

University of Louisville Endowment Fund Statement of Investment Objectives and Guidelines

Approved June 15, 2006

Increase Percentage Rate for Advancement Activities September 4, 2008

Allocation Table Amended December 1, 2009

Spending Calculations for Underwater Endowments March 14, 2011

I. INTRODUCTION

The mission of the University of Louisville Foundation (the “Foundation”) is to provide financial support to the University of Louisville, a public institution of higher learning located in Louisville, Kentucky. The primary purpose of this document is to identify and present a formal set of investment objectives and performance standards in order that the Board of Directors of the Foundation and its Finance Committee can be assured that the assets of the Foundation, including those of the Endowment Fund (the “Fund”), are managed in accordance with generally accepted standards and in a manner consistent with the financial needs of the University.

Specifically, this document will address the following:

1. The responsibilities of the various parties involved in the management of the Foundation.
2. Overall investment objectives and performance standards.
3. Overall fund guidelines and asset allocation.
4. Fund component guidelines.
5. Relationship with the investment managers.

This Statement of Investment Objectives and Guidelines will be communicated to each of the Fund’s investment managers for their use in developing appropriate investment programs. This statement may be supplemented or changed when the Finance Committee or the Board of Directors deems it appropriate. The investment advisors are expected to propose revisions to the policy any time the existing guidelines would impede meeting the Foundation’s investment objectives.

II. DELEGATION OF RESPONSIBILITIES

A. BOARD OF DIRECTORS

Ultimate responsibility for the governance of the University of Louisville Foundation is vested in its Board of Directors. The Board has assigned responsibility for oversight of the Fund to the Finance Committee, which is charged with managing Foundation assets according to current generally accepted standards and in the interest of the Foundation and University.

The Finance Committee’s responsibilities are to:

- Monitor compliance with all relevant legal requirements, based upon advice of Foundation Counsel.
- Recommend to the Board of Directors investment goals, objectives, performance measurement standards and portfolio guidelines that are consistent with the Foundation’s needs.
- Recommend to the Board of Directors an asset allocation strategy and investment manager structure designed to meet the Foundation’s investment objectives and control risk.
- Recommend to the Board of Directors the hiring, retention, dismissal of outside professionals (custodians, investment managers and consultants).
- Communicate investment goals, objectives, performance measurement standards and portfolio guidelines to the investment managers.
- Review and evaluate investment results relative to predetermined performance standards.
- Ascertain that investment managers are in compliance with all portfolio guidelines and restrictions.
- Report periodically to the Board on the asset allocation and performance of the Fund, as well as any other substantive matters.
- Recommend to the Board of Directors corrective action when investment managers fail to achieve expected results.
- Recommend to the Board of Directors a custodian bank to provide safekeeping of Foundation assets, timely collection of income and accurate reporting.
- Recommend to the Board when appropriate the granting of necessary waivers from this Statement of Investment Objectives and Guidelines.

B. INVESTMENT MANAGERS

The investment managers of the University of Louisville Foundation’s assets assume the following responsibilities:

- Invest the assets under their management in accordance with the guidelines set forth in this Statement of Investment Objectives and Guidelines.
- Subject to these guidelines, exercise full discretionary authority as to all buy, sell and hold decisions for each security under management or entrusted to them.
- Notify the Foundation of: (1) any guideline which impairs or prevents the achievement of performance objectives; or, (2) new developments or circumstances which warrant a change in the guidelines; (3) discovery of material malfeasance by any portfolio manager or senior rank employee associated with the Foundation relationship; (4) any material disciplinary action by any regulatory authority or material noncompliance with any AIMR, SEC or other professional standards; (5) any significant change in investment strategy and/or portfolio structure; (6) a material change in portfolio managers, analysts, or ownership control of the manager; and (7)

any material improvements to the system of internal controls that may be suggested by the manager's auditors or regulatory authorities.

- Provide written documentation of portfolio activity, portfolio valuations, performance data, and related material as requested by the Foundation.
- Attend meetings with representatives of the Foundation as requested.
- Establish and maintain an effective relationship with the Foundation's custodian.
- Act in the best interest of the beneficiaries of the Foundation.
- Monitor the activities of the Foundation's custodian to ensure the manager's activity and performance are reported accurately.

