THE UNIVERSITY *of* WISCONSIN
MADISON

February 25, 2008

Senator Max Baucus
Senator Charles Grassley
United States Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Baucus and Grassley:

Thank you for the opportunity to provide members of the US Senate Committee on Finance with information about how the University of Wisconsin-Madison manages tuition costs and endowment spending. We share the national concern over the rising cost of higher education and are committed to providing an affordable and high-quality education for our current and future students.

The University of Wisconsin-Madison, the flagship of the 13-institution University of Wisconsin System, is a Land Grant institution with a long history of public service. The Wisconsin Idea, first articulated in 1904, commits the University of Wisconsin-Madison to ensure that we are powering the Wisconsin knowledge-based economy through innovation, contributing to the health and well-being of our citizens through medical research and high-quality education of health professionals, enhancing the quality of life through arts and culture, and last, but not least, educating students.

As you will see in our attached response, our total tuition and fees for in-state residents is very low, at $6,730 for the 2006-07 year. In fact, we have the second lowest in-state tuition among the Big Ten, a group of institutions that collectively enroll around 300,000 undergraduates and 66,000 graduate students. As a state institution, we are committed to primarily serving state residents (75 percent of undergraduates), so this low tuition rate equals the assessed tuition for most students. We are an institution making a significant contribution to affordability and access among higher education institutions in this country.

The University of Wisconsin-Madison may be unlike other relatively well-endowed institutions in that we do not set our own tuition rates. Tuition rates are set by the Board of Regents, the governing board of all UW System institutions, based on expected allocations for higher education in the state budget. In years when the state budget is delayed, the Board of Regents

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sets tuition rates based on its "best guess" of allocations. The Board of Regents strives to keep any tuition increases as low as possible, without compromising educational quality or access.

With respect to our process of allocating institutional financial aid to students, the University of Wisconsin-Madison targets its unrestricted dollars for financial aid to the most financially needy students. We use a holistic approach in determining financial need that includes the federal formula for financial need, as well other measures, such as family assets and liabilities, number of dependents, travel and living expenses, etc. Unlike some other institutions, we have not adopted the practice of "high tuition, high aid," where a high tuition is charged to all students with a portion returned to needy students in the form of financial aid.

With respect to our endowment payout, our average payout from our endowment for the last ten years is 4.7 percent. As noted in response to your specific questions (#10), 96 percent of our endowment is subject to permanent spending restrictions set by the original donors. Major expenditures from the endowment support academic programs and related initiatives in the schools and colleges in addition to financial support for students.

The University of Wisconsin-Madison strongly opposes any legislative action to mandate a certain percentage payout on our endowment. We believe such action would have a significant negative impact on our public institution. Specifically, we believe such a mandate:

1. is not consistent with sound fiscal management practices;
2. would lead to a decrease in donations to the university because donors will find objectionable the limitations placed on their ability to designate the terms and conditions of their gifts;
3. would have a negative impact on our ability to compete with extremely well-endowed private institutions that have billions more endowment dollars to allocate;
4. would lead to even fewer dollars for student financial aid because a decrease in donations would shrink the endowment;
5. would result in a decrease of principal in years when the return on investments is lower than the mandated payout;
6. would erode the ability of the University of Wisconsin Foundation to balance University of Wisconsin-Madison's current income needs with the long-term purchasing power of the endowment; and
7. would have serious implications for the sustained competitiveness of many public institutions that presently rely greatly on the relatively small amount of discretionary support they receive from their endowments--as state support continues to tighten, a loss of the flexibility this discretionary support represents will result in erosion of quality and capacity.

The contributions made by the University of Wisconsin Foundation from the endowment to fund student financial aid are a significant portion of endowment spending. However, given the rising costs of educating students, including increased costs for employee health insurance, utilities, etc., the University of Wisconsin-Madison, in collaboration with the University of Wisconsin Foundation, recently embarked on a new campaign, called the Human Capital Initiative, to raise funds specifically to enhance the endowment for need-based financial aid. This initiative dovetails well with Wisconsin Governor Jim Doyle's *Wisconsin Covenant*, a promise to ensure that financial assistance for college will be available to financially needy students in Wisconsin. We anticipate real interest in this initiative among our donors, at least in part because it represents a voluntary engagement with a university--identified priority, not an effort to comply with a government mandate.

We welcome any additional questions about our tuition and endowment spending.

Sincerely,

John D. Wiley
Chancellor

Attachments:
1. Response from the University of Wisconsin-Madison to questions from the U.S. Senate Committee on Finance
2. University of Wisconsin Foundation – Statement of Investment Objectives and Policies, June 2006

Response from the University of Wisconsin-Madison
United States Senate Committee on Finance

1. Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

	Enrollment		
	Graduate	Professional	Undergraduate
1997-98	8,811	1,910	27,533
1998-99	8,524	2,069	27,808
1999-00	8,620	2,146	28,270
2000-01	8,620	2,374	28,476
2001-02	8,744	2,340	28,788
2002-03	8,822	2,380	28,677
2003-04	8,924	2,430	28,583
2004-05	8,943	2,460	28,217
2005-06	8,841	2,533	28,458
2006-07	8,832	2,579	28,462

2. Please provide the total cost of undergraduate tuition (including all fees) – both sticker and average, mean and median – year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example, 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

