

# IC 5

Office of the Treasurer  
September 9, 2008

Members, Investment Committee

## APPROVAL OF AMENDMENT TO ENDOWMENT INVESTMENT POLICY TO AUTHORIZE COMMITMENTS TO SUCCESSOR PRIVATE EQUITY AND REAL ESTATE FUNDS

Recommendation: that the Investment Committee approve the addition of the following paragraph to the Endowment Investment Policy in section VI (Investment Policies):

### **Commitments to Private Equity and Real Estate**

Staff, assisted by the Consultant, will complete annual forecasting and make appropriate commitments to successor funds of approved private equity and real estate managers to reach and maintain the approved policy allocation and ensure diversification across vintage year, strategy, geography, etc.

Background: The Investment Committee approved a revised asset allocation on June 16, 2008, which includes an increase in the private equity allocation from 5% to 7% and an increase in the real estate allocation from 8% to 12%. Within the real estate asset class, the target allocation to core real estate was reduced from 8% to 4%, and new target allocations of 4% each were established for value-added and opportunistic real estate.

Investment staff and R. V. Kuhns & Associates (“RVK”) recently completed forecasting of private equity commitments for the next five years with the objective of reaching the 7% private equity target allocation as quickly as possible, while ensuring appropriate vintage year diversification. Based on existing commitments to private equity and future commitments totaling \$34-40 million in each of the next five years, the University should reach the 7% target allocation in 2014. Forecasting of the amounts to commit to each private equity manager and their underlying funds was done with the objective of obtaining diversification across strategies (core vs. non-core and venture vs. buyout) and geography (U.S. vs. non-U.S. and Europe vs. Asia within the non-U.S. space). This private equity forecasting analysis will be updated on an annual basis.

Similar to private equity, some value-added and most opportunistic real estate funds are closed-end funds, including capital calls over a period of time and distributions back to investors as the underlying investments in the fund are sold. Investment staff and RVK will be issuing an RFP for value-added and opportunistic real estate managers, with the objective of recommending finalists to the Investment Committee in December 2008. Upon approval of the new real estate managers, staff and RVK will complete forecasting of real estate commitments to the approved managers, with the objective of reaching the 12% target real estate allocation as quickly as possible, while ensuring diversification across vintage year, strategy, geography, etc. This real estate forecasting analysis will also be updated on an annual basis.

In order to reach and maintain the approved target allocations to private equity and real estate, it is necessary for Staff to be authorized to make commitments to successor funds of managers previously approved by the Investment Committee. This authorization is necessary due to the nature of these asset classes, with investment funds opening and closing (maturing) on a regular basis.

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Action Taken:       Approved       Disapproved       Other \_\_\_\_\_