BOARD OF TRUSTEES

INVESTMENT COMMITTEE

STATEMENT OF PURPOSE AND POLICIES

I. PREFACE

Kenyon College is a preeminent coeducational, residential liberal arts college. Its Endowment helps operations to be conducted without outside influence, in pursuit of academic quality and freedom of choice. Investment returns support educational programs which contribute to Kenyon's reputation for excellence and diversity.

A. Investment Committee Charter

1. MISSION

The Investment Committee is charged by the Board of Trustees to execute the mission of the Committee.

"The mission of the Investment Committee is to set and monitor investment policies and guidelines for the College's Endowment Funds, Operating Budget and Capital Reserve (See *EXHIBIT A*) and the external cash management program (See Philosophy and Procedure for Short-Term Cash in *EXHIBIT B*).

For endowment funds, the objective is to achieve superior long term real total returns such that the requirements of the annual budget are met, while allowing for significant growth, all within the confines of reasonable risk. For the Operating Budget and Capital Reserve, the objective is to achieve returns greater than the Short-Term Cash return by investing in less volatile strategies than the overall endowment (See Exhibit A). In these regards, specific responsibilities include the prudent selection of managers, monitoring and changing of investment managers, performance monitoring and establishing asset allocation targets and ranges. For cash management, the objective is to maximize the cash yield within defined risk parameters while meeting the liquidity requirements of the operating cycle. As part of its overall mission, the Committee will author a detailed Statement of Purpose and Policies, including guidelines to managers, and regularly review the appropriateness of the contents in light of the current investment environment."

2. MEMBERSHIP AND SERVICE

Committee members should be keenly interested in investment issues and be willing to debate the investment program of the College with an open mind. Ideally, members of the Committee will commit to service throughout their current term of appointment to the Board of Trustees. And, to the extent trustees remain interested in serving on the Committee, no more than one-third of the members will be rotated off in any single year.

3. EXPECTATIONS

Committee members are expected to:

a. Be familiar with the investment policies adopted by the Board of Trustees.

b. Regularly attend Committee meetings and participate fully and seriously.

c. Understand that unanimity is rarely achievable on any investment decision and that, therefore, a sense of team is critical.

d. Create opportunities and facilitate contacts.

II. RESPONSIBILITIES AND DELEGATION

A. Board of Trustees

The full Board of Trustees has the ultimate responsibility to insure that appropriate policies governing the management of the endowment are in place and to obtain reasonable assurance that the policies are being effectively implemented and adhered to. The Board achieves these ends by adopting a broad based policy statement, including a mission statement and charter for the Investment Committee, by clearly delegating certain responsibilities for implementation, and by insuring regular and sufficient reporting to the Board.

Investment Committee: The Board delegates to the Investment Committee of the Board, in consultation with the Vice President for Finance, the following responsibilities:

B. Investment Committee

"To review the investment objectives regarding College funds and to supervise the investment and use of endowment funds and to report to the Board of Trustees meeting on the objectives, policies and results thereof."

"To review and approve asset classes, allocation targets and rebalancing strategies."

"To review and, in conjunction with the Budget and Finance Committee, to recommend to the Board spending policies in respect to the portion of the

Endowment monies transferred to general operations."

"To oversee the investment managers and to continuously review the program and results of those managers selected to manage College funds."

"To act as spokesman on behalf of the Board in response to the information requests of the various constituencies of the College in respect to the performance and policies of the Investment Committee and its managers.

"Staff work will be the responsibility of the Vice President for Finance."

C. Vice President for Finance

He/she has responsibility to consult with the Board and the Investment Committee on all matters related to the management of the endowment. He/she has the obligation to bring any major concerns about the management of the endowment (policies, implementation and reporting) to the attention of the Chair of the Investment Committee, the Chair of the Board and the President. Further, the Vice President and his/her staff are to provide the staff support function to the Investment Committee by obtaining information, researching various issues, setting up meetings, transferring funds, communicating with managers as required, working with consultants, etcetera. He/she also has the responsibility to insure that assets of the endowment which are held by custodians are appropriately safeguarded. Finally, he/she has the responsibility to insure that all endowment assets are properly accounted for in accordance with generally accepted accounting principles.