	Enrollment	Tuition & Fees		Undergraduate	Inst Gift Aid	% of Undergrads	Average Inst
	Undergrad	Resident	Non-Res	Institutional Gift Aid	Recipients	With Inst Gift Aid	Gift Award
1997-98	27,533	$3,242	$10,986	$10,793,110	3,803	13.81%	$2,838
1998-99	27,808	$3,408	$11,588	$11,976,807	4,234	15.23%	$2,829
1999-00	28,270	$3,738	$13,052	$14,051,831	7,702	27.24%	$1,824
2000-01	28,476	$3,791	$14,189	$13,119,653	4,454	15.64%	$2,946
2001-02	28,788	$4,089	$15,976	$16,198,986	4,904	17.03%	$3,303
2002-03	28,677	$4,426	$18,426	$21,769,940	7,468	26.04%	$2,915
2003-04	28,583	$5,139	$19,139	$23,256,399	5,926	20.73%	$3,924
2004-05	28,217	$5,866	$19,866	$25,102,067	6,993	24.78%	$3,590
2005-06	28,458	$6,284	$20,284	$27,150,468	9,286	32.63%	$2,924
2006-07	28,462	$6,730	$20,730	$29,963,921	11,990	42.13%	$2,499

3. Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

The majority of undergraduate financial aid at UW-Madison is federal and state in origin and governed by fund-specific policies, rules and regulations. Institutional need-based grant funds for UW-Madison undergraduate students are tightly focused on the most financially needy of our undergraduate students who apply for financial aid. Students who receive these grants are selected to be part of two programs during a holistic review process that takes into consideration income as well as a number of other factors such as the number of household members supported by the parent(s), first generation in college, coming from an economically disadvantaged area, sporadic employment of the parent(s), long term illness in the family, low assets, and many more factors. It is our experience of 30+ years that income by itself is not necessarily a reliable indicator of an economically disadvantaged family. Students and parents are informed of financial aid policies on our web pages, Undergraduate Aid brochure, the UW-Madison Financial Aid Award Guide and at the many presentations the Office of Student Financial Services gives to prospective students.

UW-Madison financial aid employees contribute to outreach efforts by working on our own as well as with other financial aid professionals in Wisconsin and the greater mid-west region to provide events like College Goal Sunday, regular high school night presentations and middle school presentations. Access to higher education is at the core of the mission of the Office of Student Financial Services; it is difficult if not impossible to provide a meaningful figure related to amount of funds spent on outreach. The UW-Madison admissions process is need-blind; incomes of applicants' families are not taken into consideration in any part of the admissions review process. There is no special amount budgeted specifically for recruitment of low income prospective applicants.

4. Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

Annual tuition revenue appropriations for the University of Wisconsin (UW) System are established through the State of Wisconsin biennial budget process. In this process, State agencies, including the UW System, submit biennial budget requests to the Governor and executive branch of State government in the fall of even numbered years. The biennial budget request for the UW System is submitted and approved by the Board of Regents (board of trustees). Implicit in this request is a recommendation for tuition increases for the following biennium. Recommendations for tuition increases generally represent the tuition share of the new programs and priorities approved by the Board of Regents as well as the tuition share of biennial pay plan for University staff and "cost-to-continue" items such as utilities, debt service, and fringe benefits. The State has traditionally funded new priorities, pay plan, and cost-to-continue items approved through the biennial budget process using a fixed ratio of State tax revenue to tuition (65/35).

The process for establishing the UW System biennial budget request is conducted through open meetings of the Board of Regents. In this process, all constituencies—including individual students, student organizations, faculty and staff, faculty and staff organizations, and the general public—have opportunity to express their views on the biennial budget proposal and the tuition increases associated with the proposal.

In addition to public input communicated through the Board of Regents process, the public (including students, faculty, staff, parents, etc.) has a secondary mechanism through which it can inform tuition setting. This secondary mechanism consists of formal biennial budget process at the State level, which begins after the Board of Regents has approved the request and conveyed it to the Governor and executive branch of State government. There are several stages of the formal State biennial budget process which can, and often do, impact tuition setting as proposed by the Board of Regents. First, the Governor consolidates the "Executive Budget Proposal" from the individual requests submitted by State agencies. The Governor can and often does modify State agency requests. Second, the "Executive Budget Proposal" is submitted to the Wisconsin Legislature, where it must be approved and eventually signed into law by the Governor. The legislative process often results in substantial changes from the Executive version and State agency request version of the biennial budget proposal. Finally, once approved by the Legislature, the Legislature's version of the budget must be signed into law by the Governor. The Wisconsin Governor holds very strong line item veto power which he/she exercises as the final act of passing the biennial budget into law. At all of these junctures, there is oversight, review, and input regarding the final budget for the UW System and associated tuition increases necessary to fund the budget. The biennial budget establishes the tuition appropriation level for the following biennium, and the UW System must operate within those appropriation levels authorized by law.

5. **Please explain how your university's endowment is managed and the role of the Board of Directors?**

The University of Wisconsin Foundation Endowment portfolio is an investment pool comprised of numerous gifts/funds with a variety of designated purposes and restrictions. The majority of the funds are gifts restricted by donors or the Foundation's Board of Directors to provide long-term funding for designated purposes (scholarships, professorships, programs, etc.). There is a smaller percentage, which are unrestricted gifts, spent at the discretion of the University and/or the Foundation.

Although distinct in purpose or restriction, Endowment funds are commingled in an investment pool and tracked with unit accounting much like a large mutual fund. Endowment gifts of cash, securities, or property are valued and exchanged for units that represent a claim on a portion of the whole investment portfolio.

The Chairperson of the Board, with approval from the Board, appoints the Investment Committee to be the investment fiduciary responsible for the prudent management of the Foundation's investment portfolios. The Committee will comply with all applicable fiduciary, prudence, and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules, and regulations from various local, state, federal and international political entities that may impact the portfolios.

