

Investment Performance and Policies June 30, 2007

The Portfolio and its Management

At June 30, 2007 the market value for total investments of the University at Buffalo Foundation amounted to \$379.6 million, as compared to \$327.7 million in 2006. These funds are managed under the supervision of the foundation's board investment committee. Eighteen professional investment managers currently 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 \$342.2 million at June 30, 2007, 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 2007

| | |
|--|-------|
| Total Return | |
| Endowment Portfolio | 16.4% |
| Policy Benchmark * | 17.9% |
| U.S. Equity Managers | |
| Endowment Portfolio | 18.4% |
| S&P 500 * | 20.6% |
| Russell 3000 Index | 20.1% |
| Non-U.S. Equity Managers | |
| Endowment Portfolio | 28.5% |
| MSCI EAFE * | 27.5% |
| MSCI EAFE Small Cap * | 23.1% |
| MSCI Emerging Markets Free * | 45.5% |
| Real Estate | |
| Endowment Portfolio | 11.3% |
| MS REIT Index * | 12.1% |
| Fixed Income Managers | |
| Endowment Portfolio-Fixed Income Composite | 5.3% |
| LB Global Aggregate Index * | 4.8% |
| Hedge Fund of Funds | |
| Endowment Portfolio | 11.2% |
| 90 Day Treasury Bills + 4% | 9.4% |
| Private Equity | |
| Endowment Portfolio | 11.3% |
| Russell 3000 Index + 4% | 24.9% |

* Key to Indices

| | |
|-------------------|---|
| Policy Benchmark: | Comprised of 22.8% Russell 3000 Index, 5% Lehman USTIPS, 4% JPM EMBI Global, 18.2% MSCI EAFE, 6% MSCI Emerging Markets Free, 4.5% MSCI EAFE Small Cap, 5% MS REIT Index, 15% 60 Day T-Bills + 4%, 3.5% Russell Index + 4%, 8.1% LB Global Aggregate Index (Hedged), 4% LB Global Aggregate Credit Index, and 4% ML Global High Yield Index. |
| 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 |
| ML: | Merrill Lynch |

Endowment Portfolio Performance Compared to Benchmarks for Fiscal 1997-2006

The accompanying chart reflects the ten-year performance for the Endowment Portfolio in comparison with 700 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* |
|-----------|-----------------|-----------------|----------------|--------------|---------------------|
| 2006 | 11.9% | 10.7% | 700 | 244 | 35 |
| 2004-2006 | 13.3% | 11.9% | 656 | 187 | 29 |
| 2002-2006 | 7.3% | 6.3% | 589 | 153 | 26 |
| 1997-2006 | 8.3% | 8.8% | 477 | 283 | 60 |

* Latest available comparative numbers according to the 2006 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, 2007 was as follows:

| <u>By Manager Type</u> | <u>Endowment Portfolio</u> | <u>Immediate Term Target</u> | <u>Long Term Target</u> |
|---------------------------|--------------------------------|----------------------------------|-----------------------------|
| U.S. Equity | 22.9% | 21.0% | 17.0% |
| International Equity | 24.2% | 21.0% | 17.0% |
| Emerging Market Equity | 6.8% | 6.0% | 6.0% |
| REIT | 5.0% | 5.0% | 5.0% |
| Private Equity | 4.5% | 7.0% | 15.0% |
| Hedge Fund of Funds | 14.2% | 15.0% | 15.0% |
| Inflation Linked Bonds | 4.3% | 5.0% | 5.0% |
| Global Bond | 7.3% | 8.0% | 8.0% |
| Multi-Sector Fixed Income | <u>10.8%</u> | <u>12.0%</u> | <u>12.0%</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% as long as spending stays within 3.5% and 6% of the three-year average market value of principal.