Approved by the Regents
September 19, 2024

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Long Term Portfolio Investment Policy

Action Requested: Approval of the Long Term Portfolio Investment Policy Statement

Background and Summary: The Long Term Portfolio Investment Policy Statement (IPS) consolidates and formalizes various guidelines, restrictions, and delegations previously established by the Board of Regents for governing the university's Long Term Portfolio (LTP). The LTP serves as the primary investment vehicle for the university's endowment funds.

The consolidation of existing Board-approved guidelines and restrictions incorporates additional risk management and diversification guidelines recommended by the university's investment consultant, Cambridge Associates. As set forth in the IPS, the Chief Investment Officer will continue to be responsible for the day-to-day management of the Long Term Portfolio and the Investment Office's operations, investment programs, and reporting.

Each of the Finance, Audit and Investment Committee and the Investment Advisory Committee have reviewed and discussed the IPS and recommend its adoption.

Recommendation: I recommend the approval of the Long Term Portfolio Investment Policy Statement.

Respectfully submitted,

Geoffrey S. Chatas
Executive Vice President and
Chief Financial Officer

September 2024

University of Michigan
Investment Policy Statement
September 2024

I. Overview

Pursuant to Article VIII § 5 of the Constitution of the State of Michigan and the Bylaws of the Board of Regents of the University of Michigan (the "Regents"), the Regents are vested with authority over the general supervision of the University of Michigan and the control and direction of expenditures from the university's funds, including the university's endowment funds and other funds. The university is recognized as a constitutional corporation, formally known as the Regents of the University of Michigan.

As set forth in the university's Bylaws (the "Bylaws"), action of the Regents ("Regental Action"), the university's Standard Practice Guide ("SPG"), and applicable laws, the Regents have established, or delegated the establishment of, investment policies and procedures that govern the university's investments. This statement of investment objectives, policies, and guidelines governs the management and oversight of the university's Long Term Portfolio ("LTP"), which is the primary investment vehicle for the university's endowment funds.

This Investment Policy Statement ("IPS") establishes, amends, restates, and, to the extent inconsistent, supersedes, the policies, procedures, and action items that guide the Regents in overseeing the management of the LTP, including periodically establishing strategic asset allocation targets and ranges and reviewing investment results. This statement is effective until modified by the Regents. The management of the LTP is subject to state and federal regulations and laws, and other university investment policies, which may not be listed in this document.

II. Investment Objectives

The primary objective for the LTP is to serve as the investment vehicle for the university's endowment funds – a collection of more than 12,000 individual endowments, by generating long-term capital growth and income while limiting downside risk within the portfolio. The goal is to provide a predictable and stable stream of distributions for the endowed programs that will grow in real, inflation-adjusted terms, thus ensuring equitable access to resources and opportunities and a commitment to consistent program support both now and in the future.

In order to provide a stream of distributions that will grow in real terms, the endowment must earn on average, over time, at least a total rate of return equal to the distribution rate set by the Regents, plus inflation and expenses. A core principle of the LTP will be prudent risk management and a diversified investment portfolio that seeks reliable growth.

Predictability and stability in funding is achieved through the distribution rule by basing the distribution rate on a trailing average market value instead of the current market value, which insulates the university's operations from the volatility associated with financial markets.

The primary measure of the university's investment success will be performance relative to the Long Term Portfolio Custom Benchmark, in which the benchmark for each asset class is weighted by its respective weight in the Model Portfolio as described in Exhibit B "Benchmark Definitions". Secondarily, the university will seek to deliver performance that is competitive with that of other college and university endowments while aiming to maximize returns commensurate with an appropriate level of risk.

III. Distributions and Withdrawals

Various endowment funds comprise the LTP. The assets in the LTP include (a) pooled (unitized) endowment funds (both true and quasi) of the university and its affiliates; (b) a quasi-endowment established for the core portion of the deposits of university departments; (c) a portion of the university's insurance and long term disability reserves and (d) gift annuity and charitable remainder trust programs.

True endowment funds are received from donors with the stipulation that the principal be invested in perpetuity to generate income for specific purposes outlined by the donor. In contrast, quasi-endowment funds are allocated by university units for long-term investment purposes and are not limited by donor stipulations requiring the preservation of principal in perpetuity. Because quasi-endowment funds share the same long-term investment strategy as true endowments, they are required to have a minimum five-year investment period or lock-up period, subject to notice before withdrawal and expenditure, in accordance with SPG 501.11. The same lock-up period applies to quarterly distributions that are reinvested into the quasi-endowment.

To insulate the university's operating budget from market volatility, the Regents established a distribution policy for unitized endowment funds. The policy is designed to provide a stable and growing stream of distributions while protecting the value of the endowment funds over time and preserving intergenerational equity. The distribution rate is applied to the fair value of the endowment, which is defined as the one-quarter lagged seven-year moving average market value of unitized endowment fund shares.

