

Investment Performance and Policies
June 30, 2006

THE PORTFOLIO AND ITS MANAGEMENT

At June 30, 2006, the market value for total investments of the University at Buffalo Foundation amounted to \$327.7 million, as compared to \$295.2 million in 2005. These funds are managed under the supervision of the foundation's trustee investment committee. Twenty professional investment managers share in the administration of the portfolio, with performance monitored by the trustees. Included in this total are certain investments, known as the Endowment Portfolio, having a market value of \$293.7 million at June 30, 2006, which are managed and administered on a pooled basis.

INVESTMENT STRATEGY

The primary investment objective is to maximize total investment return while preserving the inflation-adjusted purchasing power of the portfolio. This should provide a relatively predictable, constant and stable (in real terms) stream of funds for current use. Total investment return is the sum of interest, dividends and capital appreciation.

ENDOWMENT PORTFOLIO PERFORMANCE COMPARED TO BENCHMARKS FOR FISCAL YEAR 2006

Total Return	
Endowment Portfolio	11.9%
Policy Benchmark *	11.0%
U.S. Equity Managers	
Endowment Portfolio	11.6%
S&P 500 *	8.6%
Russell 3000 Index	9.6%
Non-U.S. Equity Managers	
Endowment Portfolio	25.8%
MSCI EAFE *	27.1%
MSCI EAFE Small Cap *	26.3%
MSCI Emerging Markets Free *	35.9%
Real Estate	
Endowment Portfolio	23.9%
MS REIT Index *	19.7%
Fixed Income Managers	
Endowment Portfolio-Fixed Income Composite	1.3%
LB Aggregate Bond Index *	-0.8%
Hedge Fund of Funds	
Endowment Portfolio	10.2%
90 Day Treasury Bills + 4%	8.0%
Private Equity	
Endowment Portfolio	18.7%
Russell 3000 Index	9.6%

* Key to Indices

Policy Benchmark: Comprised of 24.5% Russell 3000 Index, 5% Lehman USTIPS, 20% LB Aggregate Index, 3.5% Citigroup High Yield Market Index, 5% JPM EMBI Global, 13.6% MSCI EAFE, 6% MSCI Emerging Markets Free, 3.4% MSCI EAFE Small Cap, 4% MS REIT Index, and 15% 90 Day T-Bills + 4%

S&P 500: Standard and Poors 500 Index

MSCI: Morgan Stanley Capital International

LB: Lehman Brothers

CSFB: Credit Suisse First Boston

MS: Morgan Stanley

JPM: JP Morgan

ENDOWMENT PORTFOLIO PERFORMANCE COMPARED TO BENCHMARKS FOR FISCAL YEARS 1996-2005

The accompanying chart reflects the 10-year performance for the Endowment Portfolio in comparison with more than 600 other colleges and universities across the country.

Average Annual Compounded Nominal Return Fiscal Years Ended June 30

	Total Return	NACUBO Mean*	# of Funds*	UBF Rank*	Percentile Rank*
2005	10.6%	9.3%	678	195	29
2003-05	10.5%	9.1%	633	150	24
2001-05	4.6%	3.3%	552	139	26
1996-2005	8.9%	9.3%	463	266	58

* Latest available comparative numbers according to the 2005 National Association of College University Business Officers' Endowment Study Report.

ASSET ALLOCATION POLICY

The proper distribution of investments among various asset classes allows the foundation to honor spending policies, maintain risk tolerance and stability, produce appropriate investment returns, and achieve long-term objectives.

Asset allocation at June 30, 2006, was as follows:

<u>By Manager Type</u>	<u>Endowment Portfolio</u>	<u>Immediate Term Targets</u>	<u>Long Term Targets</u>
U.S. Equity	21.0%	21.0%	17.0%
International Equity	20.9%	21.0%	17.0%
Emerging Market Equity	5.9%	6.0%	6.0%
REIT	5.2%	5.0%	5.0%
Private Equity	2.3%	7.0%	15.0%
Hedge Fund of Funds	14.2%	15.0%	15.0%
Inflation Linked Bonds	4.4%	5.0%	5.0%
Emerging Market Debt	5.0%	5.0%	5.0%
Fixed Income – Core US	17.9%	10.0%	10.0%
Fixed Income – High Yield	<u>3.2%</u>	<u>5.0%</u>	<u>5.0%</u>
	100.0%	100.0%	100.0%

NOTE: *Targets adopted as of March 1, 2006. Intermediate term target is goal for 2008.
Long term target is goal for 2010.*

SPENDING POLICY

Spending is defined as funds made available from the portfolio for university programs and administrative expenses, exclusive of management, brokerage and custodial fees. A formula governs the portion of total return made available each year for spending with an objective of maintaining its purchasing power relative to inflation. This formula allows spending to increase by the predetermined annual growth rate of 3 percent as long as spending stays within 3.5 percent and 6 percent of the three-year average market value of principal.