The Committee shall have the exclusive authority to establish, execute, and interpret an investment policy statement for the Portfolios. In addition, the Committee will (1) provide Board oversight of the Foundation's investment strategies and policies, (2) create investment subcommittees and establish the subcommittee's scope of authority, (3) review and evaluate all material information proposed by the Staff or the investment subcommittees on a quarterly basis and determine if the information should be presented to the Board for its consideration and approval, (4) be responsible for the oversight of professional advisors to the Portfolios, which may include, but shall not be limited to, Investment staff and investment consultants.

What are your university's endowment payout and investment policies?
The Endowment's annual spending policy is determined by multiplying 4.75% by the average Endowment value over the previous 12 quarters. This amount is calculated quarterly and is transferred to a spending account for the University. It is the intention of the Investment Committee and Board of Directors that the spending policy will create a steady spending stream to the University while increasing the remaining principal value in real terms. The quarterly calculation is determined by the accounting and finance department of the Foundation.

Investment policies for the endowment can be found in the attached file.

What is the mission of your university's endowment?
Mission Statement: The University of Wisconsin Foundation engages those who care about the University, provides opportunities to enhance its teaching, research and outreach programs, and guarantees ethical stewardship of the gifts received.

The Foundation is the official fund-raising and gift-receiving organization for the University of Wisconsin-Madison and other donor-designated units of the UW System. A nonprofit, tax-exempt Wisconsin corporation, the Foundation solicits, receives, administers and invests gifts for the benefit of the University.

With all its strengths and potential, the University is positioned to become one of the truly extraordinary universities. The Foundation offers alumni and friends of the University the opportunity to participate in determining the University's destiny. With the help of private support, the University can make bold and ambitious plans for the future and donors can create a powerful legacy that will benefit society for generations to come.

In order to accomplish these goals, the Foundation must be an excellent steward of the gifts it receives. A successful investment program must be implemented and this policy manual will provide the details of that process.

When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?
The endowment policy was last reviewed on February 7, 2008 and will be reviewed annually going forward.

6. **Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars).**

Fiscal Year	Total Endowment Fund Value	Difference from Prior Year	Percentage Change
2006	$1,552,683,744	$163,913,751	11.8%
2005	$1,388,769,993	$366,140,898	35.8%
2004	$1,022,629,095	$246,004,788	31.7%
2003	$776,624,307	$126,056,799	19.4%
2002	$650,567,508	($117,058,595)	-15.2%
2001	$767,626,103	($71,253,833)	-8.5%
2000	$838,879,936	$15,216,610	1.8%
1999	$823,663,326	$206,276,905	33.4%
1998	$617,386,421	$92,846,040	17.7%
1997	$524,540,381	starting point	starting point

What is the amount of donations the endowment has received year-by-year for the last ten years?

Fiscal Year	Endowment Additions
2007	$178,875,694
2006	$165,868,099
2005	$205,477,229
2004	$178,894,158
2003	$51,208,419
2002	$40,696,963
2001	$70,821,922
2000	$35,128,429
1999	$50,774,999
1998	$52,320,349
1997	$17,272,117
GRAND TOTAL	**$1,047,338,377.59**

Please provide the percentage of investment in each asset class:

Equity	38.8%
Fixed Income	10.1%
Hedge Funds	33.8%
Private Equity	12.5%
Venture Capital	3.8%
Other	1%

Provide the amount invested outside the United states:
20.39% of the university's endowment is invested outside of the United States. However, there may be slightly more as a portion of the Hedge Funds are able to invest globally.

7. Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined?
The majority of funds added to the endowment follow instructions contained in a Memorandum of Agreement with each donor or in the directive language of a bequest. The donor instructions provide the guidelines for distribution of the endowment income for the use of the targeted beneficiary element of the University.

In cases where large, undesignated bequests are received, we investigate the lifetime interests of donors and our Board of Directors designates the funds as endowment in the areas of the testators' pattern of giving.

In the overall management of the endowment, we strike a balance between the current income needs of the University and the long-term purchasing power of the endowment.

Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?
No.

8. What has been the cost of management of the endowment year-by-year for the last ten years?

YEAR	MGMT FEES	UWF 1% FEE	TOTAL FEES
Thru 9/30/07	$6,166,759.84	$11,710,305.32	$17,877,065.16
2006	$6,864,643.00	$13,565,862.27	$20,430,505.27
2005	$5,638,520.00	$11,077,858.84	$16,716,378.84
2004	$5,097,609.00	$8,395,086.80	$13,492,695.80
2003	$4,255,186.00	$6,187,568.49	$10,442,754.49
2002	$4,552,524.00	$6,570,679.11	$11,123,203.11
2001	$3,374,555.00	$7,521,664.71	$10,896,219.71
2000	$4,017,015.00	$8,170,420.65	$12,187,435.65
1999	$3,042,133.00	$6,162,392.35	$9,204,525.35
1998	$2,415,415.00	$5,133,623.34	$7,549,038.34
1997	$1,930,585.00	$4,277,253.56	$6,207,838.56

9. What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years?

FISCAL YEAR	PAYOUT IN $$	PAYOUT IN %
2007	$159,562,000.00	4.50%
2006	$83,857,000.00	4.40%
2005	$68,722,000.00	4.33%
2004	$53,028,000.00	5.58%
2003	$58,480,000.00	5.62%
2002	$56,624,000.00	4.41%
2001	$56,961,000.00	3.92%
2000	$52,950,000.00	4.49%
1999	$41,661,000.00	4.61%
1998	$33,445,000.00	4.91%

What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years?

The Endowment's annual spending policy is determined by multiplying 4.75% by the average Endowment value over the previous 12 quarters.

If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body.