The current distribution rate of 4.5% was established by the Regents in July 2010. This rate and the fair value of the endowment metric lessen the volatility of spending distributions to unit holders while preserving the corpus of the university's endowment funds in real terms. Additionally, this distribution policy results in distributions representing a lower percentage of current market value in a rising market and in the converse in a falling market environment. To protect the endowment from over-distribution in the event of a prolonged market downturn, distributions are limited to 5.3% of current fair value.

IV. Division of Responsibilities

Pursuant to the Bylaws and Regental Action, and as ratified in this IPS, the Regents have made delegations related to the management of the LTP as follows:

A. Board of Regents

Upon the recommendation of the Finance, Audit and Investment Committee (the "FAI"), the Regents approve investment policies which guide the management of the university's investment portfolios. This includes but is not limited to the strategic asset allocation, performance goals, spending, and delegations. The Regents, through the FAI, approve new investments with an initial investment amount in excess of one percent of the value of the LTP.

B. Executive Vice President and Chief Financial Officer

The Regents have delegated to the Executive Vice President and Chief Financial Officer ("EVPCFO") the general supervision of and responsibility for proper management of all investments of the university, including the Long Term Portfolio with some limitations as described below. The EVPCFO is authorized and responsible for the following:

1. Overseeing the evaluation of the Chief Investment Officer (or functional equivalent) who is charged with the management of the Long Term Portfolio as described below.
2. Approving new investments submitted by the Chief Investment Officer for an initial investment of up to one percent of the value of the LTP as well as investments with follow-on funds managed by a previously approved manager.
   a. Initial investments constituting one percent or less of the value of the LTP will be disclosed to the FAI prior to approval and will be deemed approved unless objections are raised within two days after the disclosure.
   b. Initial investments constituting more than one percent of the value of the LTP require approval by the FAI.
3. Periodic reporting to the Regents on the portfolio and activities of the Investment Office.
4. Approving members to the Investment Advisory Committee (the "IAC") and any sub-committees which are charged with assisting the EVPCFO in guiding the university's investment activities.
5. Electing to call a meeting (in person, by teleconference, or remote) of the IAC to discuss investment decisions or portfolio issues.
6. Appointing chairs to the IAC and any sub-committee chair at the EVPCFO's discretion.

C. Chief Investment Officer

The Chief Investment Officer (the "CIO") will report directly to the EVPCFO and will lead the university's investment staff who will have responsibility for the university's endowment and investment pools. The CIO will direct the ongoing development and implementation of an investment strategy to bring about and maintain sufficient growth of assets required to support the university's broad ranging programs. Leading the university's investment organization, the CIO's responsibilities will include the following:

1. Developing an overall strategy including policy guidelines, asset allocation strategy, and risk management parameters;
    a. Presenting the investment strategy for discussion and approval, and then implementing it;
    b. Preparing options and recommendations for diversification of the investment portfolios;
    c. Reviewing and selecting new investment managers to implement asset allocation strategy and diversification;
    d. Evaluating and monitoring the investment performance, including ongoing evaluation of current external managers and making changes as appropriate;
    e. Terminating investment managers;
    f. Overseeing the evaluation and selection of direct investments and executing the principal documents related thereto;
2. Establishing effective working relationships with the IAC and the Regents, as well as with others in the university as appropriate;
3. Working closely with the EVPCFO to ensure that the financial objectives of the endowment and other investment pools are achieved;
4. Overseeing custodial, depository, legal and all other operating functions of the investment program;
5. Overseeing performance measurement and reporting functions;
6. Establishing and monitoring risk management guidelines;
7. Overseeing the working relationships with the university's applicable supporting units, including financial operations, legal, tax, human resources, and other relevant departments, to ensure compliance with university policies and procedures as well as applicable legal, tax, and regulatory requirements;
8. Leading, developing, and mentoring an investment team to ensure a collegial environment where high performance is achieved;
9. Regular reporting on investment performance as required; and
10. Amending or modifying the exhibits to this IPS (other than the Model Portfolio) upon approval of the EVPCFO.

D. Investment Advisory Committee

The IAC is an external advisory board that:

1. Advises the EVPCFO and the CIO on matters relating to the management of the university's investment portfolios, including, but not limited to, advice on overall asset allocation, performance goals, portfolio risk management, and new investment strategies; and
2. Advises the EVPCFO on compensation of investment staff and other administrative matters.

The IAC will not oversee manager selection or termination or specific investment office investments.

E. External Managers

With the approval of the EVPCFO, the CIO may hire and delegate to external investment managers responsibility for managing investments on behalf of the university. The investment managers will be required to invest in compliance with all relevant laws, the respective investment manager's individual investment management agreement(s), and as applicable, the stated investment guidelines in this IPS. The CIO can terminate any such relationship without further approval.