C. CUSTODIAN

The Foundation's custodian's responsibilities are to:

- Establish and maintain direct account relationships with each investment manager.
- Perform all normal custodial functions including, but not limited to, security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, distribution of income, and daily investment of uninvested cash.
- Follow accounting practices as specified by the Foundation and its auditors.
- Prepare accounting reports as requested by the Treasurer and the Foundation's auditors.
- Perform rate of return calculations and analysis as requested.
- Provide electronic access to records.

D. INVESTMENT CONSULTANT

The Foundation's Investment Consultant's responsibilities are to:

- Perform periodic review of investment policies and objectives.
- Measure and evaluate Fund and investment manager performance.
- Provide ongoing monitoring of investment managers currently employed.
- Report on developments that have had or may have a material impact on Fund performance.
- Advise the Foundation with respect to asset allocation, asset classes, and managers.
- Advise the Foundation with respect to the hiring, retention or termination of investment managers.

E. STAFF OF THE FOUNDATION

The Foundation's staff's responsibilities are to:

- Oversee day-to-day activities of the Fund and the implementation of any changes approved by the Finance Committee.

- Provide periodic reporting to the Finance Committee and/or Board.

III. INVESTMENT OBJECTIVES

A. The Finance Committee has formulated, and the Foundation has adopted, specific performance standards for the Fund as well as its ancillary funds. Underlying these standards is the belief that the management of the Fund should be directed toward achieving the following investment objectives:

1. The Fund must provide average annual real investment returns (cash investment income plus net realized and unrealized capital gains) to the University, sufficient to meet the University's reasonable and judicious needs. This distribution from the Fund to the University should keep pace with inflation over time.
2. The corpus of the Fund, without regard to the receipt of future gifts, should keep pace with inflation. This objective of maintaining the real value of the Fund will provide future generations with the same relative level of support currently enjoyed by the Fund's beneficiaries.

B. ABSOLUTE RATE OF RETURN OBJECTIVES

1. Based on the philosophy expressed above, the overall objective of the Fund is to achieve a minimum net total return which is equal to the University's spending rate plus the inflation rate. The Foundation believes that a rolling three- to five-year period is appropriate for measuring progress toward achieving this objective.
2. The Foundation has approved an annual spending rate of 5.5 percent. This is to be computed as 5.5 percent of the three-year rolling average of the market value of the Fund's investment portfolio as of the three previous calendar year-ends (December 31st).

Added March 14, 2011

(a) In the event that an endowment's market value as of December 31st of the annual spending rate calculation year falls below its permanently restricted net asset value (as defined by separate Board Resolution), and in the absence of any donor restriction or direction to the contrary, the endowment will be deemed to be 'Underwater' and the following spending rate calculation will be used:

1. The Underwater Percentage will be determined by dividing the endowment's December 31st market value by its established permanently restricted net asset value.
2. No spending will be authorized for any endowment with an Underwater Percentage equal to or less than 80%.

3. For endowments with an Underwater Percentage between 80% and 99% , the authorized spending amount will be pro-rated based on the following table:

Underwater Percentage	Pro-rated Percentage	Underwater Percentage	Pro-rated Percentage
99	95	89	45
98	90	88	40
97	85	87	35
96	80	86	30
95	75	85	25
94	70	84	20
93	65	83	15
92	60	82	10
91	55	81	5
90	50	80	0

3. An additional annual rate of spending of 1.5% calculated on the same three-year basis shall be added to the net total return objective, with these funds used for the administration and general operation of the Foundation as allocated in the annual discretionary budget approved by the Foundation.

Added September 4, 2008

(a) Effective July 1, 2008, the Foundation approved the appropriation of funds from the endowment in an amount up to one-and-a-half percent (1.5%) of the three-year rolling average of the total endowment market value (the "Funds") for the President to use for Advancement Activities. Foundation increased the funds appropriation from an amount up to 1.5% to an amount up to one-and-ninety-eight-one-hundredths percent (1.98%).