The current spending plan for the endowment is 4.75% of a twelve calendar quarter market value average. In times of increasing market values, the payout from the endowment will rise slightly in terms of nominal dollars, but will decrease as a percentage of market value. The converse is true in falling markets; however, this plan provides a predictable flow of income for budgeting purposes and avoids sudden fluctuations in income flow. In terms of student financial aid, the University personnel responsible for the program are able to budget the portion that is provided through philanthropy in an accurate manner.

If there is a material variation between actual and targeted, please explain.
There is no material variation.

What were the top 10 major expenditures from the endowment last year?

College of Letters & Science:	$2,806,144
School of Medicine & Public Health:	$2,197,862
School of Business:	$1,875,011
College of Engineering:	$1,764,456
Student Financial Services:	$1,232,750
Research & Sponsored Programs:	$1,173,973
College of Agricultural & Life Sciences:	$1,123,748
Food Research Institute:	$1,027,497
Law School:	$1,009,441
School of Education:	$877,095

10. How much of the endowment is subject to permanent spending restrictions or limitations set by the original donors?
96%

Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships?
2%

What portion is restricted for undergraduate financial aid?
14%

Please provide the top five types of restrictions on the endowment by category.
Research and Programs: 36%
Endowed Chairs & Professorships: 15%
Other * : 14%
Undergraduate Student Financial Support: 13%
Graduate Student Financial Support: 11%

*Other includes UW Hospital and Clinics, funds held for other UW system campuses, the Wisconsin Alumni Association, faculty/teaching awards, support for various centers, multiple purpose funds, etc.

What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official, such as a set-aside for a specific program?
4%

Please provide the investment return to the endowment year-by-year for the last ten years.

Year	Return
2007*	12.84%
2006	11.74%
2005	10.16%
2004	15.08%
2003	27.53%
2002	-17.34%
2001	-16.97%
2000	4.92%
1999	27.81%
1998	10.95%
1997	17.77%

* estimated

11. Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee?

Staff will be responsible for conducting a thorough search process when seeking investment services from a third party. It is expected that the services needed will be well defined and will be additive to Staff's investment process. Staff will seek high quality solutions that are priced appropriately. Staff will generally be able to compare and contrast the services offered and the cost of such services among several different service providers.

Once a third party service provider(s) is identified, Staff will seek approval from either the Investment Committee or the appropriate Subcommittee. The scope of services provided will determine which committee should approve the proposed recommendation. Staff will be responsible for negotiating the contract with terms no less favorable than those approved. Staff will have the authority to renew a contract with an existing service provider so long as the services provided are satisfactory and the cost is justified based on market comparables. Staff will report the Service Provider status to the Investment Committee following a contract renewal date.

Four categories of investment management expenses are accounted for and monitored for the Endowment portfolio.

1. Investment management fees and/or the expenses of investment funds.
2. Trading costs, including commission charges and execution expenses.
3. Custodial charges including custodial fees, transaction charges, and cash management fees.
4. Investment service provider, software and administrative costs and fees.

Fees for investment management shall be consistent with agreements and the law. Fees must be reasonable in light of the services provided to the portfolio. It is the desire of the Investment Committee and Staff to reduce manager fees to as low a level as possible, while understanding that many attractive managers and strategies charge higher fees.

Investment managers should secure best execution for all trades on behalf of the Foundation and commissions paid shall be reasonable in relation to the value of the brokerage and other services received by the manager. Investment managers shall be expected to participate in commission recapture programs as established by the Investment Staff in order to minimize trading costs. Custodial statements and information provided by commission recapture providers shall be used to determine the appropriateness of trading costs of the Endowment investment managers.

The Foundation shall seek to ensure safe custody of investment assets. This process shall include the periodic review of service, price and overall satisfaction with the Foundation's custody provider.

In the same manner, the service provider, software and administrative costs and fees shall be reviewed by Staff and reported to the Investment Committee to ensure they are consistent with the Foundation's investment policy.

Who pays the fee (the endowment, general funds)?
The fee is paid from the endowment.

Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college of university president or the investment manager has received year-by-year for the last ten years.
There is no relationship between the endowment size and/or growth and the compensation given to the president or the endowment manager. There have been no endowment-related bonuses awarded in the last ten years.

University of Wisconsin Foundation

Statement of Investment Objectives And Policies

June 2006

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DESCRIPTION OF THE FOUNDATION

The University of Wisconsin Foundation (UWF) is the official fund-raising and gift-receiving organization for the University of Wisconsin-Madison and other donor-designated units of the UW System. A nonprofit, tax-exempt Wisconsin corporation, the Foundation solicits, receives, administers and invests gifts for the benefit of the University.

The UWF's investment portfolios must be managed according to the Uniform Management of Institutional Funds Act as adapted in the state of Wisconsin, and the prudent investor rule as construed by the courts of Wisconsin and the Wisconsin Non-profit Corporation Act.

FOUNDATION SPENDING OBJECTIVE

It is the intention of the UWF to spend 4.75% of a rolling three-year average market value of the Endowment's assets.

PURPOSE OF STATEMENT

This Statement of Investment Objectives and Policies (the "Statement") is intended to:

A. Outline the investment related responsibilities of UWF's Staff, Investment Committee of the Board of Directors and the providers of investment services retained to assist with the management of the Foundation's assets.

B. Establish formal yet flexible investment guidelines incorporating prudent risk parameters, appropriate asset guidelines and realistic return goals.

C. Provide a framework for regular constructive communication between the Investment Committee, Staff and UWF's providers of investment services.

D. Create standards of investment performance which are historically achievable and by which the Investment Managers agree to be measured over a reasonable time period.

It is expected that this Statement will be reviewed annually by the Investment Committee to ensure the relevance of its contents to current capital market conditions and the needs of the UWF.