IV. Investment Guidelines

A. Investment Principles

A principal goal of the LTP is to balance the competing priorities of paying an annual distribution to unit holders while maintaining the inflation adjusted value of assets net of spending. To achieve this objective, the investment portfolio will be invested in a diversified mix of assets that generate the required level of expected returns. Therefore, equity or equity-like investments will dominate the portfolio, while some investments will aim to preserve value through periods of market volatility to meet spending and liquidity needs.

Given the long-term nature of the portfolio, it can benefit from a high allocation to appropriate illiquid investment strategies that are expected to generate superior returns compared to their publicly traded counterparts. The portfolio will be broadly diversified across and within asset classes and individual investment strategies and will have components that seek to protect against inflation, deflation, and short-term market volatility.

The long-term nature of the assets in the LTP, the relatively low and predictable liquidity needs, and an endowment distribution rule that seeks to ensure stability in endowment distributions allows for a relatively high tolerance of market volatility in the portfolio. Therefore, guidelines are designed to protect against the primary risk of permanent loss of capital or impairment that results in a decline in the purchasing power of the corpus in real terms, as well as ensuring proper liquidity to provide for endowment distributions and funding of LTP obligations.

Asset allocation is the primary driver of absolute investment returns and typically explains the majority of portfolio returns. The strategic asset allocation is described by the Model Portfolio attached as Exhibit A. The LTP Custom Benchmark reflects the performance of the strategic asset allocation. A corollary goal is to further enhance returns by careful selection of top-tier investments within an asset class, deviations from the strategic asset allocation to benefit from a temporary broad investment theme, and specific investment initiatives targeted to a narrow set of investment opportunities.

B. Asset Allocation

The university has established a Model Portfolio as a strategic benchmark reference portfolio. This portfolio is designed to achieve a long-term investment asset allocation that balances the need for both growth and stability. As an institutional portfolio similar to the LTP, it provides a framework to evaluate implicit and explicit investment decisions made over time and serves as the basis for the performance-based benchmark the university uses to measure investment performance.

The Model Portfolio establishes targets and allocation ranges for each individual asset class, serving as guidelines for the investment of the portfolio. By properly limiting the maximum and minimum exposures for individual asset classes in the portfolio, the university can ensure diversification and balance risk and return. This positioning allows the university to earn an investment return sufficient to sustain distributions in real terms with an appropriate level of risk.

The ranges for each asset class are designed to be sufficiently wide to (a) allow for staff flexibility to manage allocations between the various asset classes; (b) invest in illiquid managers—where the endowment does not control the timing of cash flows, and (c) take advantage of specific investment opportunities. However, the ranges are also designed to be narrow enough to ensure the maintenance of desired levels of diversification and adherence to a specific risk-return profile for the portfolio. This practical flexibility is needed to allow the university's investment professionals to properly manage the investments in the LTP.

The current Model Portfolio is attached as Exhibit A.

C. Asset Class Considerations

As described by the Model Portfolio, the portfolio will be invested in marketable and illiquid asset classes. The majority of the endowment is focused on enhancing returns and will be invested in equity-oriented strategies, including market traded equities as well as

Venture and Private Equity. Natural Resources and Real Estate target attractive risk-adjusted return and serve as a hedge against inflation. Fixed Income and Cash serve as a hedge against deflation. Absolute Return strategies provide diversification and give the LTP the ability to weather difficult market conditions. The portfolio's investments will be held in commingled or separately managed funds or other investment vehicles (generally referred to as fund investments) or directly by the university.

Marketable Securities

Marketable Securities includes strategies where the underlying investments predominantly are in the form of securities that can be traded. This category of investments includes Equities, Fixed Income, Cash and Absolute Return.

Market Traded Equities

This asset class is designed to drive long-term growth. Market Traded Equities includes investments in publicly traded stocks listed in the U.S. and abroad that exhibit a high correlation to the overall market.

The LTP's managers primarily employ active investing strategies, though passive exposure may be utilized for asset allocation or portfolio construction reasons. The market traded equities portfolio is benchmarked to a global index of stocks as described in Exhibit B "Benchmark Definitions". Short-term tracking error is not a significant concern.

Fixed Income

The fixed income allocation serves as a stabilizer in the portfolio, protecting the portfolio during periods of deflation, recession, and times of financial stress. This asset class is designed to provide exposure to high quality fixed income securities that can serve this purpose, including US Treasuries, Agencies and high-quality bonds that take on a degree of credit risk, including non-U.S. sovereign bonds and corporate bonds. In addition to emphasizing quality, the fixed income allocation is designed to emphasize long-duration bonds to protect against inflation, as longer duration bonds tend to outperform shorter duration bonds during periods of flat or declining interest rates and lag when interest rates rise. The portfolio is benchmarked against a blended index of U.S. Government and Corporate fixed income securities as described in Exhibit B "Benchmark Definitions".

