



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

I. DEFINITIONS

A. Purpose

As stated in the Foundation's corporate charter, the function of the Indiana University Foundation (hereinafter, "Foundation") is to raise, receive, hold, administer, invest and manage funds from donors wishing to benefit Indiana University. Funds donated to the Foundation for the benefit of the University may be maintained in the form of endowments, quasi-endowments, charitable trusts or other forms deemed appropriate. The purpose of this Investment Policy Statement is to establish a clear understanding of the investment objectives and philosophy for maintaining and enhancing Foundation assets.

This document will describe the standards utilized by the Investment Committee of the Foundation's Board of Directors (hereinafter, "Committee") in monitoring investment performance, as well as, serve as a guideline for any investment manager retained. This document will be reviewed at least annually by the Committee.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Foundation.

B. Scope

This document applies to assets that are a part of the Foundation and for which the Committee and investment managers have discretionary authority.

C. Investment Objective

The primary investment objective of the Foundation's asset management program is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum, maintaining the purchasing power of those assets managed by the Foundation. The assets are to be managed in a manner that will meet the primary investment objective, and where possible, to seek growth above the objective, while at the same time attempting to limit volatility for year-to-year spending.

D. Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence "about each asset in the context of the portfolio of investments, as part of an overall investment strategy." All investment actions and decisions must be based solely on what is in the best interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests. (Appendix A)



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Foundation to manage the Foundation's assets as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

E. Description of Roles

1. Investment Committee

The Committee is responsible for the following:

- a. Adopt the provisions of this Investment Policy Statement
- b. Monitor the performance of these assets on a regular basis
- c. Approve hire and dismissal of investment managers, custodians and consultants as needed
- d. Maintain sufficient knowledge about the Foundation and its managers to be reasonably assured of their compliance with the Investment Policy Statement
- e. Report to the Foundation Board of Directors
- f. Monitor the investment goals of the Foundation's Strategic Plan

2. Chief Investment Officer (CIO)

The CIO has daily responsibility for administration and oversight of the Foundation investments and will consult with the Committee and the investment consultant on matters relating to the investment of the Foundation. The CIO will serve as primary contact for the Foundation's investment managers, investment consultant, and custodian. Additional responsibilities include:

- a. Communicating investment policies and results to University personnel as required
- b. Receive and process gifts of securities
- c. Remain informed about the evolving financial markets, risks, and opportunities in order to most effectively serve IUF in achieving its goals and objectives
- d. Manage "re-ups" with existing managers. (Appendix B)

3. Investment Consultant

The investment consultant is responsible for assisting the Committee and CIO in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

investment education and investment manager information. On an ongoing basis the consultant will:

- a. Provide proactive recommendations
- b. Supply the Committee with reports (e.g. asset allocation studies, investment research and education) or information as reasonably requested
- c. Monitor the activities of each investment manager or investment fund
- d. Provide the Committee with quarterly performance reports

F. Spending Policy

The Foundation will distribute 5% of the 12-quarter rolling average of the market value of the Pooled Long-Term Fund. The Foundation will distribute net income from the Pooled Intermediate-Term Fund.

II. INVESTMENT PHILOSOPHY

A. Strategy

Endowment assets will be invested in the Foundation's Pooled Long-Term Fund. Operating funds will typically be invested in the Pooled Short-Term Fund. An additional option is the Pooled Intermediate-Term Fund, which will fill a need for those operating funds that are due to be spent 6 months to 2 years from the time the cash is received.

The Committee understands the long-term nature of the endowment assets and believes that investing in assets with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities, including real assets (real estate and natural resources). Real assets provide the added benefit of inflation protection.

Fixed income and absolute return strategies will be used to lower short-term volatility and provide stability, especially during periods of deflation and negative equity markets. Cash is not a strategic asset of the Pooled Long-Term Fund, but is a residual to the investment process and used to meet short-term liquidity needs.

IUF may charge a reasonable administrative management fee to the Pooled Funds.