D. Investment Consultants

The Investment Consultants assist the Committee and the Vice President for Finance in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long term asset allocation and the appropriate mix of investment manager styles and strategies. The Investment Consultant also provides assistance in identifying and selecting qualified investment managers and custodian banks. The Investment Consultant calculates and evaluates investment performance and provides timely information, written and/or oral, on investment strategies, instruments, investment managers and other related issues, as requested by the Committee.

III. ENDOWMENT OBJECTIVES AND GUIDELINES

A. The principal objective of the Endowment Investment Program is to foster the long term growth of the Endowment Fund through a combination of prudent management and aggressive fund raising. The Investment Committee is charged with the oversight of the management of Kenyon's Endowment Fund. The Development Committee of the Board is charged with the oversight of Kenyon's Endowment fund-raising efforts. The target is to build an

Endowment Fund, over time, to at least five times the size of the annual budget.

B. In general, the philosophy of endowment management will be a "total return concept" whereby measurement of the long term growth is based on the total return on the fund, regardless of whether that return is derived from income yield or appreciation in market value.

C. The minimum investment objective of the Endowment Fund is to protect against erosion of principal because of inflation. This means the minimum goal for portfolio return is the rate of inflation, as measured by the Consumer Price Index, plus spending, fees and expenses.

IV. SPENDING POLICY

Each year a portion of the return on the Endowment Fund will be used as general operating funds. The amount of that spending portion will be reviewed periodically and changes may be recommended by the Budget and Finance and Investment Committees and approved by the Board. The most recent resolution is attached hereto as *EXHIBIT C*.

V. PORTFOLIO GUIDELINES

A. In theory, an endowment fund is eternal. Accordingly, the College may adopt a very long term time horizon in structuring the portfolio. This may result in a risk profile that has greater volatility over the short and medium term. However, a properly diversified portfolio among asset classes, investment styles and the expected correlation of returns, or lack thereof, should result in a higher return over the long run with minimal, if any, additional risk. .

B. The Investment Committee will annually review and approve an Asset Allocation Model. This model **must** include specific asset classes, target allocations and ranges of exposure. As part of the process of approving an Asset Allocation Model, the Investment Committee will consider the appropriate level of liquidity for the portfolio. As a general guideline to the Committee, the Administration will first calculate the level of portfolio liquidity required to generate a return sufficient to provide for the current payout to operations plus expenses charged to the endowment. Then, to acknowledge the College's 80.0% reliance on fees to operate, a defensive adjustment equal to one expected standard deviation of return will be added to this liquidity calculation. This calculation suggests a general guideline for portfolio liquidity of approximately 75.0%. A copy of the current Asset Allocation Model is attached hereto as *EXHIBIT D*. The following describes the role of each asset class in the Allocation Model (see also *EXHIBIT E*).

Domestic Large Cap Stocks – Large cap stocks make up the largest investable segment of the domestic equity universe. This asset class contains the following desirable characteristics: a high level of liquidity, attractive historical returns (approximately 10% annualized since 1926) with lower levels of volatility than small cap stocks. Domestic large cap stocks typically include established, profitable companies, many of which are leaders within their respective industries.

Small and Mid Cap Stocks – Investment exposure to small and mid cap stocks allows investors to participate in new technologies and innovation, and to invest in well run companies that are not as mature or established as large cap stocks. Compared to large cap stocks, these stocks overall exhibit greater growth potential, which historically has resulted in incremental return with a moderate increase in return volatility.

Developed Large Cap International Equity – Investing in this asset class provides exposure to world class firms, including industry leaders not located or traded in the United States. The inclusion of this asset class in a portfolio helps maintain the portfolio's earning power while at the same time reducing overall risk through diversification since international equity is not perfectly correlated with domestic equity.