Cash

The allocation to cash is intended to meet the short-term, transactional needs of the portfolio and as a temporary store of value in lieu of more attractive investment opportunities. It is benchmarked against short term government securities as described in Exhibit B, "Benchmark Definitions".

Absolute Return

This asset class contains a collection of investments in non-traditional strategies that, in aggregate, are designed to exhibit low correlation to the direction of overall markets while generating returns over the long term that are competitive with equities.

Absolute return includes long/short equity investments, primary and secondary credit investments and other strategies designed to show low correlation to the direction of equity markets. Absolute return strategies substitute an ability to identify and profit from security-specific trades for exposure to the market in general. Some absolute return investments are in funds that have liquidity provisions that enable the university to make full or partial periodic withdrawals subject to restrictions on prior notice, while others are structured as illiquid, private equity-style partnerships. Underlying investments in these funds often are in the form of market traded securities, both equities and fixed income, or privately negotiated debt securities.

Long/short funds hold both long and short positions generally exhibit muted responses to market movements in either direction. A fund's portfolio may range from being net short to net long. Primary and secondary credit strategies provide contractual returns and seek to generate positive cash flows that are less dependent on general market cycles.

Absolute return funds generally utilize modest leverage, and may use futures, options, or other derivatives. The university's allocation to absolute return strategies may also include medium-term opportunistic investments defined as having a one-to-three year expected time horizons. Opportunistic investments may be directional in nature, but they are expected to offer superior value and/or asymmetric return profiles. The portfolio is benchmarked against an investable diversified index of similar strategies as described in Exhibit B, "Benchmark Definitions".

Alternative Assets (Illiquid)

Alternative Assets (Illiquid) includes investments in venture capital, private equity, real estate, and natural resources where the managers take direct ownership positions in businesses and properties, with the intent of actively enhancing the value through higher growth and/or increased profitability. These strategies typically are structured as private equity partnerships.

Investments in Alternative Assets (Illiquid) are expected to generate a premium over public market equities in the long term to compensate for the higher risk and illiquidity inherent in these strategies. A performance hurdle of 2.5 percent per year above U.S. public market equities appropriately captures this higher level of risk. Exhibit B, "Benchmark Definitions" describes the university approach to measuring short-term and long-term investment success in this area.

Venture & Private Equity
This asset class is included in the portfolio to provide long-term capital appreciation and diversification through a range of private market equity-based strategies, including venture capital, growth equity and company acquisitions. Venture & Private Equity investments can range from funds or other investments in newly created companies, primarily in technology and life sciences, to investments in existing, predominantly private companies. These investments are made with an expectation that returns will be enhanced through active ownership of or engagement with companies to drive growth or profitability. The Venture & Private Equity investment program will be global in reach with investee companies located primarily in in the U.S. and Europe, secondarily in Asia and Latin America, and opportunistically in other regions including Africa.

The university expects it will be compensated for the illiquidity it takes on when making these investments by premium returns relative to the public equity market over the long term. Moreover, these investments should be expected to include opportunities and drivers of return not otherwise accessible through more liquid markets, thereby implying additional diversification for the overall portfolio.

Real Estate and Natural Resources
The long-term objective of the real estate and natural resources investments is to provide equity-like returns while providing a partial hedge against inflation.

Real Estate
The Real Estate is a diversifying asset class that can be highly inefficient, providing active managers opportunities to add significant value across a wide range of property types, including residential, office, retail, hotel, digital infrastructure, private storage, and industrial, predominantly located in the U.S., Europe, and to a lesser extent Asia.

Natural Resources
The Natural Resources allocation will be invested primarily in companies focused on renewable and low carbon sources of energy and companies that generally help to accelerate the energy transition, including sustainable infrastructure and carbon reduction strategies. In addition, the Natural Resources allocation will be invested in opportunities related to other natural resources such as timber, agriculture, minerals, and water utilization. The university no longer invests in companies that primarily produce coal and oil.

D. <u>Certain Investment Programs, Direct Investments, and Co-Investments</u>

The university has established certain investment programs that leverage the university's expertise and excellence in research and access to the university's innovation ecosystem. Additionally, the university has developed and may develop idiosyncratic investment programs that target investment opportunities that benefit from the university's broader networks.

The investment staff may make and manage direct investments up to a total exposure in one investment not to exceed 100 basis points of the LTP.

The investment staff may make co-investments managed by external managers of the university, subject to the investment concentration limits see Exhibit C, “Certain Investment Programs, Direct Investments, and Co-Investments” describes the foregoing in more detail.