B. Asset Allocation

Asset allocation will likely be the key determinant of the Foundation's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total portfolio, rather than judging asset categories on a stand alone basis.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the Pooled Long-Term Fund asset allocation will be set with the following target percentages and within the following ranges:

<u>ASSET CATEGORY</u>	<u>TARGET</u>	<u>RANGE</u>
GLOBAL EQUITY	65%	50-80%
<i>Public Equity - Long Only</i>	<u>42</u>	20-60
U.S. Equities	21	10-30
<i>Large Cap</i>	8	
<i>Mid Cap</i>	6	
<i>Small Cap</i>	7	
International Equities	21	10-30
<i>Developed Large Cap</i>	10	
<i>Developed Small Cap</i>	5	
<i>Emerging Markets</i>	6	
<i>Hedge Funds - Directional</i>	<u>8</u>	0-15
<i>Private Equity</i>	<u>15</u>	5-25
Venture Capital	5	
Buyout/Special Situations	10	
GLOBAL FIXED INCOME	8%	5-25%
<i>Investment Grade - Interest Rate Sensitive</i>	<u>5</u>	3-15
<i>Non-Investment Grade - Credit Sensitive</i>	<u>3</u>	0-10
REAL ASSETS	15%	10-20%
<i>Real Estate</i>	<u>8</u>	0-10
Public (REITs)	2	
Private	6	
<i>Natural Resources</i>	<u>7</u>	0-10
Private Energy	4	
Timber	3	
HEDGE FUNDS - ABSOLUTE RETURN	12%	7-15%
CASH	0%	0-10%



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

C. Active and Passive Management

The asset allocation will be implemented using both active and passive investment managers. Highly efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies due to the low probability of traditional active management outperforming an appropriate benchmark.

D. Rebalancing

The CIO will monitor the asset allocation structure of the Foundation and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges the CIO will develop a plan of action to rebalance. In many cases the additions of new money or withdrawals for spending will be used to rebalance in a cost effective manner.

E. Liquidity

A goal of the Foundation is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The tradeoff between appropriateness and liquidity will be considered throughout the portfolio construction process.

F. Illiquid and Semi-Liquid Investments

Illiquid investments include private equity, private real estate, and natural resources. Hedge funds are considered semi-liquid due to lock-up periods, redemption restrictions, and in some cases, illiquidity of the underlying investments.

1. Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and maintain a properly diversified position. Individual funds may be concentrated in a particular sector, stage, or geographic region, but the overall private equity allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The target allocations to venture capital, buyout, and special situations (distressed, mezzanine, infrastructure etc.) will serve as a guideline for committing capital. As commitments to private equity are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

b. **Vintage Year**

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. **Manager**

Investments should be considered with several private partnerships (directly and through fund of funds) to mitigate manager specific, as well as deal specific risk.

d. **Stage**

Investments should be considered across the life cycle of businesses. Within venture capital, this includes early, mid, and late stage companies. Buyout investments consist of small, mid, and large market firms, and may be in the form of traditional buyouts, growth equity, recapitalizations, or restructuring.

e. **Geography**

Investments should be considered across the U.S. and internationally (developed and emerging markets).

f. **Sector**

The portfolio should be diversified by sector, as well as across industries within a sector.

2. **Private Real Estate**

The objective of the private real estate allocation is to provide low correlation to public equity and fixed income markets and serve as an inflation hedge.

For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual funds may be concentrated in a particular region or property type, but the overall real estate allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Sub-Category**

Private real estate investments should be considered in either value-added or opportunistic funds, which are designed to generate excess return for the overall real estate allocation. These strategies typically require some lease-up, development or repositioning, as well as utilize more leverage than public REITs. As commitments to private real estate are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.

c. Manager

By combining a public REIT allocation as a core holding (also provides liquidity) with investments in several private partnerships, manager specific, as well as property specific risk, within the real estate allocation can be diminished.

d. Geography

Investments should be considered across the U.S. and internationally.

e. Property Type

The portfolio should be diversified across property types (e.g. apartments, office, industrial, and retail).

3. Natural Resources (Private Energy and Timber)

The objective of the natural resources allocation is provide low correlation to the public equity and fixed income markets and serve as an inflation hedge. These investments should be primarily in the private markets, which offer inefficiencies that can be exploited.