RESPONSIBILITIES – INVESTMENT COMMITTEE

The Board of Directors of the Foundation acknowledges its fiduciary responsibility for the Funds and delegates the responsibility for oversight of the Foundation's investments to the Investment Committee of the Board of Directors for quarterly review. The Investment Committee must act as a prudent investor when investing the funds. In addition, the UWF has an Investment Committee Charter which details the responsibilities of the various Subcommittees.

The primary investment-related responsibilities of the Investment Committee are:

1. Establish investment objectives consistent with the needs of the UWF.
2. Establish asset allocation ranges and investment guidelines consistent with the investment objectives.
3. Maintain a general investment strategy consistent with allocation ranges and investment guidelines.
4. Select consultants, investment managers, and other services providers consistent with investment strategy.
5. Monitor the investment program with respect to each of the above points, recommending and implementing change as appropriate.
6. Periodically review investment policy and results with the Board or its Executive Committee.

RESPONSIBILITIES - INVESTMENT CONSULTANT

The Investment Consultant must assume the following responsibilities as they pertain to:

A. STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

1. Prepare a statement highlighting various policy issues affecting the Foundation for consideration by the Investment Committee. The statement should describe the responsibilities of all key parties, specify the broad investment objectives of the Foundation, provide investment policy guidelines, and set appropriate performance standards for all components of the asset structure of the Foundation.

2. Incorporate amendments through subsequent revisions until a final draft is approved by the Investment Committee.

3. Make recommendations, when deemed advisable, as to changes in the objectives, guidelines, or standards, based upon material and sustained changes in the capital markets.

B. ASSET ALLOCATION

Work with Staff to make recommendations, with supporting materials, as to the appropriate target portfolio weightings among the various major asset classes (e.g., stocks, bonds, cash) within the Foundation. If a multiple Manager structure exists, this recommendation will include a plan for periodic rebalancing of asset class weightings and manager weightings as capital market movements cause the actual weightings to diverge significantly from the target weightings.

C. SELECTION OF INVESTMENT MANAGERS

Work with Staff and assist the Investment Committee through the selection process by identifying and screening non-hedge fund candidates for appropriate portfolio and organizational characteristics. Attend formal presentations of finalists if requested. Perform due diligence checks. Help quantify the trade-offs between expected returns and risks among various alternatives. Gather and submit information at the direction of the Investment Committee and Staff.

D. COMPENSATION NEGOTIATIONS

Assist in compensation negotiations with investment managers, custodians and other service providers.

E. MONITOR INVESTMENT PERFORMANCE

A performance evaluation report of the Endowment and its investment component parts will be conducted quarterly. The written report will cover five basic areas:

1. Returns - Total time-weighted returns over various periods.
2. Comparisons - Returns will be compared to appropriate benchmark indices and a statistical universe of similar funds.
3. Diagnostics - Measurement of risk-adjusted performance, analyses of risks, style characteristics, and return attributions.
4. Compliance - Portfolios will be checked for compliance with the objectives, targets, and policy guidelines specified in this Statement.
5. Monitor portfolio characteristics and risk-adjusted performance.

RESPONSIBILITIES - CUSTODIAN BANK(S)

The Custodian Bank must assume the following responsibilities as they pertain to:

A. SAFEKEEPING OF SECURITIES

Hold all UWF assets in the appropriate accounts, and provide highly secure storage of any physical stock certificates and bonds, such that there is essentially no risk of loss due to theft, fire, or accident. Electronic transfer records at the Depository Trust Company ("DTC") are preferred.

B. SETTLEMENT OF TRADES

Arrange for timely and business-like settlement of all purchases and sales of individual securities made for the UWF. Transactions shall be on a delivery versus payment basis unless provided for in writing by the Investment Committee. Receive and document confirmation of mutual and pooled fund transactions.

C. COLLECTION OF INCOME

Provide for receipt and prompt crediting of all dividend, interest and principal payments received as a result of the UWF's portfolio holdings or securities lending activities. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement for any interest lost due to tardiness or shortfall.

D. CASH SWEEP

Sweep cash daily into an interest bearing account featuring a high degree of safety of principal and liquidity.

E. REPORTING

Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price, cost, market value, CUSIP number (where available), and any other information requested by the Investment Committee. Principal cash transactions, including dividend, interest, and principal payments received, deposits and withdrawals, securities purchased, sold, and matured, and fee payments will also be listed. Keep adequate records for the UWF's interest to be well represented in class action shareholder suits.

F. TRANSFER

At the direction of the individuals specifically appointed by the Investment Committee, expeditiously transfer funds into and out of specified accounts.

G. PROXY MATERIALS

The Custodian Bank shall promptly forward all proxy materials received to the appropriate Investment Manager.

RESPONSIBILITIES - INVESTMENT MANAGERS

The Investment Managers must assume the following responsibilities as they pertain to:

A. INVESTMENT PROGRAM

1. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance as defined in this Statement, and invest the assets of the Foundation in accordance with those objectives, guidelines and standards.

2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in this Statement.

3. Make recommendations as to changes in this Statement based upon material and sustained changes in the capital markets.

B. REPORTING

For actively managed, separate accounts, produce a statement at the end of each month describing the portfolio asset class weightings, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position, unit value and relevant portfolio characteristics.

These reports shall include, for each manager or asset class, the performance of the relevant Benchmark Index as described in Section IX.

Each manager is required to inform the UWF in writing of any violations of self-dealing transactions that may arise as a result of the investment management activities on behalf of the UWF. A list of the disqualified persons will be sent by the manager annually.

C. REVIEW MEETINGS

At the request of the Investment Committee, but not less than once each year, each Investment Manager will participate in a review meeting, the agenda to include:

1. A review and re-appraisal of the investment program.

2. A commentary on investment results in light of the appropriate standards of performance.

3. A synopsis of the key investment decisions made by the Manager, his or her underlying rationale, and how those decisions could affect future results.