C. RELATIVE RATE OF RETURN OBJECTIVES

In addition to the Absolute Rate of Return Objectives outlined above, the Finance Committee will also monitor the progress of the Fund toward meeting the following Relative Rate of Return Objectives:

1. Attain a total return on the Fund, net of fees, which exceeds the return on a composite of unmanaged market indexes weighted in proportion to the actual asset allocation of the Fund. In other words, the Fund should benefit from active management.
2. Outperform the median return of a pool of similar sized peer college and university endowment funds with broadly similar investment objectives and policies. The Foundation shall identify

the appropriate benchmark pool to be used consistent with the Fund's characteristics.

3. Attain a gross total return on the Fund that falls within the top half (or better) of the second quartile (37th percentile or better) of a universe of similar tax-exempt funds, currently identified as the Cambridge Associates' College and Universities universe. Attain a return on each asset class utilized (i.e. stocks, bonds, cash equivalents) that exceeds the appropriate benchmark index as set forth herein.

D. INVESTMENT RISK

The Absolute Rate of Return Objectives and the Relative Rate of Return Objectives should be attained without the assumption of excessive investment risk.

E. PERFORMANCE MEASUREMENT

In measuring and evaluating the performance of the Fund and of the individual investment managers, the following definitions and benchmarks will apply. The Finance Committee may from time to time establish other benchmarks for new asset classes or customized benchmarks to better fit a specific manager's investment universe.

1. Unless a different benchmark is agreed to by the Finance Committee, managers should exceed the respective benchmarks, net of fees, set forth on Schedule I hereto, as the same may be amended or supplemented from time-to-time.
2. The minimum net total return on the entire Fund should at least beat the total spending rate plus the rate of inflation. Inflation will be defined as the weighted three-year moving average of the Gross Domestic Product (GDP) Deflator.
3. Cash equivalents, when purchased by equity or fixed income managers as a temporary repository of funds, will be part of the total return realized by such managers and included in the measurements against the appropriate benchmarks.
4. The net total return for individual investment managers should fall within the top half of a universe of respective equity or fixed income investment managers with similar styles (recognizing survivorship bias inherent in such universes). The failure to achieve this goal, however, shall not be the sole criterion in the decision to retain or terminate an investment manager's services.

While the Finance Committee will focus primarily on the achievement of its objectives over a three- to five-year time horizon, it will also monitor investment results for the following periods:

- Annually
- Latest quarter
- Fiscal year-to-date
- Calendar year-to-date
- Since manager’s retention

Notwithstanding the above provisions relating to performance measurement, the Foundation may terminate a manager upon proper notice if circumstances dictate that it is not in the best interests of the Foundation to continue the relationship. This determination may be based solely on the need to redirect asset allocations or to achieve other Foundation objectives.

IV. ENDOWMENT ASSET ALLOCATION AND OVERALL FUND GUIDELINES

A. ASSET ALLOCATION

The Finance Committee has the responsibility of recommending to the Board of Directors an asset allocation for the Fund that offers a high probability of achieving the investment objectives. The asset allocation may be revised and updated as the financial needs of the University and/or the outlook for the capital markets change. The target asset allocation to be pursued by the Fund is set forth on Schedule I hereto, as the same may be amended or supplemented from time-to-time.

The actual asset allocation of the Fund at any time may differ from the target due to:

- A recent divergence in the performance of different classes of securities.
- The Finance Committee’s assessment of the intermediate outlook for different types of securities.
- The allocation of cash flow.
- A shift in the Foundation’s investment objectives.

B. REBALANCING

1. The primary goal for rebalancing is to preserve the general risk profile of the total portfolio across all asset classes to ensure that the portfolio does not take more or less risk than the Finance Committee initially intended in the creation of the Fund’s asset allocation policy (including subcategories within each asset class). As a general rule, the Foundation will use cash receipts, withdrawals and periodic spending draws to maintain the Fund’s long-term policy targets.

