

Investment Performance and Policies June 30, 2011

The Portfolio and its Management

At June 30, 2011 the market value for total investments of the University at Buffalo Foundation and Affiliates (UBF) amounted to \$685.2 million, as compared to \$632.9 million in 2010. These funds are managed under the supervision of UBF's board investment committee. More than forty 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 and having a market value of \$626.6 million at June 30, 2011, which are managed and administered on a pooled basis.

Endowment Portfolio 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 2011

		<u>Total Return</u>			
		Endowment Portfolio	20.1%		
		Policy Benchmark	19.1%		
 <u>US Equity Managers</u>			 <u>Real Assets</u>		
Endowment Portfolio	30.1%			Endowment Portfolio	39.1%
S&P 500	30.7%		S&P North American		
Dow Jones US Total			Natural Resources	44.3%	
Stock Index	32.4%				
 <u>Non-US Equities</u>			 <u>Fixed Income</u>		
Endowment Portfolio	28.5%		Endowment Portfolio	8.3%	
MSCI AC World ex USA Net	29.7%		BC Aggregate	3.9%	
 <u>Hedge Funds</u>			 <u>Private Equity</u>		
Endowment Portfolio	7.1%		Endowment Portfolio	21.7%	
HFR Fund of Funds	6.7%		Venture Economics		
			All Private Equity Index	12.7%	

Key to Indices

Policy Benchmark: Comprised of 16% S&P 500, 5% MSCI Prime Market Growth, 17% MSCI EAFE Index, 6% MSCI Emerging Markets Index, 6% BC Aggregate, 6% Citi World Govt Bond Index, 5% BC US TIPS, 2% 91 Day T-Bill, 20% HFR Fund of Funds, 5% S&P North American Natural Resources Sector Index, 1.5% NCREIF Townsend Blended Index, 9.0% Venture Economics All Private Index, 1.5% Mercer Illiquid Natural Resources Index

S&P 500: Standard and Poors 500 Index
 MSCI: Morgan Stanley Capital International
 HFR: Hedge Fund Research, Inc.
 NCREIF: National Council of Real Estate Investment Fiduciaries

EAFE: Europe, Australia, Far East
 BC: Barclays Capital
 DJ: Dow Jones

Endowment Portfolio Performance Compared to Benchmarks for Fiscal 2002-2011

The accompanying chart reflects the ten-year performance for the Endowment Portfolio in comparison with over 700 other colleges and universities across the country.

**Average Annual Compounded Nominal Return
Fiscal Years Ended June 30**

	Total Return	NCSE Median*	# of Funds*	UBF Percentile Rank*
2011	20.1%	19.2%	765	47
2009-2011	2.2%	3.1%	682	68
2007-2011	3.5%	4.7%	646	79
2002-2011	5.2%	5.6%	456	64

* Compiled by Mercer Investment Consulting, Inc. using data previously published in the 2011 NACUBO - Commonfund Study of Endowments (NCSE).

Asset Allocation Policy

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

Asset allocation at June 30, 2011 was as follows:

<u>By Manager Type</u>	<u>Endowment Portfolio</u>	<u>Current Target</u>	<u>Long Term Target</u>
<u>Growth Assets</u>			
• <u>US Equity</u>			
- Large	5.8%	6.0%	3.0%
- Large Growth	4.0%	5.0%	5.0%
- Large Quality	9.6%	10.0%	9.0%
• <u>International Equity</u>			
- Large	17.1%	17.0%	13.0%
- Emerging Markets	6.1%	6.0%	5.0%
• <u>Private Equity</u>	10.6%	9.0%	15.0%
<u>Risk Reduction Assets</u>			
• Cash	.6%	2.0%	----
• US Fixed Income	6.0%	6.0%	6.0%
• Global Fixed Income	5.8%	6.0%	6.0%
• Hedge Funds	19.0%	20.0%	20.0%
<u>Inflation Protection Assets</u>			
• US Inflation Protected Fixed	6.6%	5.0%	3.0%
• Real Assets	8.8%	8.0%	15.0%
TOTAL	100.0%	100.0%	100.0%

NOTE: Targets adopted as of December 31, 2010. Long term target is goal for 2015.

Spending Policy

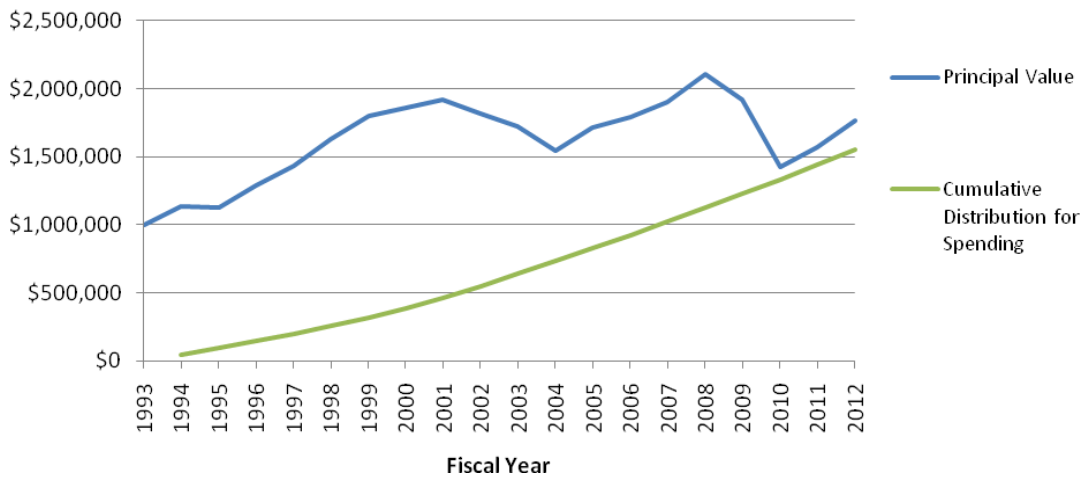
Spending is defined as funds made available from the portfolio for university programs and administrative expenses, exclusive of management, brokerage and custodial fees.

A formula governs the portion of total return made available each year for spending with an objective of maintaining 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. Special spending rules are followed for individual endowments where the value has fallen below historic dollar value.

Endowment Portfolio Performance – 1993 to 2012

A \$1,000,000 gift on July 1, 1992 invested in the Endowment Portfolio would have been worth \$1,763,429 as of June 30, 2011, and prior to the fiscal year 2012 distribution. In addition, \$1,551,536 would have been distributed for spending needs over the same period.

Performance of \$1,000,000 Endowment



A \$1,000,000 gift on July 1, 1992 invested in the Endowment Portfolio would have generated \$47,802 for spending in Fiscal Year 1994, with the annual distribution growing to \$109,659 for Fiscal Year 2012. This annual growth in spending compares favorably to inflation rate growth over this same period.

Annual Spending from \$1,000,000 Endowment