4. A discussion of the Manager's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

D. COMMUNICATION

Each Investment Manager is responsible to maintain frequent and open communication with a designee of the Investment Committee on all material matters pertaining to investment policies and the management of the Foundation's assets. In particular, each Investment Manager will:

1. Provide notice of any material changes in investment outlook, strategy, and portfolio structure.

2. Provide notice of material changes in firm ownership, organizational structure, financial condition, senior staffing and management, or substantial involvement in any litigation or regulatory investigation.

E. BROKERAGE

Selection of brokers is at the sole discretion of the Investment Manager. Each Investment Manager will use its best efforts to obtain brokerage services based upon consideration of the twin objectives of best execution of trades and the lowest net cost to the Foundation. At the request of the UWF, the Managers of any separately managed account will provide detailed soft dollar budgets, as well as summaries of all transactions, showing executing broker/dealer and commissions paid.

No investment manager will execute trades through a brokerage subsidiary of the investment manager, through a brokerage firm held by a parent corporation or holding company with ownership ties to the investment manager.

F. VOTING OF PROXIES

It shall be the policy of the Investment Managers to vote proxies for the exclusive benefit of the UWF in accordance with the procedures set forth below. The Investment Managers will use their best efforts to insure that their proxy voting benefits the UWF.

If any mutual or pooled funds used by the UWF have their own proxy voting policies, those policies shall be reviewed by the Investment Committee and shall take precedence over the rules in this Section. The guidelines stated here shall govern any mutual or pooled funds that do not have their own proxy voting policies.

INVESTMENT OBJECTIVES/RISK TOLERANCE

The long-term goal of the UWF's Investment Policy will be to achieve a rate of growth sufficient to provide for the UWF's spending needs, increase the real purchasing power of the principal, and cover the annual operating expenses.

1. Return Objectives – Preservation of Purchasing Power

   Achieve an annualized return of 10.0% over a complete market cycle.

2. Volatility

   In general, higher-than-market volatility for each component of the Plan is generally permitted only to the extent that returns in excess of the component's market benchmark are generated. One way to measure volatility and risk-adjusted performance is by using the Sharpe Ratio. The Sharpe Ratio divides the excess return (portfolio return less risk-free return) by the standard deviation of quarterly total returns. Over a Market Cycle (generally 3-5 years), the Sharpe Ratio for the total portfolio and each component of the investment program is generally expected to exceed that of its respective benchmark index. If the Sharpe Ratio of the total portfolio or component does not exceed that of its respective benchmark index over a market cycle, it should generally prompt some discussion.

ASSET ALLOCATION[1]

Asset Class	Strategic Target	
U.S. Equity	25%	
Large Cap Equity		50.0%
Mid Cap Equity		35.0%
Small Cap Equity		15.0%
Equity Long / Short	5%	
International Equity	13.0%	
Core		25.0%-35.0%
Opportunistic		50.0%
Long/Short		15.0%-25.0%
Fixed Income	10.0%	
Real Assets	12.0%	
Real Estate		50.0%
Commodity-Based		50.0%
Alternatives (Absolute Return / Hedge Funds & Private Equity)	35.0%	
Total	100.0%	

[1] The ranges for the target asset allocation are +/-2%. The ranges are narrow given that the UWF intends on making tactical asset allocation decisions at the Investment Subcommittee level.

PERFORMANCE STANDARDS

A. TIME HORIZON

Progress of the UWF, its components and the Investment Managers will generally be measured over a full Market Cycle. Although the length of a market cycle could be shorter, UWF will generally assume it over three to five years, whichever is longer.

B. BENCHMARK

Each component asset class of the Foundation is expected to outperform its appropriate benchmark:

Asset Class	**Benchmark**
U.S. All Capitalization Stocks	Russell 3000 Index
U.S. Large Capitalization Stocks	S&P 500 Index & Russell 1000 Index
U.S. Mid Capitalization Stocks	Russell Midcap Index
U.S. Small Capitalization Stocks	Russell 2000 Index
Equity Long / Short	Russell 3000 Index
Non-U.S. Stocks	MSCI EAFE Index & MSCI ACWI Index
Fixed Income	Lehman Brothers Aggregate Bond Index
Bank Loans	CSFB Leveraged Loan Index
Global Bonds	JP Morgan Global Bond Index (hedged)
Alternative Investments	HFR Fund of Hedge Funds
Real Assets	CPI + 4.75% annualized
Private Equity	S&P 500 Index + 3.00%

C. STATISTICAL UNIVERSE OF SIMILAR FUNDS

The total returns of each asset class and the Endowment will be compared to the distribution of returns represented by an appropriate and statistically valid Universe of separately managed funds that are not subject to capital gains or income taxes. Over a Market Cycle (as defined above), each component employed by the UWF is expected to rank in the top 50% of the appropriate Universe.

D. RISK-ADJUSTED PERFORMANCE

The Sharpe Ratio divides the excess return (portfolio return less risk-free return) by the standard deviation of quarterly total returns, and will be the measure of risk-adjusted performance. Over a Market Cycle (as defined above), the Sharpe Ratio for each component employed by the UWF is expected to exceed that of its respective benchmark.

ASSET GUIDELINES

A. EQUITIES

Diversification

No more than 5% of an Investment Manager's equity portfolio at cost and 8% at market value shall be invested in the securities of any one company.

1. Market Capitalization

   The permissible range of market capitalization of each component of the equity portfolio will be established upon discussion with the UWF Staff and the Investment Manager.

2. Portfolio Turnover

   There shall be no specific guidelines with regard to portfolio activity. By not restricting turnover, the Investment Manager is given the flexibility to adjust its asset mix and security selection to changing market expectations.