2. The Finance Committee typically will review asset allocation weightings at its quarterly meetings. The Vice President of Administration and Finance will work with the Fund's external advisors to implement such rebalancing moves as appropriate. Any rebalancing transactions that occur will be reported to the Finance Committee.
3. Any required rebalancing toward asset allocation targets should consider the liquidity of each asset class, entry and exit restrictions of the Fund's investment vehicles (marketable and non-marketable alternative assets), and the costs required to implement each transaction.

C. ALLOCATION OF FUNDS TO INVESTMENT MANAGERS AND LIMITATION THEREON

1. Unless otherwise directed by the Finance Committee, new funds received or funds withdrawn for operational or other purposes are to be allocated so as to move the overall asset allocation toward the targets outlined in section A. above.
2. The maximum allowable funds (at market) to be managed by one investment manager will be 20 percent.

V. FUND COMPONENT GUIDELINES

A. MARKETABLE EQUITY HOLDINGS

A substantial portion of the Fund's equity assets will be placed with equity managers who are expected to invest in domestic and international stocks, American Depositary Receipts (ADRs), and to a lesser extent, convertible securities. This portion of the portfolio is expected to outperform the various indexes specified in Schedule I.

1. Permissible Securities - Equity managers may invest in common stocks, preferred stocks or fixed income instruments convertible into common stocks, and ADRs of domestic and foreign corporations. All common stocks and common stocks into which convertible securities may be converted must be listed on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), or the National Association of Securities Dealers Automated Quote System (NASDAQ), or, for foreign securities, equivalent exchanges in their country of domicile. Any other securities or investment vehicles must be approved by the Finance Committee prior to their use by the manager.

Equity managers may purchase fixed income securities as cash equivalents for the temporary investment of funds. Cash equivalent investments are defined as U.S. dollar-denominated fixed income instruments with maturities of one year or less. Cash equivalent investments notwithstanding, managers shall still be evaluated against their Specified Benchmark. Equity managers may raise or lower cash equivalent holdings

as appropriate. While there is no minimum equity requirement, it is the intention of the Foundation for its managers to be fully invested at all times.

2. Diversification - No equity manager shall invest or have invested more than 10 percent (at market), of the fund assets entrusted to the manager's product, in the stock of one company. No equity manager shall invest or have invested more than 25 percent (at market), of the fund assets entrusted thereto, in any single industry. Should the overall equity portfolio exhibit excessive concentration, the Foundation reserves the right to provide managers with further diversification instructions.

The market value of ADRs of foreign companies held by a domestic equity investment manager may not exceed 5 percent of the market value of all funds entrusted to such manager. No other diversification limit shall apply to such investments.

3. Quality - There are no qualitative guidelines (e.g. equity ratings, rankings, or size of company) except that prudent standards should be developed and maintained by the managers.
4. Income - There are no minimum yield requirements.
5. Pooling - Managers may place funds in commingled investment vehicles, but the guidelines discussed herein will continue to apply.

B. MARKETABLE FIXED INCOME HOLDINGS

The fixed income portion of the Fund is designed to provide protection against deflation and to dampen the volatility of the entire Fund. While every attempt will be made to retain investment managers with different but complementary approaches, the same basic guidelines will apply in each case.

1. Permissible Securities - Managers may invest in the following types of debt securities:
 - Government and agency bonds, notes, bills, and similar obligations.
 - Any evidence of indebtedness, the principal and interest of which is absolutely and unconditionally guaranteed by the United States Government.
 - Bonds, debentures, notes and other evidences of indebtedness issued by United States domestic corporations.
 - Other dollar denominated securities (e.g. Yankees and Eurodollars)
 - Preferred stocks.
 - Convertible bonds (when considered a debt issue).
 - Mortgage and other asset-backed securities.
 - Tax-exempt bonds and taxable municipal bonds.

