

**University of Colorado Foundation**  
**Long Term Investment Pool - Investment Policy Statement**  
**Approved: July 24, 2008**

**PURPOSE:**

The Foundation maintains three main categories of investments differentiated by the source and purpose of the funds:

- Long Term Investment Pool (LTIP) -- A pooled fund designed for endowed and similar long-term funds. LTIP funds are invested in a broad mix of asset classes.
- Short Term Investment Pool (STIP) -- A pooled fund designed for short-term, expendable funds. The total of STIP assets invested in the LTIP will be no more than 50% of the sum of University of Colorado Foundation unrestricted funds plus net callable funds. Net callable funds are defined as total callable funds minus capital construction funds. The remainder of the STIP will be invested in fixed income investments.
- Life Income Arrangements (LIA's) -- Funds managed by the University of Colorado Foundation typically as trustee under express trusts created by written agreements. LIA's are typically invested in mutual funds.

The remaining policy considerations apply only to the Long Term Investment Pool.

**FINANCIAL GOALS OF THE LTIP:**

- Provide a steady (and increasing) stream of funding for the University of Colorado.
- Maintain the real (inflation-adjusted) purchasing power of the investment assets over time.

Develop an investment program which provides a high probability of achieving investment risk and return objectives.

**INVESTMENT OBJECTIVES OF THE LTIP:**

***Return Objective:***

- The LTIP seeks to attain an average annual total return in excess of a Policy Index, net of investment management expenses, over a rolling five-year period. Consistent with an asset allocation that is 80% "equity like" and 20% "fixed income like" in terms of expected return and volatility, the Policy Index is a blend of 40% Russell 3000 Index, 40% MSCI EAFE and 20% Lehman Brothers Aggregate Bond Index.
- The Investment Policy Committee understands that in some periods the return will be less than the Policy Index and in some periods it will be greater.

### ***Risk Tolerance:***

- The LTIP seeks to attain a risk level (as measured by standard deviation over a rolling five-year period) below that of the Policy Index. The LTIP is willing to have meaningful levels of illiquid assets within the overall portfolio in order to enhance the returns necessary to achieve investment goals and objectives.
- The Investment Policy Committee understands that in some periods the risk level will be greater than the Policy Index and in some periods it will be less.

### ***Investment Constraints:***

- Time Horizon -- Although the LTIP has been established in perpetuity, the Investment Policy Committee has established a 20-year period of time as a frame of reference for long-term strategic investment considerations.
- Liquidity -- Spending levels and operational fees charged to the LTIP are determined by the University of Colorado Foundation Board of Directors. Liquidity must be sufficient to meet spending levels and operational fees charged.
- Diversification -- The LTIP should be properly diversified to ensure that adverse or unexpected developments arising in one security or asset class will not have a significant detrimental impact on the entire portfolio. Assets will be diversified by asset class, geography, security characteristics, etc.
- Prohibited Investments -- Use of futures, options, currencies, commodities and related derivatives may only be held or entered into when using outside investment managers – or with specific written permission of the Investment Policy Committee.
- Concentrated Positions -- Any new commitment to a single manager of more than 10% of the LTIP's asset value will require the written acknowledgment of the Investment Policy Committee Chair and Foundation CEO prior to funding.
- Leverage -- Leverage may be used only in portfolios managed by outside investment managers or for temporary liquidity purposes.
- Securities Lending -- A securities lending program may be implemented to provide additional income to the fund.
- Laws and Regulations -- The LTIP will be managed in a way that is sensitive to spending policies determined by the Board of Directors as well as any spending requirement imposed by the IRS. It is intended that the Foundation will comply with applicable federal and state laws including the Colorado Uniform Prudent Investor Act (C.R.S. Sections 15-1.1-101, *et seq.*, as amended from time to time) and the Colorado Uniform Management of Institutional Funds Act (C.R.S. Sections 15-1-1101, *et seq.*, as amended from time to time).

## INVESTMENT STRATEGIES OF THE LTIP:

- Individual asset classes have different return and risk characteristics, therefore making asset allocation decisions a primary consideration in formulating an investment strategy. The Investment Policy Committee also believes that while certain potentially high-return asset classes may pose substantial individual risk, they still may be prudently held because of their ability to enhance returns while maintaining or reducing overall portfolio risk. In addition to passive investment strategies (index funds, ETF's, etc.) the LTIP intends to use active management strategies where appropriate in order to provide exposure to certain asset classes and to earn excess returns, net of fees, over and above what those asset classes would provide a passive investor.
- The need to fund a mandated level of annual spending as well as preserving the purchasing power of the investment assets dictates an overall bias toward equity-like investments because of their inherent capital appreciation opportunities.

## PORTFOLIO REBALANCING:

- The purpose of rebalancing is to ensure that actual asset allocations do not drift too far from predetermined target allocations. Changes to asset allocation targets are typically motivated by market movements, contributions of new assets or cash withdrawals, new risk/return estimates, redeployment of investments to new managers, changing organizational preferences such as spending levels or overall risk tolerance, and consideration of new asset classes.
- The targeted allocation mix shall be formally reviewed at least annually to determine whether any modifications are necessary due to changing organizational preferences or needs.

Actual asset allocations relative to targeted allocations shall also be monitored on a quarterly basis. Asset classes that move significantly above or below the target allocation may require a formal review by the Investment Policy Committee, and if necessary a reallocation of assets to target levels.