Small Cap International Equity – This asset class offers the same benefits of domestic small cap stocks along with the same diversification benefits of developed large cap international equity.

Emerging Markets Equities – Emerging markets offer investors a substantial opportunity to participate in the growth of less developed countries as they increase their per capita GNP and standard of living, and make their transition to market economies. Emerging market countries have low labor costs and are often commodity rich, both of which are competitive advantages for companies located in this market. Emerging markets are often more volatile and less liquid than markets in developed countries.

Emerging Markets Debt – The market consists primarily of sovereign debt issued by less developed countries. The issuers may be either investment grade or below investment, but generally speaking have lower credit ratings than the more developed countries, which are usually AA or AAA credits. The debt historically was often issued in dollars to protect the lender from currency devaluations, but as the finances of the emerging countries has improved, the amount issued in the currency of the borrower has increased. This asset class provides an opportunity to realize a higher level of income than what can typically be earned on high quality investments in developed country debt, and the potential to realize capital gains from falling interest rates and/or from currency appreciation on bonds issued in the local currency. The asset class also offers diversification benefits given the economic cycle of the emerging countries can differ from corporate and developed country debt found in a portfolio. The performance of this asset class can suffer if interest rates rise, there is a widening of credit spreads, or if the currency of bonds issued in the local currency depreciates.

Domestic Investment Grade Bonds – This asset class helps reduce the overall level of return volatility in the portfolio, while also adding a meaningful income component to the portfolio, thereby reducing the reliance on capital appreciation to generate returns. Investment grade bonds also serve to protect the portfolio's principal in times of falling equity prices and deflationary environments.

Domestic Below Investment Grade Bonds – Like investment grade bonds, this asset class generates the majority of its returns through coupon income, thereby reducing the reliance on capital gains. This asset class also offers meaningful diversification benefits in that it tends to outperform investment grade bonds in times of rising interest rates.

Global Bonds – The global bond market consists primarily of sovereign debt of highly rated governments. This asset class typically outperforms during periods of market turmoil and therefore helps protect the portfolio from losses during crises. Because of its relatively low correlation to US equities, this asset class often performs well when the US equity markets are weak, thereby providing excellent diversification benefits.

Hedge Funds – This asset class employs a variety of strategies that are focused on earning absolute returns, rather than the benchmark sensitive returns found in most traditional equity and fixed income investments. Strategies may be employed that have a low correlation with traditional investments, and therefore offers excellent diversification benefits, while still maintaining the potential to produce attractive returns. For these types of strategies, volatility is typically low, although liquidity is limited and fees are higher than traditional investments. More aggressive strategies that can be more market directional or employ leverage may also be utilized as part of a well diversified portfolio. These strategies can be volatile and have liquidity and fee characteristics similar to the lower volatility strategies.

Private Equity – Private equity is expected to generate higher returns than public equity reflecting the superior growth potential of companies in what is viewed as an illiquid but also inefficient asset class. The asset class is characterized by both higher levels of risk and reward. Successful investments can produce returns that are unlikely to be matched in any other asset class over the long term. This upside potential is moderated by the higher rate of failure when compared to public equity investments, as not all investments in a portfolio are expected to produce positive results.

Because of the illiquidity of private equity and the historic value added of "top quartile" managers, a special subcommittee of the Investment Committee has been formed to recommend specific investment policy for this asset class. See *EXHIBIT F* for the details of the work of this subcommittee. See *EXHIBIT G,Private Equity Investment Policy.*