- Foreign fixed income securities equivalent in quality to permitted domestic securities. All currency hedging decisions shall be left to the discretion of the investment manager.
- 2. Diversification - There is no limit on the amount of holdings of United States Government bonds, notes, bills, agency obligations or obligations, the interest and principal of which are fully, absolutely and unconditionally guaranteed by the full faith and credit of the United States Government. Otherwise, no fixed income manager shall have invested, at any point in time, more than 10 percent of the fund assets entrusted thereto, in the fixed income obligations of a single issuer and no more than 60 percent in mortgage-backed securities. Should the overall fixed income portfolio exhibit excessive concentration, the Foundation reserves the right to provide managers with further diversification instructions.
- 3. Quality - No fixed income manager may purchase any fixed income obligation rated less than BBB (or its equivalent) by Moody's, Standard & Poor's or Duff & Phelps. No fixed income manager shall have invested, at any point in time, more than 10 percent of the fund assets entrusted thereto, in fixed income obligations rated BBB (or its equivalent) by Moody's, Standard & Poor's or Duff & Phelps. Should an issue have a split rating, the lower rating will apply. These quality restrictions shall not apply to the purchase of shares of mutual funds specializing in the purchase of fixed income securities or to multi-manager funds. The quality of the Foreign bond portfolio shall be of similar quality to the Fund's U.S. fixed income managers, and shall be limited to investments in sovereign debt or high quality corporate debt.
- 4. Marketability - Fixed income managers may not purchase private (direct) placements without the approval of the Finance Committee.
- 5. Pooling -Fixed income managers may use commingled vehicles, but the guidelines discussed herein will continue to apply.
- 6. Duration - There is no maximum duration limit.
- 7. Coupon - No minimum coupon. Zero coupon issues are permissible.

C. CASH EQUIVALENT HOLDINGS

Permissible Securities - Equity and fixed income managers may invest in cash equivalent vehicles as a means for the temporary (less than one year) deployment of funds. Cash equivalent investments are defined as U.S. dollar-denominated fixed income instruments with maturities of one year or less.

D. DIVERSIFICATION STRATEGIES

1. The Foundation may from time to time employ investment managers to pursue investments for the purpose of diversifying the market exposure of the Fund, to reduce Fund volatility, and to enhance potential returns. These might include, without limitation, managers or partnerships investing in marketable alternative strategies (e.g., event arbitrage, long/short equity, and distressed securities), private equity, venture capital, natural resources, commodities, or other asset classes with a low correlation to traditional equity and fixed income securities. These investments will not generally fall within the guidelines established for the more traditional asset classes that make up the majority of the Fund's investments.
2. The objective of the Diversification Strategies Portfolio is to invest in asset classes with reduced correlations to the Equity and Fixed Income Portfolios, to provide different sources of return, and to reduce the overall volatility of the Fund. Performance will be monitored on a regular basis and evaluated over rolling three- to five-year periods.
3. The investment objective for the Diversification Strategies Portfolio and managers is to outperform (net of fees) the appropriate index for each asset class. The performance of each Diversification Strategies manager or partnership will be measured also against an appropriate asset class manager peer group. Each active manager is expected to outperform its specified index and achieve median performance against its peer managers.

VI. INVESTMENT MANAGER RELATIONS

1. If, at any time, an investment manager believes that any guideline inhibits its investment performance, it is the manager's responsibility to clearly communicate this view to the Finance Committee.
2. Investment managers retained by the Fund are expected to employ the usual standards of fiduciary prudence. Managers will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. The Finance Committee will review portfolio results on a quarterly basis. However, greater weight will be placed on results over rolling three- to five-year periods. In addition, the Finance Committee will regularly review managers in order to confirm that the factors underlying performance expectations remain in place.
3. Each investment manager will report the following information at least quarterly: total return net of all commissions and fees and additions and

withdrawals from the account. Separate accounts will also provide current holdings at cost and at market value, and purchases and sales for the quarter. Managers will be required to reconcile records of holdings, transactions, and dividend/interest income with the Fund's custodian on a regular basis. Regular communication concerning investment strategy and outlook is expected.

4. Managers may be required to meet with Foundation staff annually to review their portfolios and performance, and to affirm that they have read and adhered to this policy statement (and the specific guidelines attached thereto). Additionally, managers are required to inform the Finance Committee as soon as practicable of any significant change in firm ownership, acquisitions of other investment managers, changes to organizational structure, subpoenas received from the SEC or any other regulatory or law enforcement agency or official, notice of any disciplinary proceedings against the manager instituted by any regulatory agency, departures of key professional personnel, changes of account structure (e.g., number, asset size and account minimums), or changes in the manager's fundamental investment philosophy.
5. Annually, each manager should provide the Foundation with a copy of its form ADV, Part I and Part II.