E. Restrictions and Governance

Climate Change-Related Risk Policy[1]

While fiscal goals are of central importance to the growth of the LTP, to reduce the environmental and economic risk to the LTP arising from climate change, the university has adopted an investment strategy that increases consideration of climate change related risks. To further reduce such risks on the investment portfolio, the following shall apply to the LTP:

1. The university will not directly invest in companies that are the largest contributors to greenhouse gases, currently defined as the top 100 coal and the top 100 oil and gas publicly traded reserve holders globally as compiled on the Carbon Underground 200™ list;
2. The university will not invest, and over the last decade has not invested, in companies that extract thermal coal or that extract oil from tar sands;
3. The university will not invest in funds whose primary focus is oil reserves, oil extraction, or thermal coal extraction;
4. The university will transition its endowment to net-zero greenhouse gas emissions by 2050 in a manner consistent with the university’s fiduciary duty to manage risks and maximize risk-adjusted returns; and
5. The university will shift its natural resources investment focus away from oil extraction and reserves towards renewable energy investments with an attractive risk-adjusted return profile. The university will also focus on infrastructure and services investments with an attractive risk-adjusted return profile that support more efficient resource utilization and other emerging technologies that support the transition to a carbon-neutral economy.

[1] Approved by the Board March 25, 2021 and as restated and ratified hereby.

***Tobacco Policy*[2]**

The university will not directly own shares of stock in companies that, either themselves or through their subsidiaries, manufacture significant quantities of cigarettes or other tobacco products.

***Proxy Voting*[3]**

As a shareholder, the university is entitled to engage in the determination of corporate affairs consistent with those of any shareholder. These include the responsibility and authority to vote proxies in alignment with the role and objective of higher education, while simultaneously benefiting the university's financial interests. The university and its external managers shall discharge their fiduciary duties with respect to the LTP in the reasonable discretion of the CIO as follows:

1. The university shall vote to maintain the one-share, one-vote standard;
2. The university shall vote for management proposals except when the proposals are detrimental to the financial interests of the university as a shareholder;
3. The university shall vote for shareholder corporate governance proposals that are in accord with the financial interests of the university as a shareholder; and
4. The university shall abstain on all social and political issues except when the Regents has established a specific voting policy.

***Divestment Decisions*[4]**

The university maintains a steadfast commitment to insulating the endowment from political influences, ensuring that investment decisions are grounded in financial considerations such as risk, return, and adherence to applicable laws. The primary objective of the university's endowment investments is to maximize income, while appropriately managing investment risk, to support the university's missions of teaching, research, patient care, and service.

The university recognizes its significant responsibility to donors to manage endowment contributions effectively, optimizing resources for their designated purposes. To achieve this, the university commits to maintaining a diversified investment portfolio aimed at mitigating risk and enhancing returns. As responsible fiduciaries, the university protects the portfolio's integrity, with ultimate and exclusive authority over divestment decisions residing solely with the Board of Regents. Any decision to establish a committee to consider any divestment will be solely at the discretion of the Board of Regents. This governance structure enables the university to navigate complex social and ethical

[2] Approved by the Board June 15, 2000 and as restated and ratified hereby.
[3] Approved by the Board March 17, 1988 and December 15, 1994 and as amended, restated, and ratified hereby.
[4] Approved by the Board March 1978 and as amended, restated, and ratified hereby.

considerations with a consistent policy framework that prioritizes the institution's mission and the long-term health of its endowment.

F. Other Investment Considerations

Use of Derivatives

The LTP employs managers that use derivatives, including options, futures, swaps, puts and calls. Managers may also sell securities short. A manager's use of derivatives for the university's separate accounts is articulated in the manager guidelines and is included in the manager's investment objectives when appropriate. Additionally, staff may employ derivatives for the purpose of managing the portfolio's overall asset allocation or risk management.

Investment Concentration

The invested value of a liquid manager should generally not be greater than five percent of the aggregate portfolio and an illiquid manager should generally not be greater than three percent of the portfolio without review and discussion with the IAC and the adoption of a management plan, as applicable, for positions that exceed the concentration limits.

Secondary Sales of Illiquid Assets

The investment staff may undertake secondary sales of illiquid assets in order to manage overall asset allocation and to provide flexibility for the management of the portfolio.

G. Performance Measurement

The primary measure of the university's investment performance will be the Long Term Portfolio Custom Benchmark, in which the benchmark for each asset class is weighted by its respective weight in the Model Portfolio as described in Exhibit B "Benchmark Definitions". The secondary measure of the university's performance will be whether the portfolio meets its overall investment objective of an annual total rate of return equal to the distribution rate set by the Regents, plus inflation and expenses over the long term, i.e., periods of at least 10 years.