For the natural resource allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. Individual investments may be concentrated in a particular region, production stage, or commodity exposure, but the overall allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. Sub-Category

The target allocations to energy and timber investments will serve as a guideline for committing capital. As commitments to natural resources are drawn down and invested over a period of years, and distributions are returned, the committed capital will be greater than the target allocation in order to reach the target market value.

b. Vintage Year

Capital should be committed continuously and thoughtfully over time. Returns are highly dependent on market cycles and stage of the investment cycle. A portfolio diversified by vintage years will reduce unnecessary risk and provide more consistent long-term returns.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

c. **Manager**

Investments should be committed to several private partnerships to mitigate manager specific, as well as deal specific risk.

d. **Geography**

Investments should be spread across the U.S. and internationally.

e. **Stage/Type**

i. **Energy**

Investments in energy funds will focus primarily on the upstream end of the energy market with development and production, and to a lesser extent exploration. Exposure to the upstream markets will be gained through private equity investments, working interests, and royalty interests. Investment in downstream activities such as refining, transmission, and distribution may be considered opportunistically. Upstream markets offer two primary benefits:

- 1) Inefficiencies, which offer attractive investment opportunities, and
- 2) Exposure to the underlying commodity (oil and gas), which provides an inflation hedge.

ii. **Timber**

Investments with Timber Investment Management Organizations (TIMOs) should be diversified by wood type (hard and softwood, species, etc.). Investing in TIMOs exposes the portfolio to timber prices, providing inflation protection, with the potential to generate additional return through the underlying management of the timberland.

4. **Hedge Funds**

The objective of the hedge fund allocation is to diversify Foundation assets and provide returns with low correlation to the public equity and fixed income markets via structural advantages, including controlling market exposure through hedging and increased exposure to manager skill through unconstrained investment management and opportunistic investing.

Hedge funds are not an asset class, but rather an investment vehicle. The majority of hedge funds will have a “lock-up” period of 1-3 years from the date of investment, during which money generally cannot be withdrawn. Once the lock-up period expires, most hedge funds will then allow redemptions only at scheduled intervals (quarterly, semi-annually, etc.). Hedge funds, therefore, are semi-liquid investments due to the structure of the vehicle rather than the underlying investments (which may or may not be liquid).

For the hedge fund allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to skilled managers and be diversified. Individual hedge funds may be concentrated on a particular strategy, market or geographic region, but the overall



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

allocation should be diversified. A prudent investment strategy will consider the following areas for diversification.

a. **Strategy**

The hedge fund universe can be divided into two broad categories: Absolute Return and Directional. Below are the definitions and examples of these strategies.

i. **Absolute Return**

These strategies are generally non-directional (not correlated to the markets) and tend to utilize multiple strategies that seek to exploit idiosyncratic (unique, non-market) risks that are not impacted by broad economic, political, or social events. Examples of these strategies include: Equity Market Neutral, Fixed Income Arbitrage, Merger Arbitrage, Convertible Arbitrage, and Relative Value Arbitrage.

ii. **Directional (Equity Hedge)**

These strategies tend to opportunistically invest in a broadly defined market with few constraints. As directional strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, use leverage, and actively manage market exposure. Examples of these strategies include Equity Hedge, Event-Driven, Global Macro, Distressed Securities, Emerging Markets, and Short Selling.

b. **Manager Diversification**

An allocation to fund of funds or multiple investments in direct funds will mitigate manager specific, as well as strategy specific risk

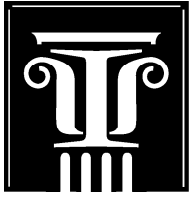
III. **Evaluation and Performance Measurement**

A. **Benchmarks**

The Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Foundation may produce significant deviations relative to the benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

1. The primary objective of the Foundation is to achieve a total return, net of fees, equal to or greater than spending, administrative fees, and inflation. The primary objective of the Foundation is:

$$\text{Return} \geq \text{Consumer Price Index} + \text{Spending Policy} + \text{Administrative Fees} \\ (\text{CPI} + 6\%)$$



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

2. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark comprised of each broad asset category benchmark weighted by its target allocation.