3. Permissible Holdings (for U.S. Equity managers):

   a) Common stocks or American Depositary Receipts ("ADRs") listed on a major U.S. exchange.

   b) Common stocks traded through the NASDAQ.

   c) Real estate investment trusts (REITs) and over the counter (OTC) stocks.

   d) Securities convertible into common stock.

   e) Open or closed end mutual funds.

4. Permissible Holdings (for Publicly Traded Non-U.S. Equity managers):

   a) Common stocks listed on a non-U.S. exchange.

   b) American or Global Depositary Receipts ("ADRs" or "GDRs")

   c) Securities convertible into common stock of foreign companies.

   d) Open or closed end non-U.S. stock mutual funds.

   e) Emerging Markets stocks

5. Holdings are not typically permissible by long-only managers without the prior written approval of the UWF's Investment Committee:

   a) Short sales.

   b) Options, futures, forward contracts or other derivatives except where used to hedge the market value of non-U.S. dollar denominated securities into

U.S. dollars, replicate a major market benchmark, or hedge the market value of an equity portfolio.

c) Margin purchases, borrowing funds, or securities lending.

d) Letter stock, private or direct placements.

e) Commodities.

f) Securities of the Investment Manager, its parents or subsidiaries.

g) Any other securities not specifically defined as Permissible Holdings, above.

B. CASH AND EQUIVALENTS

The cash portion of the Foundation shall be invested in a Short Term Investment Fund ("STIF") administered by the Custodian Bank and emphasizing safety of principal, a Money Market Mutual Fund as evaluated and selected by the Custodian Bank/Investment Manager, or in individual securities adhering to the guidelines stipulated below. Money held in the cash reserve shall be viewed as essentially riskless.

1. Maturity

No security will have more than one year to maturity at the time of purchase.

2. Quality

Any securities issued or guaranteed by the U.S. government are permissible. Commercial paper shall be rated at least "A-2" (by Standard & Poor's) or "P-2" (by Moody's Investors Service). Bankers acceptances issued by banks with outstanding commercial paper with a rating of A2/P2 are permissible.

C. COMMINGLED OR MUTUAL FUNDS

As the UWF cannot direct the particular investment policies of any commingled or mutual funds used in the Foundation's investment structure, the broad guidelines outlined below will govern the selection of appropriate vehicles.

1. Aggregate Assets

a) Minimum

The UWF will determine for each fund provider a threshold level of aggregate assets (including both the assets in the pool or fund and any separate account assets managed similarly) sufficient to ensure broad diversification, efficient trading, and economies of scale in administrative expenses and transaction costs.

b) Maximum

The UWF will determine for each fund provider whether the aggregate assets (including both the assets in the pool or fund and any separate account assets managed similarly) have reached a size where they are causing the asset manager to deviate from the portfolio construction methods upon which the performance record was built.

2. Personnel

The UWF will monitor the organizations providing investment management services to the funds, to ensure stability of personnel, thereby encouraging consistency of investment method.

3. Expenses

The UWF will monitor both management fees and administrative expenses, to ensure that expenses are within normal and customary tolerances.

4. Portfolio Characteristics

The UWF will establish general expectations of each fund or pool's aggregate portfolio characteristics. Deviations from expectations will occasion a review of the fund's continued appropriateness in the Endowment's investment structure.

D. LYSTER WATSON BETA PORTFOLIO

The Lyster Watson Beta Portfolio is a long/short equity portfolio advised by Lyster Watson. The strategy is generally to have an 80% upside equity exposure and 40% downside exposure.

E. LYSTER WATSON HEDGE FUND PROGRAM

1. Definition

Hedge funds will refer to any investment or investment strategy that at its core is not a long-only portfolio of traditional equity or fixed income instruments. The UWF recognizes that hedge funds cover an enormous variety of non-traditional investments and investment strategies, spanning various levels of risk and return. The UWF will seek hedge fund exposures which are generally on the conservative end of the risk spectrum, and which offer significant diversification benefits to the UWF's investment program, with the goals of enhancing returns and helping to lower the overall investment program's volatility of returns.

2. Diversification

The hedge fund program shall be invested in a broad array of alternative, non-traditional investment strategies including, but not limited to: commodities and futures, distressed securities, short/long or both, international opportunities, relative value.

3. Correlation of Returns with Those of Traditional Asset Classes

In addition to the expectation that the Hedge Fund Program will provide a high likelihood of positive absolute returns, it is expected that the Program will generate returns that have low correlation with the equity or fixed income markets.

E. SYNTHETIC EQUITY/ PORTABLE ALPHA PORTFOLIO GUIDELINES

The UWF may use portable alpha strategies in the Endowment's Investment Structure. The strategy typically gains access to the beta (or asset class) of the strategy by using derivative instruments such as options, futures and/or swaps. The portfolio alpha strategy employed may be a bundled or unbundled approach. In a bundled approach, an external manager would be responsible for generating the beta and alpha portions of the strategy. In the unbundled approach, UWF Staff may execute the derivative instruments necessary to gain exposure to the intended beta or asset class. The external manager for the alpha portion of the strategy shall generally follow the investment objectives, guidelines, policies and restrictions set forth in the section below.

1. Beta Exposure

The external manager or Staff will maintain exposure to the asset class through index futures, swaps, or equivalent securities equal to 100% of the principal value of the portfolio at all times. Index exposure will be rolled at the manager's or Staff's discretion.

2. Alpha Exposure

The alpha component of the alpha transfer strategy may be comprised of long-only or hedge fund like strategies. The manager for the alpha component will typically use a fund of funds vehicle. The alpha component will fall under the appropriate section of this Statement and it is expected that the UWF will not be able to direct the investment policies of any commingled or mutual fund vehicle used in the Endowment's investment structure.

