared to the return of the marketable real assets fund as a result of a higher liquidity risk and manager alpha.

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