The current Broad Policy Benchmark is:

WEIGHT	INDEX	ASSET CATEGORIES
50%	Russell 3000	U.S. Equity / Real Assets
25	MSCI ACWI ex-US	International Equity / Real Assets
25	LB Aggregate Bond	Global Fixed Income / Absolute Return / Real Assets

3. Another investment objective is to achieve a total return in excess of the Target Weighted Index comprised of each asset category benchmark weighted by its target allocation. The Target Weighted Index will be adjusted periodically to match the actual allocation, due to the illiquid investments long time period needed to draw down capital. Upon completion of achieving the target asset allocation the Target Weighted Index will be comprised of:

WEIGHT	INDEX	ASSET CATEGORY
8%	S&P 500	U.S. Large Cap
6	Russell Midcap	U.S. Mid Cap
7	Russell 2000	U.S. Small Cap
10	MSCI EAFE	International Developed
5	MSCI EAFE Small Cap	International Small Cap
6	MSCI Emerging Markets	Emerging Markets
8	U.S. T-Bills + 5%	Hedge Funds- Directional
15	Venture Economics Pooled Average	Private Equity
5	LB Aggregate Bond (LBAG)	Investment Grade Bonds
3	75/25 Blend LBAG & ML High Yield	Fixed Income Credit
2	FTSE EPRA/NAREIT Global Real Estate	Global REITs
6	NCREIF Property	Private Real Estate
4	CPI + 6%	Private Energy
3	NCREIF Timberland	Timber
12	U.S. T-Bills + 5%	Hedge Funds- Absolute Return

B. Manager Evaluation

1. Each active liquid (and hedge fund) investment manager will be reviewed by the Committee on an ongoing basis and evaluated upon the criteria listed below. The Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may significantly underperform their benchmarks. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:
- Stability of the organization
 - Retention of key personnel



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

- c. Absence of regulatory actions against the firm, its principals, or employees
 - d. Adherence to the guidelines and objectives of this Investment Policy Statement
 - e. Consistency in the style and capitalization characteristics defined as “normal” for the manager
 - f. Performance compared to the appropriate benchmark and, for equity managers, produce positive risk-adjusted return (alpha)
 - g. Performance compared to a peer group of managers with similar styles of investing
2. Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above as well as the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundation already has invested with the firm.

C. Summary of Quantitative Performance and Risk Objectives

1. Liquid and Semi-Liquid Active Managers

The following table summarizes the performance objectives for the liquid and semi-liquid (hedge funds) active managers. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager’s personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure. These managers are expected to outperform their primary benchmark, and the equity (and REIT) managers are expected to maintain a beta (vs. the primary benchmark) of less than 1.20.

ASSET CATEGORY	PRIMARY BENCHMARK	PEER UNIVERSE
Global Equity		
U.S. Large Cap	S&P 500	Top 40%
U.S. Mid Cap	Russell Midcap	Top 40%
U.S. Small Cap	Russell 2000	Top 40%
International Developed	MSCI EAFE	Top 40%
International Small Cap	MSCI EAFE Small Cap	Top 40%
Emerging Markets	MSCI Emerging Markets	Top 40%
Directional Hedge Fund	U.S. T-bills + 5%	
Global Fixed Income		
Investment Grade Bonds	LB Aggregate Bond	Top 40%
Credit	75% LB Aggregate Bond+25% ML HY ¹	-
Real Estate		
U.S. REITs	Wilshire REIT Index	Top 40%
International REITs	FTSE EPRA/NAREIT Global RE	Top 40%
Absolute Return Hedge Funds	U.S. T-bills + 5%	

¹ Benchmark of current manager. Subject to revision if new managers are hired.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

2. **Public Liquid Passive Managers**

Passive (or index) managers are expected to approximate the total return of its respective benchmark. The beta for passive equity managers should approximate 1.00.