VII. MISCELLANEOUS PROVISIONS

A. BROKERAGE TRANSACTIONS

All securities transactions should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price.

B. PROXY VOTING

All proxies are to be voted in the best interest of the Foundation in a manner consistent with the objectives contained herein. Proxies should be voted for proposals which enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive, and provide reasonable accountability for management, subject to applicable legal requirements. The Foundation assents to the proxy voting guidelines adopted by managers of pooled or commingled funds.

C. CONFLICT OF INTEREST POLICY

Finance Committee members and staff shall adhere to the following procedures in order to resolve any questions of conflict of interest, whether real or apparent:

1. Members of the Finance Committee and staff shall disclose to the Finance Committee as soon as practicable any relevant facts or circumstances that might give rise to a conflict of interest, or perception of a conflict of interest, with respect to matters that come before the Finance Committee.

Such facts and circumstances include, but are not limited to, instances where the Finance Committee and/or staff member, and/or his, or her, immediate family (i) serves as director of, is employed by, or is an equity investor or partner in, a firm managing assets of the Foundation, or a firm which has an ownership interest in a firm managing assets of the Foundation, or (ii) has invested personal or family assets with a firm managing assets of the Foundation.

2. Individuals affected by either of the above provisions shall abstain from Finance Committee discussions of, and any decisions relating to, any such matters. Abstentions shall be recorded in the Minutes of the meeting.
3. Under normal circumstances, members of the Finance Committee or staff may not be a director of, or be employed by, firms managing investments of the Foundation.

D. INVESTMENT MANAGEMENT STRUCTURE

Investment managers will have complete discretion to manage the assets in each particular portfolio in order to best achieve the investment objectives and requirements, within the guidelines as set forth in this policy statement, and subject to the accepted standards of fiduciary prudence.

- E. No more than 5 percent of either the equity portion (at market) or the fixed income portion (at market) of the Fund will be invested in the securities of one company.
- F. Unless otherwise approved by the Finance Committee, all securities will be marketable, exchange-traded instruments. This limitation does not apply to investments made by the Foundation's approved marketable alternative asset and non-marketable alternative asset managers.
- G. There are no current income guidelines. The Fund is governed by total return objectives.
- H. Turnover will not be an evaluative factor if other objectives are met.
- I. All executions will be evaluated on the basis of net realized price (best execution) which considers both commission cost and market impact.
- J. Leveraged or speculative use of derivatives is prohibited without the express written consent of the Finance Committee. Derivatives may be used by authorized alternative asset managers to hedge the Fund's investment risks or to replicate investment positions at a lower cost than would otherwise be created in the cash markets. Managers using derivatives must have in place systems to rigorously analyze and monitor duration, liquidity and counter party credit risk in order to minimize the risks associated with the use of derivatives.

SCHEDULE I

UNIVERSITY OF LOUISVILLE FOUNDATION, INC.

POLICY ASSET ALLOCATION TARGETS, RANGES, and BENCHMARKS

<u>Asset Class:</u>	<u>Target</u>	<u>Range</u>	<u>Specified Benchmark</u>
U.S. Equity	18.0%	10%-30%	Russell 3000 Index
Developed Non-U.S. Equity	15.0%	10%-25%	MSCI World ex U.S.
Emerging Non-U.S. Equity	9.0%	5%-15%	MSCI Emerging Markets Free
Marketable Alternatives (Hedge Funds)	20.0%	15%-30%	91-Day Treasury Bills + 6%
Real Assets	13%	10%-30%	
Private Equity (NMAA ex. Real Assets)	12.0%	5%-15%	Wilshire 5000 + 5%
Fixed Income	13.0%	10%-25%	CPI + 5%

The Fund's Custom benchmark shall be calculated by applying the Long Term Target Asset Allocation percentages defined above to the relevant Specified Benchmark.