Real Assets – Real assets are characterized as investments in tangible assets, which include real estate, commodities, timber and energy. (Real estate includes both direct investments in property and real estate investment trusts (REITS), and can generate attractive levels of income, while also providing the opportunity to realize capital gains over the longer term.) The asset class traditionally has been considered an excellent diversifier as it often acts as an inflation hedge. Liquidity for direct holdings is often limited and therefore needs to be factored into the investment decision making process. REITS are liquid, however, they tend to be more volatile as their changes in price over time is often comparable to small cap stocks. Commodities include investments in agricultural products (e.g., corn) and natural resources (e.g., gold, minerals). Historical returns for individual commodities vary considerably, from a portfolio perspective their largest benefit is their low correlation to traditional investments, and their potential to act as an inflation hedge. Timber is a long term investment that offers the opportunity to invest in a commodity whose value can grow over time and be opportunistically sold or harvested to take advantage of supply and demand imbalances. Timber is an illiquid asset that can have an investment time horizon of 10 years or longer. Energy related investments include ownership in oil and gas supplies or production that has commodity like diversification benefit characteristics, and historically has produced attractive returns. Oil and gas investments can also be made in energy related projects including infrastructure. These investments can have characteristics of both private equity and commodities. They are typically illiquid, and as such, should be considered private equity like for liquidity purposes.

Opportunistic – This category is designed to allow the endowment to take advantage of strategies that are difficult to classify and/or are not part of the target asset allocation. They can consist of niche asset classes or unique strategies that are attractive due to their valuation and potential return benefits. The investments can also be held in strategies or investments that are considered defensive. These defensive investments can be redeployed as risk premiums or greater return opportunities present themselves.

C. In the absence of a specific decision to allocate to the low or high end of a range, the Asset Allocation Model will be rebalanced to target allocations or agreed upon points within acceptable ranges around the target allocation on a regular basis by:

1. Allocating new gifts and/or transfers in a manner such that, to the extent possible, desired allocations are achieved and;

2. Quarterly rebalancing among the asset classes such that, to the extent possible, desired allocations are achieved. This rebalancing process will be done as soon after each calendar quarter as reliable data permits.

D. See Section VII regarding Special Situation Investing.

VI. ORGANIZATIONAL STRUCTURE AND OVERSIGHT

A. Asset Allocation is the responsibility of the Investment Committee. Managers will be selected in accordance with overall portfolio objectives with consideration being given to: service, performance and complementary investment styles. Managers are expected to be near fully invested at all times.

Hiring Managers

Hiring managers is the responsibility of the Investment Committee. At the Committee's discretion, hiring managers may be delegated to the Vice President for Finance. Independent consultants may assist with manager searches.

Monitoring Managers

Manager performance will be monitored on an ongoing basis but not less frequent than quarterly. However, in the absence of circumstances that would give us pause (see Terminating Managers below), managers will be given at least three years to prove their strategy.

Terminating Managers

Factors that will be considered in terminating managers include but are not limited to:

1. Style drift
2. Changes in key personnel
3. Mergers and acquisitions
4. Changes in the College's investment program such that the manager no longer has a role in the College's investment strategy
5. Poor performance related to benchmark and/or peers
6. Unacceptable service
7. Legal/ethical concerns

B. Satellite managers can employ more aggressive strategies that are of often riskier than the broad market strategies employed by core managers. Examples of satellite strategies include concentrated portfolios in either holdings, sectors or both or managers with a distinct style bias (e.g., deep value, aggressive growth). In the case of international investments, they may also include more extensive use of currency hedging and/or exposure to the emerging markets or both. Satellite investment managers selected for specific focus will be hired from time to time and should be near fully invested at all times. The same criteria for hiring, monitoring and terminating managers that is described in A above will be used for satellite managers.

C. The Asset Allocation Model will be continuously reviewed by the Committee, in consultation with the Vice President for Finance and consultants.

D. Investment Objectives and Policies will be issued to each manager of Endowment Fund monies. Periodically, as the Committee deems appropriate, that guidance will be modified.

E. The Committee also provides oversight to various donor-designated funds which may have restrictions as to payout or investment. Over the years, the College has benefited from the generosity of alumni and friends through deferred giving programs and the Committee acknowledges its continuing commitment to fulfill the expressed intentions of the College's former, current, and future benefactors.

F. From time to time, the Committee may engage consultants to assist the development of policies and appraisal of fund manager performance.

VII. "SPECIAL SITUATION INVESTING"

Special situation investing is defined as direct investing in either a public or private company. The following process will be followed in making and monitoring/adding value to a special situation investment.