3. **Private Illiquid Managers**

The majority of private equity, private real estate, and natural resource Foundations will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Foundation may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on Foundation performance in the early years (3-5 years) until these investments begin to mature. This drag on performance is often referred to as the J-curve, due to the shape created by plotting a line graph with performance on the y-axis and time on the x-axis. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations, measuring the multiple of invested capital, and compared to an appropriate peer group. An IRR calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private equity, private real estate, and natural resource managers.

a. **Private Equity**

Returns will be compared to the appropriate peer group in the Venture Economics universe of similar style (buyout or venture capital) and vintage year.

b. **Private Real Estate**

Returns will be compared to the NCREIF Property Index, which is reported on a time-weighted basis, but will be translated into an IRR for measurement purposes.

c. **Timber**

Returns will be compared to the NCREIF Timberland Index, which is reported on a time-weighted basis, but will be translated into an IRR for measurement purposes.

d. **Energy**

There are no suitable benchmarks for private energy. Private energy funds are utilized as an inflation hedge and thus, their returns will be compared to CPI + 8%.

IV. GUIDELINES & RESTRICTIONS

A. **Overview**

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Foundation's investments.

The requirements stated below apply to investments in non-mutual and non-pooled fund, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Committee cannot dictate policy to pooled/mutual fund investment managers, the Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this Investment Policy Statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each traditional equity and fixed income investment manager shall:

1. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement
2. Immediately notify the CIO and consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel
3. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management

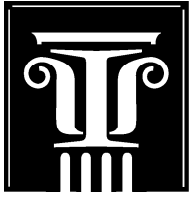
B. Public Equity Manager Guidelines (including REITs)

Each active equity investment manager shall:

1. Maintain a fully invested portfolio, with no more than 10% allocated to cash equivalents
2. Maintain a reasonably diversified portfolio
3. Construct a properly diversified portfolio across sectors, industries, and for international/global mandates, countries
4. U.S. equity managers should have no more than 20% of the total portfolio invested in foreign stocks or American Depository Receipts (ADRs)
5. Vote proxies and share tenders in a manner that is in the best interest of the Foundation and consistent with the investment objectives contained herein

C. Public Fixed Income Manager Guidelines

1. Each investment grade fixed income investment manager shall:
 - a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's
 - b. Hold no more than 10% of the portfolio in below investment grade (Baa/BBB) securities. (Split rated securities will be governed by the lower rating)
 - c. Maintain a duration within +/-20% of the effective duration of the appropriate benchmark
 - d. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies. No more than 25% of the portfolio market value may be invested in any one industry.
2. Each high yield/bank loan investment manager shall:
 - a. Maintain an overall weighted average credit rating of B or better by Moody's and Standard & Poor's



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

- b. Hold no more than 20% of the portfolio in investments rated below B. (Split rated securities will be governed by the lower rating)
- c. Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U. S. government or its agencies. No more than 25% of the portfolio market value may be invested in any one industry.

D. Illiquid and Semi-Liquid Investment Guidelines

Each investment will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have these documents reviewed by independent legal counsel. As these investments are typically private limited partnerships or offshore corporations, the Committee cannot dictate policy. The Committee, however, can request side letters for revisions or addendums to the Limited Partnership Agreement. The manager is ultimately responsible to manage investments in accordance with the Private Placement Agreement (PPM) and Limited Partnership Agreement.

The Foundation is a tax-exempt organization, but certain investments may be subject to taxation on Unrelated Business Taxable Income (UBTI). Given that net risk-adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the investment analysis and selection process. The Foundation shall seek to minimize the UBTI impact on the portfolio by selecting investment structures and geographic locations most beneficial to the Foundation.

Abusive Tax Shelters and Listed Transactions

The Internal Revenue Service has identified specific listed transactions considered to be abusive as detailed in § 1.6011-4 **Requirement of statement disclosing participation in certain transactions by taxpayers**. A listed transaction is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction.