For purposes of "Asset Class" in Section IX., the Alpha Transfer Portfolio(s) shall be treated as part of the intended beta allocation.

F. PRIVATE EQUITY

1. Definition

"Private Equity" will refer to the asset class whose component strategies include venture capital, buyout and mezzanine financing, and distressed financing. The investment activities of these strategies result in an ownership interest represented by securities that are not traded in a public market. UWF recognizes that Private Equity covers a variety of non-traditional investments and investment strategies, spanning various levels of expected risk and return. The goal of having private equity investments in the Endowment's structure is to increase the expected returns of the total portfolio.

2. Diversification

UWF shall be invested in a broad array of private equity investment strategies including, but not limited to: traditional private equity, early and late stage venture capital, leveraged buyouts, mezzanine financings, distressed companies or securities, international opportunities, and secondary opportunities. No individual private equity fund (excluding funds of private equity funds) will typically comprise more than 15%

of the Endowment's total private equity exposure on a fully funded basis. No single strategy will typically comprise more than 70% of the Private Equity Program on a fully funded basis.

3. Liquidity

Once UWF has committed assets to a private equity fund or fund of funds, the Endowment will be unable to withdraw assets prior to termination of the partnership without significant loss of principal. In all cases, UWF will try to avoid withdrawing from its limited partnership status (selling its stake in the partnership), unless there are specific prudent reasons to do so.

4. Appropriate Benchmark

The Endowment will use a combination of absolute and relative benchmarks to gauge the performance of its private equity investments.

Given the high absolute risk of these strategies, the Endowment expects to achieve a return in excess of the Cambridge Custom Index, which may be 10-15 years for private equity investments.

The performance of these investments will also be measured against appropriate private equity investment type benchmarks and vintage year benchmarks.

F. POLICY IMPLEMENTATION OVERLAY SERVICE

UWF hired the Clifton Group to implement an overlay investment strategy which seeks to invest cash not currently being invested by each separately managed portfolio for the Endowment. See exhibit A for the Investment Policy Statement for the overlay service.

For purposes of "Asset Class" in Section IX., the overlay service shall not be treated as part of any asset allocation.

The restrictions on derivative instruments set forth in Section X shall not apply to the overlay service.

H. REAL ASSETS INVESTMENT PROGRAM

Slocum will advise UWF on the commodities and energy portions of the Real Assets Investment Program ("Program") for the Endowment. The Program includes strategic allocations to investments sharing a significant positive correlation with inflation. The strategies in the Program are included in the table below:

Strategy	Sub-Strategy	Consulting Responsibility
Real Estate	**Core Long/Short**	**Slocum**
	Core Public	**Townsend**
	Core Private	**Townsend**
	Value Added	**Townsend**
	Opportunistic	**Townsend**
Timber	**Timber**	**Townsend**
Energy	**Upstream**	**Slocum**
	Midstream	**Slocum**
	Downstream	**Slocum**
Commodities	**Directional**	**Slocum**
	Long/Short	**Slocum**

In the Real Assets Program, Slocum is being asked to seek, evaluate and recommend managers in the long/short real estate sub-strategy and energy and commodities strategies for the Endowment. UWF may, at any time, hire or fire any managers in the Real Assets Program without Slocum's aid or approval. Slocum will also aid UWF with respect to its strategic and tactical allocations in the Real Assets Investment Program.

I. OTHER ASSET CLASSES

Guidelines for investments in other asset classes may be established in the future by the UWF.

SECURITIES LENDING

ELIGIBLITY OF SECURITIES

All individual securities which are readily marketable and which are not restricted due to an outstanding short option position are eligible for loan at the discretion of the custodian bank lending manager.

DETERMINATION OF SECURITY LOANS

The custodian bank shall be responsible for determining credit worthy borrowers, determining which securities are available for loan, and negotiating the terms of the loan agreement. All loans will be on such terms that the transaction will be transparent to the relevant investment manager and such that the security can be recalled in time to clear if it is sold by the manager.

COLLATERAL TYPES AND LEVELS

Collateral for the market value of securities loaned will be collected into an escrow account for the UWF's benefit for the duration of the loan. At all times the UWF will retain custody of either the security or the collateral. Collateral may be in the form of cash, U.S. or foreign sovereign government securities, or irrevocable Letters of Credit from banks approved by the custodian bank. The minimum levels of collateral will be set at 102% of the market value of domestic securities and foreign debt loaned. All collateral amounts will be marked to market daily.

INVESTMENT OF COLLATERAL

The collateral received from securities will be invested immediately and continuously by the custodian into an agreed-upon short-term investment account. This account may invest in repurchase agreements, master notes, U.S. Government Securities, U.S. or Eurodollar certificates of deposit, time deposits and commingled paper. All commingled paper must have a minimum quality of A1/P1 or equivalent.

MATURITY OF COLLATERAL

Maximum maturity limitations of one year for U.S. government securities, 181 days for term loans and 91 days for other issues. No more than 40% or the portfolio may have maturities greater than 21 days, excluding those investments tied to term loans.

DIVERSIFICATION OF COLLATERAL

There is no limitation on U.S. government securities. No more than $25 million shall be invested in a single issuer repurchase agreement. At the time of purchase, no more than 20% of the portfolio may reinvested in a single issuer repurchase agreement. Excluding repurchase agreements, no more than 15% of the portfolio shall be invested with a single issuer.

OTHER

The UWF will receive quarterly data from the custodian bank on the performance of the collateral investment account compared to Treasury-bill returns and other STIF funds. They will also receive immediate notification of any adverse developments in the management of that account.