H. Liquidity Guidelines

The LTP has liquidity demands from campus payout and funding legally binding commitments of capital to funds. Additionally, the portfolio will be positioned to have capital available to respond to changing market conditions and have the flexibility to invest in areas of absolute or relative attractiveness. To address each of these needs, care must be given to the level of liquid assets in the portfolio and the level of future funding commitments made. However, the permanent nature of the LTP's capital and stabilizing impacts of the distribution rule allow lower levels of liquidity in pursuit of high-quality investments that are expected to deliver returns in excess of publicly traded markets.

The Regents approved external credit facilities to be utilized as specified in such approval at the direction of the EVPCFO. Additionally, such facilities shall allow the university to make uninterrupted endowment distributions regardless of capital markets conditions or the portfolio's liquidity constraints. Credit facilities may be drawn to fund the university's capital needs in lieu of endowment distributions when the EVPCFO deems it appropriate.

I. Leverage

While the LTP may be invested in funds that utilize differing forms of leverage, the portfolio as a whole is to remain unlevered. Unlevered means that the total notional exposure of the portfolio should not exceed 100 percent of the value of the assets.

V. Conflict of Interest Policy

The Investment Office has established various conflict of interest policies to provide guidelines for ethical and appropriate behavior for Investment Office staff and members of the IAC. The university has established an Investment Conflicts Committee (the "ICC") the purpose of which is to determine whether a perceived or apparent conflict of interest should preclude a given investment from consideration by the Investment Office. Investment Office staff and IAC members are required to exercise care to avoid any potential conflict of interest or the appearance of a conflict of interest between such staff or IAC member's personal, financial or business interests and the interests of the university. Investment Office staff and IAC members must comply with all applicable federal, state and local laws. In addition, to the extent not inconsistent with the Investment Office's conflict of interest policy applicable to staff, Investment Office staff must act in accordance with the university's Business and Finance Vendor Gift and Gratuity Policy as well as the Code of Ethics and Standards of Professional Conduct of the CFA Institute. Investment Office staff and IAC members are required to comply with the conflict disclosure requirements set forth in their applicable conflict of interest policies.

Additionally, the ICC is staffed by non-Investment Office personnel with financial expertise. The ICC is authorized to establish and approve conflict management plans where a potential conflict may arise between the university and a given portfolio investment due to the university's institutional relationship with a key principal of the portfolio investment, whether such key principal is a significant university donor or a member of the IAC.

VI. Non-Disclosure Policy

Investment Office staff and IAC members have a duty to use care and discretion in the handling of confidential information obtained in their Investment Office capacity. Any confidential information obtained through activities, meetings and discussions related to the Investment Office may not be used by Investment Office staff or IAC members for personal gain, or disclosed to others outside the Investment Office, including family members. The foregoing prohibition includes any material, non-public information regarding a publicly traded company, which if used, would be considered prohibited insider trading.

VII. Interpretation of Relevant Law and Accounting Standards

Investment Office Staff are required to meet their fiduciary duties consistent with this IPS and applicable federal and state law, including, without limitation, the Uniform Prudent Management of Institutional Funds Act (MCL 451.921 through 451.931). With respect to the university's investment decisions, staff will act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and will consider, if relevant, the following factors: (a) the duration and preservation of the endowment fund; (b) the purposes of the institution and the endowment fund; (c) general economic conditions; (d) the possible effect of inflation or deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the university; and (g) this IPS.

University of Michigan
Investment Policy Statement Exhibits
September 2024

University of Michigan
Investment Policy Statement
Exhibit A
Model Portfolio

LTP - 2023 Model Portfolio with Allowable Ranges

MARKETABLE SECURITIES	Model Portfolio	Maximum Allocation	Minimum Allocation	Allowable Range
Equities	20.0%	30.0%	10.0%	+10%/-10%
Fixed Income	10.0	15.0	4.0	+5/-6
Cash	2.0	10.0	0.0	+8/-2
Absolute Return	18.0	25.0	10.0	+7/-8
TOTAL MARKETABLE SECURITIES	**50.0%**	**75.0%**	**35.0%**	**+25/-15%**

ALTERNATIVE ASSETS (ILLIQUID)	Model Portfolio	Maximum Allocation	Minimum Allocation	Allowable Range
Venture & Private Equity	30.0%	45.0%	15.0%	+15%/-15%
Real Assets	20.0	30.0	10.0	+10/-10
TOTAL ALTERNATIVE ASSETS (ILLIQ.)	**50.0%**	**65.0%**	**25.0%**	**+15/-25%**

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Investment Policy Statement
Exhibit B
Benchmark Definitions