The Indiana University Foundation will comply with the form, substance, spirit, and letter of such laws and regulations. As agents of the Foundation contracted to perform specific investment management activities, each investment manager is prohibited from marketing to, or otherwise engaging the Foundation in these listed transactions. Should any of the investment vehicles currently held for the benefit of the Foundation be classified by the IRS as an abusive tax shelter subsequent to the original engagement, each manager is required to notify their Foundation contact immediately and make every effort to divest of this transaction. Such notification should include a detailed listing of any investment transactions or activities performed on the Indiana University Foundation's behalf and the plan to divest these investments.

E. Derivative Security Guidelines

- 1. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), collateralized loan obligations (CLOs), principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, forward contracts, swaps, options, short sales, and margin



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:

- a. Manager's proven expertise
 - b. Value added by utilizing derivatives
 - c. Liquidity of instruments
 - d. Amount of leverage
 - e. Management of counterparty risk
 - f. Manager's internal risk controls and procedures
2. The strategies in which derivatives may be used are:
- a. Index Funds – Derivatives (typically futures contracts) will be used to securitize cash in order to fully replicate the performance of the index being tracked.
 - b. Portable Alpha – Derivatives (typically futures or swaps) will be used to generate “beta”, while the notional exposure amount is actively managed to generate “alpha”.
 - c. Fixed Income – Derivatives will be used as a cost efficient means to control and/or hedge risks such as duration, credit, and currency.
 - d. Overlay/Transition Management – Derivatives (typically futures contracts) will be used to securitize cash to maintain the target asset allocation without buying and selling physical securities.
 - e. Hedge Funds – Derivatives will be used for many purposes. These uses include hedging, risk management, leverage, and market exposure.

V. ACKNOWLEDGEMENT

We recognize the importance of adhering to the philosophy and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to this Investment Policy Statement or the manner in which investment performance is reviewed are welcome.

Indiana University Foundation

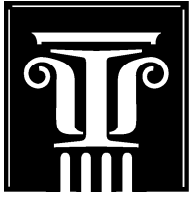
(Date)

Investment Manager

(Date)

Fund Evaluation Group, LLC

(Date)



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

Appendix A **Conflict of Interest Policy** (In conjunction with existing IUF policy)

Below are a set of guidelines for evaluating investments for the Foundation that may have a perceived or real conflict of interest involving an IUF Board Member or individuals in a position of influence including IU trustees and major donors. These guidelines serve as a first set of hurdles to clear before a potentially conflicted investment opportunity would be considered via the full due diligence process.

- No first time funds excluding those in an evergreen format that meet the criteria below
- Minimum of 3 years in business
- The Firm must have at least \$100 million in invested/committed capital
- The manager must have demonstrated top quartile performance in previous/existing investments relative to an appropriate peer group. It is recognized that private equity peer measurement becomes more meaningful as the time period is lengthened, therefore the age of the funds must be factored in to the judgment so that this is not the sole criteria for exclusion.
- IUF's investment may be no more than 10% of the total fund size

If an investment passes the initial screen, passes subsequent due diligence by Staff, and is brought to the appropriate committee for approval:

- The interested party must fully disclose any potential conflicts and completely recuse him/herself from the discussion of the recommended investment.
- The process must be well documented that all appropriate steps have been taken to prove that conflicts of interest were minimized.



INDIANA UNIVERSITY FOUNDATION

Investment Policy Statement

Appendix B Procedures for Fund “Re-ups”

The procedure to invest in a subsequent fund from an *existing* manager that staff deems to be attractive are as follows:

- Staff will email an overview of the investment recommendation to the committee and solicit feedback. If there are no objections or concerns within a designated time period (5 business days) staff will proceed with the investment.
- No single alternative manager may represent more than 5% of the portfolio in cumulative commitments without a full meeting review (i.e. \$80 million across strategies with any one Firm with total portfolio value at \$1.6B. For example, IUF has exposure to Blackstone Capital, Blackstone Real Estate, and Blackstone Strategic Alliance hedge fund, the total of which would be included in the calculation for this parameter).
- Any re-up commitment greater than 1% of the total portfolio value will be reviewed by full committee
- All recommendations shall be within the asset allocation targets established by the committee

In addition staff has been given authority to add up to \$3 million to existing hedge fund managers as capacity becomes available and after notifying the Committee Chair.