A. The Chairman of the Investment Committee appoints a committee to study a special situation believed to have significant merit. Committee members can be trustees, faculty, administration, friends of Kenyon or others.

B. The appointed Committee does its investigation regarding merits of situation with deliberation but as rapidly as possible. (Probably takes 6-8 weeks).

C. If the Committee reaches a favorable conclusion, it prepares a written report and makes a recommendation to the Investment Committee to proceed with the investment.

D. If the Investment Committee decides to proceed with the investment, it:

    1. recommends the investment to the full Board of Trustees and, if approved;

    2. assigns one of its members or some other responsible designee to follow and, when appropriate, work on the investment, reporting to the Investment Committee at least semi-annually.

E. The Investment Committee will be restricted as follows:

1. a maximum of 5% of the market value of the endowment can be invested in any one special situation investment

2. a maximum of 10% of the market value of the endowment in all such special situation investments.

VIII. CONFLICT OF INTEREST

A conflict of interest exists when, as a result of an investment decision, a member of the Investment Committee or Kenyon staff and/or a relative, friend or business associate derives a direct benefit, financial or otherwise, as a result of the decision. If a conflict of interest exists, Committee members and staff must declare the conflict and excuse themselves from the meeting or conversation in which the pertinent matter is discussed.

IX. MISCELLANEOUS

A. Custodial Services will be provided by prime regional or money center bank.

B. The Investment Committee shall consist of at least five persons. These will be primarily Members of the Board of Trustees, but may include non-Board members as deemed appropriate by the Committee, with approval from the President of the College and Chairman of the Board of Trustees. The Committee will meet at least four times a year and as necessary beyond that. Asset allocation and investment performance will be reviewed at each meeting or at appropriate intervals.

C. It is essential that the policies and practices of companies with whom we invest are fully aligned with our shareholder interest. Accordingly, the College will instruct investment managers to vote proxies to foster our best interest as shareholders.

D. The Vice President for Finance will report and provide financial information to the Investment Committee at every meeting and to the Board of Trustees and the Executive Committee, when such meetings are held, in respect to the total funds under management.

EXHIBIT A

KENYON COLLEGE

OPERATING BUDGET AND CAPITAL RESERVE
INVESTMENT POLICY

I. PURPOSE

The Operating Budget and Capital Reserve consists of invested unrestricted assets the return on which supports the annual operating and capital budgets.

II. OBJECTIVES AND GUIDELINES

A. The Investment Committee is charged with the investment of the Operating Budget and Capital Reserve. The goal is to provide a consistent source of funds that may be used to support the annual operating budget.

B. In general, the philosophy for managing the Operating Budget and Capital Reserve will be to maximize returns while incurring limited volatility. Factors to consider in developing an Asset Allocation Model may include:

1. Liquidity attachments on the portfolio, both short and long term.

2. The minimum acceptable return required to fund liquidity attachments.

C. The minimum investment objective for the Operating Budget and Capital Reserve is to achieve a nominal total return sufficient to provide for the expected liquidity attachments on the reserve.

III. SPENDING POLICY

Spending will be determined annually as part of the annual operating budget process.

IV. PORTFOLIO GUIDELINES

A. The Operating Budget and Capital Reserve is expected to support the liquidity attachments on the fund which may vary from year to year. As a result, the risk profile of the portfolio has much less tolerance for volatility than the endowment. Accordingly, the portfolio will usually have a significant bias toward capital preservation strategies such as hedge funds and absolute return investments.

B. The Investment Committee will annually review and approve an Asset Allocation Model for the Operating Budget and Capital Reserve recommended by the administration and/or the consultants. This model must include specific asset classes, target allocations and ranges that are sufficiently wide so as not to require frequent intervention or rebalancing but also sufficiently narrow so as to preclude the possibility of material tactical asset allocation. The following describes the role of each asset class in the allocation model.