Long Term Portfolio | Custom Benchmark

Asset Class	**Model Weight**	**Benchmark Index ≤ 3 years**	**Benchmark Index > 3 years**
Market Traded Equities	20%	45% MSCI[1] USA IMI Ex FF[2] 45% MSCI EAFE Ex FF Net 10% MSCI EM Ex FF Net *Less* 15 bps	45% MSCI USA IMI Ex FF 45% MSCI EAFE Ex FF Net 10% MSCI EM Ex FF Net *Less* 15 bps
Fixed Income	10%	50% Bloomberg U.S. Aggregate 50% Bloomberg U.S. Long Duration Gov't/Credit	50% Bloomberg U.S. Aggregate 50% Bloomberg U.S. Long Duration Gov't/Credit
Absolute Return	18%	100% HFRI[3] Fund of Funds Index	100% 3-Month T-Bills *Plus* 500 bps
Cash	2%	100% 3-Month T-Bills	100% 3-Month T-Bills
Venture & Private Equity	30%	50% CA[4] Venture Capital 50% CA Private Equity	100% MSCI USA IMI Ex FF *Plus* 250 bps
Real Assets[5]	20%	40% CA Real Estate Index ~25% CA Infrastructure Index, as applicable ~25% CA Energy PE Index, as applicable ~10% CA Energy Upstream and Royalties, as applicable	CA Real Estate Index, as applicable MSCI USA IMI Ex FF, as applicable CA Infrastructure Index, as applicable *Plus* 250 bps
Total	**100%**	The benchmark for the total LTP is the weighted average performance of the above asset class specific benchmarks for periods ≤ 3 years.	

[1] Morgan Stanley Capital International
[2] Fossil Fuels
[3] Hedge Fund Research, Inc.
[4] Cambridge Associates, LLC
[5] As a result of the consolidation of the Real Assets asset class due to growing overlap of the underlying asset classes, Real Assets is now shown with one benchmark composed of sub-asset class benchmarks instead of individual benchmarks and weights for Real Estate and Natural Resources. The benchmark weights approximate the current actual weight of the Natural Resources sub-allocation, which will decline over time and be offset by increased allocations to the Real Estate and Infrastructure sub-allocations.

Passive Benchmark Component	Weight
MSCI ACWI Ex FF	64%
Bloomberg U.S. Aggregate Index	24%
MSCI U.S. REIT Index	4%
MSCI World REIT Index	4%
MSCI World Energy Sector Index	4%
Total	**100%**

Portfolio Role	Asset Class	Weight
Return Enhancers	Equities	60%
Hedges (Inflation)	Real Assets	12%
Hedges (Deflation)	Fixed Income	12%
Diversifiers	Absolute Return	16%
Total		**100%**

Marketable Securities | Custom Benchmark

Asset Class	Model Weight	Asset Class Weight	Benchmark Index ≤ 3 years	Benchmark Index > 3 years
Market Traded Equities	20%	40%	45% MSCI USA IMI Ex FF 45% MSCI EAFE Ex FF Net 10% MSCI EM Ex FF Net *Less* 15 bps	45% MSCI USA IMI Ex FF 45% MSCI EAFE Ex FF Net 10% MSCI EM Ex FF Net *Less* 15 bps
Fixed Income	10%	20%	50% Bloomberg U.S. Aggregate 50% Bloomberg U.S. Long Duration Gov't/Credit	50% Bloomberg U.S. Aggregate 50% Bloomberg U.S. Long Duration Gov't/Credit
Absolute Return	18%	36%	100% HFRI Fund of Funds Index	100% 3-Month T-Bills *Plus* 500 bps
Cash	2%	4%	100% 3-Month T-Bills	100% 3-Month T-Bills
Total	**50%**	**100%**	The benchmark for the total Marketable Securities for all periods is the weighted average performance of the above asset class specific benchmarks shown for periods ≤ 3 years.	

Alternative Assets (Illiquid) | Custom Benchmark

Asset Class	**Model Weight**	**Asset Class Weight**	**Benchmark Index ≤ 3 years**	**Benchmark Index > 3 years**
Venture & Private Equity	30%	60%	50% CA Venture Capital 50% CA Private Equity	100% MSCI USA IMI Ex FF *Plus* 250 bps
Real Assets[6]	20%	40%	40% CA Real Estate Index ~25% CA Infrastructure Index, as applicable ~25% CA Energy PE Index, as applicable ~10% CA Energy Upstream and Royalties, as applicable	CA Real Estate Index, as applicable MSCI USA IMI Ex FF, as applicable CA Infrastructure Index, as applicable *Plus* 250 bps
Total	**50%**	**100%**	The benchmark for the total Alternative Assets (Illiquid) is the weighted average performance of the above asset class specific benchmarks for periods ≤ 3 years and the Russell 3000 Index + 250 basis points for periods > 3 years.	

[6] As a result of the consolidation of the Real Assets asset class due to growing overlap of the underlying asset classes, Real Assets is now shown with one benchmark composed of sub-asset class benchmarks instead of individual benchmarks and weights for Real Estate and Natural Resources. The benchmark weights approximate the current actual weight of the Natural Resources sub-allocation, which will decline over time and be offset by increased allocations to the Real Estate and Infrastructure sub-allocations.