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## ASSET ALLOCATION:

| <b>Asset Class</b>                   | <b>Target</b> | <b>Range</b> |
|--------------------------------------|---------------|--------------|
| <b>Equity- Like Investments</b>      | <b>80%</b>    |              |
| Global Public Equities               | 40%           | 20 - 70%     |
| Global Private Capital               | 20%           | 10 - 30%     |
| Global Hedge Funds                   | 20%           | 10 - 35%     |
| <b>Fixed Income-Like Investments</b> | <b>20%</b>    |              |
| Fixed Income and Cash                | 10%           | 5 - 20%      |
| Real Assets                          | 10%           | 5 - 20%      |
|                                      | <u>100%</u>   |              |

## **MANAGER, CUSTODIAN AND CONSULTANT REVIEW PROCESS:**

In addition to ongoing risk-adjusted performance analysis, investment manager contracts and fees will be monitored on an annual basis.

Custodian and Consultant relationship contracts, fees and performance will be reviewed every three years, or more frequently as needed.

## **INVESTMENT POLICY STATEMENT REVIEW PROCESS:**

The Investment Policy Statement may be altered or amended at any time by the University of Colorado Foundation Investment Policy Committee, but shall be formally reviewed at least annually by the Committee to determine whether any modifications are necessary. The Policy is subject to approval by the Foundation's Board of Directors.

Responsibilities of the Investment Policy Committee and Investment Department Staff are outlined in the Committee's Charter.

## **Appendix**

### **Asset Classes and other Investments used in the LTIP:**

#### **Equity-Like:**

- **Domestic Equities:** Equity investments in US companies are typically among the most liquid and well-researched opportunities. This class will typically be diversified in terms of style and capitalization and may use both active and passive investment strategies. Smaller capitalization, concentrated, and style-specific strategies may all be used to diversify the portfolio.
- **International Equities:** Equity investment opportunities outside of the United States shall be used as a portfolio diversification strategy. Exposure to international equities in developed and emerging markets provide opportunities to participate in growing economies outside of the United States, especially when business and market cycles are different than the domestic cycle.

The LTIP's strategy shall focus on developed economies with diversification among countries and currencies and may also include exposure to emerging markets.

The LTIP intends to diversify its international investments by selecting specialist managers representing different styles and market capitalization ranges. The Fund may hedge its currency exposures in order to prevent excessive currency risk.

- **Private Capital:** This asset class represents one of the most illiquid investment classes. Private equity, however, may offer attractive returns by exploiting market inefficiencies through various value added strategies. Included in this asset class are (i) equity or equity-like investments in companies that have undeveloped products or revenues and are not able or interested in accessing public capital markets ("venture capital"), (ii) equity investments in private or public companies that result in the purchase of a significant portion or majority control of the company ("leveraged buyouts"), and (iii) mezzanine investments in the subordinated debt and/or equity of privately owned companies.
- **Hedge Funds:** Hedge funds are intended to supplement traditional equity portfolios. Hedge funds generally combine long equity investments with short sales to reduce overall equity market exposure. Hedge funds are considered "return enhancers" but with lower volatility and statistical correlations to traditional equity market investments. Long/short hedged equity funds, however, are generally sensitive to the same market factors as the traditional investment markets. Absolute Return investments also fall under this category. Absolute return strategies have historically offered "equity-like" returns but typically exhibit "bond-like" volatility over extended periods. Absolute return investments include diverse strategies that attempt to identify or exploit pricing inefficiencies between related securities or involve transaction-based strategies that tend to have lower statistical correlations to traditional equity and fixed income markets. Examples of these strategies are convertible arbitrage, event-driven arbitrage, fixed income arbitrage, distressed securities, equity market-neutral, etc. These strategies are usually offered through partnership structures. These investments are intended to provide consistent positive returns in both normal and extreme market conditions for traditional equity and fixed income investments.

### **Fixed Income Like:**

- **Fixed Income and Cash:** The historical returns of fixed income investments are significantly lower than those of equity investments. The goal for the fixed income assets is to provide diversification for the total portfolio, reduce the overall volatility of the portfolio assets and generate periodic predictable cash flows that can be used in support of annual spending requirements. In order to respond to inherent interest rate risks associated with fixed income investments, the fixed income portfolio shall typically be diversified within various sub-classes and by investment style and strategy (such as duration, sector and quality). The LTIP may pursue both passive and active manager strategies with the objective of outperforming appropriate benchmarks net of fees. Cash and cash equivalent reserves are short-term fixed income investments and shall be used to fund necessary financial obligations at times when it is not desirable or practical to liquidate stock or bond investments. Because cash and cash equivalent reserves may earn a return lower than inflation, there could be a loss of real purchasing power with the holding of cash assets. Except in unusual circumstances, the Fund shall strive to be fully invested at all times with cash equivalent holdings being kept to a minimum level to support necessary spending/disbursement levels.
- **Real Assets:** Investments included in the Real Assets class shall include those assets whose primary purpose is to achieve overall portfolio diversification and to provide a potential hedge against inflationary pressures in the traditional investment markets. Investments in real estate and commodities (oil, gas, timber, etc.) are less highly correlated to the traditional markets yet may offer attractive returns.

### **Other – may be allocated as equity-like or fixed income-like based on the underlying beta source:**

- **Portable Alpha:** Portable Alpha strategies are those where managers separate alpha from beta by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This is a strategy that involves investing in areas that typically have little correlation with the broad market. If a portfolio manager can improve alpha by investing in securities that are not correlated with the beta of an existing portfolio, that manager will have created a portable alpha stream.