University of Michigan
Investment Policy Statement
Exhibit C
Certain Investment Programs, Direct Investments, and Co-Investments

Direct Investments

The Investment Office has highly differentiated or unique access to investment opportunities and information based on its extensive network of relationships with investment managers, market participants, research professionals, and the broader university ecosystem. The investment staff have increasingly leveraged these attributes to work in collaboration with experts in the broader university community in sourcing a range of investments, other than typical fund investments, and including, without limitation, direct investments, strategic investments, special purpose vehicle investments, and certain one-off investment opportunities (each, a "Direct Investment" and collectively, "Direct Investments").

Direct Investments form part of the appropriate sub-portfolio. Investment by the Investment Office in any single Direct Investment shall not exceed 100 basis points of the LTP. The CIO shall have the discretion to size the investment appropriately given the circumstances. The CIO will make investment decisions regarding Direct Investments and shall be entitled to execute, or delegate the execution of, investment documents entered in connection with such investments.

Foundational Venture Investments

The university has constructed an investment program focused on developing a strong, early-stage venture ecosystem arising from technologies, human capital, commercialization efforts, and networks related to the university. These investments form part of the LTP's Venture and Private Equity sub-portfolio. Below are the program's guidelines:

1. The Foundational Venture Investments program will consist of three sub-programs:
    a. Michigan Investment in New Technology Startups ("MINTS"): companies created on the basis of intellectual property or technologies licensed from or developed at the university; [7]
    b. Direct Foundational Venture Investments: companies with strong ties to the university, including those founded or led by university alumni or faculty that allow the Investment Office to utilize the university's substantial expertise or involve pre-existing relationships; and

[7] Michigan Investment in New Technology Startups as approved by the Board December 15, 2011, and as amended and restated hereby.

c. Strategic Foundational Venture Relationships: funds, co-investments, or other investment vehicles that will enhance and expand networks for the Foundational Venture Investments program or other university investment relationships.

2. The Foundational Venture Investments program will be managed by the CIO and the Investment Office;
3. The university through the LTP will seek to invest in Foundational Venture Investment financing rounds raised by a company or special purpose vehicle or make commitments to funds, co-investments, or special purpose vehicles (each, a "Foundational Venture Investment");
4. Investment by the Investment Office in any single financing round for a Foundational Venture Investment shall not exceed approximately 5 basis points of the LTP, with an allowance for subsequent financing rounds or follow-on investments in excess of 5 basis points of the LTP to exercise the university's pro rata share or to secure participation in the round or fund closing;
5. The CIO shall have the discretion to size the investment appropriately given the circumstances;
6. The Investment Office will retain the discretion to refrain from investing in any given round or follow-on investment;
7. As applicable, the university will submit Action Requests seeking approval by the Regents in compliance with the State of Michigan Conflicts of Interest Statute;
8. The Investment Office will produce an annual report regarding this investment program; and
9. The CIO will make investment decisions for this investment program and shall be entitled to execute, or delegate the execution of, investment documents entered in connection with such investments.

Michigan Climate Solutions Fund ("MCSF") strategy[8]

The MCSF strategy involves making direct investments in companies alongside select strategic investors (a "Participating Company" or together "Participating Companies") who share a similar commitment to achieve net zero or decarbonization goals and whose investment and involvement with the investee company likely meaningfully de-risks the investment.

MCSF seeks to invest in technologies that are critical for meeting decarbonization goals that have been widely adopted by numerous companies in diverse industries. For a given investment, the selected Participating Company or Participating Companies are expected to vet a

[8] Approved by the Board March 28, 2024, and as restated and ratified hereby.

product/technology on the front end, invest in it and help the company grow, which substantially reduces market risk for such early-stage technology companies. Being able to benefit from Participating Companies' vetting, help in growing companies, and purchasing power on the back end gives the university a unique, sustainable competitive advantage.

Small Business Investment Companies Investments[9]

The university has constructed an investment program focused on the US Small Business Administration's ("SBA") Small Business Investment Company program ("SBIC"), which includes various SBIC investment partnerships. These partnerships are small in size and highly capital constrained as a result of SBA regulations and require the university to respond to each fundraising swiftly to obtain a material fund allocation. By becoming licensed as an SBIC, private investment partnerships enjoy access to long term, low cost government guaranteed debt financing, which increases the expected returns of the private investment capital.

The Regents have authorized the EVPCFO to approve new commitments to SBIC funds for the university's investment programs in amount in aggregate no greater than one and a half percent of the LTP per fiscal year. In each case, the university will not represent more than the percentage of the private capital to any such partnership allowable under applicable law. In all cases, any such new investment must exhibit risk and return characteristics consistent with the university's objectives and will be reported to the FAI after the investment has closed.

[9] Approved by the Board February 16, 2017, and as restated and ratified hereby.