Cash – The College's annual expenses have the potential to vary, sometimes significantly. If expenses begin to rise, it is important to have some liquidity in the portfolio to pay those expenses without having to invade other investment positions. Cash also generates interest income that is readily available to pay for annual expenses. Cash will be invested in accordance with the cash management philosophy described in Exhibit B.

Equity Hedge Fund and Absolute Return – This asset class employs a variety of strategies that are focused on earning absolute returns, rather than the benchmark sensitive returns found in most traditional equity and fixed income investments. Strategies may be employed that have a low correlation with traditional investments, and therefore offers excellent diversification benefits, while still maintaining the potential to produce attractive returns. For these types of strategies, volatility is typically low, although liquidity is limited and fees are higher than traditional investments. More aggressive strategies that can be more market directional or employ leverage may also be utilized as part of a well diversified portfolio. These strategies can be volatile and have liquidity and fee characteristics similar to the lower volatility strategies.

Fixed Income Absolute Return – Absolute return managers employ less interest rate sensitive strategies that should lower the volatility of the portfolio and enhance returns during times of rising interest rates.

Real Assets – This asset class may include both direct investments in closed end funds and real estate investment trusts (REITS) which can generate attractive levels of income while also providing the opportunity to realize capital gains over the longer term. This asset class is an excellent diversifier in that it often acts as an inflation hedge. Additionally, it also provides the portfolio investment exposure to a tangible asset. Liquidity for closed end funds is limited and therefore needs to be factored into the investment decision making process. REITS are liquid, however, they tend to be more volatile as their changes in price over time is often comparable to small cap stocks.

Floating Rate High Yield – This category of investments seeks to earn a spread over cash by investing predominantly in senior secured bank loans. The manager may also invest in securities that are backed by first or second liens, other secured debt, and short duration high yield bonds. These strategies are to be made in commingled vehicles that can easily provide liquidity to the portfolio, therefore, assets can be withdrawn from the manager within 31 days of notice.

Opportunistic – This category is designed to allow the OBCRF to take advantage of strategies that are difficult to classify and/or are not part of the target asset allocation. They can consist of niche asset classes or unique strategies that are attractive due to their valuation and potential return benefits. The investments can also be held in strategies or investments that are considered defensive. These defensive investments can be redeployed as risk premiums as greater return opportunities present themselves.

The current Asset Allocation Model approved by the Investment Committee on December 11, 2006 is as follows:

Asset Class	***Target***	***Range***
Cash	5.0%	0.0% - 15.0%
Equity Hedge/Absolute Return Funds	60.0%	0.0% - 70.0%
Opportunistic	30.0%	0.0% - 40.0%
Real Estate	5.0%	0.0% - 10.0%
	100.0%	

C. The Asset Allocation Model will be rebalanced to target allocations or agreed upon points within acceptable ranges around the target allocation on a regular basis by:

1. Allocating new funds and/or transfers in a manner such that, to the extent possible, desired allocations are achieved and;

2. Quarterly rebalancing among the asset classes such that, to the extent possible, desired allocations are achieved. This rebalancing process will be done as soon after each calendar quarter as reliable data permits.

V. ORGANIZATIONAL STRUCTURE AND OVERSIGHT

Managers will be selected in accordance with overall portfolio objectives with consideration being given to: service, performance and complementary investment styles. Managers are expected to be near fully invested at all times.

A. The majority of the assets will be invested with managers who employ absolute return strategies. Managers will be selected in accordance with overall portfolio objectives with consideration being given to: service, performance and complimentary investment styles. Managers are expected to be near fully invested at all times.

Hiring Managers

Hiring managers may be delegated to the Vice President for Finance. The

Vice President for Finance will employ the services of our independent consultants to assist with manager searches.

Monitoring Managers
Manager performance will be monitored on a quarterly basis. However, in the absence of circumstances that would give us pause (see Terminating Managers below), managers will be given at least three years to prove their strategy.

Terminating Managers

Factors that will be considered in terminating managers include but are not limited to:

1. Style drift
2. Changes in key personnel
3. Mergers and acquisitions
4. Changes in the College's investment program such that the manager no longer has a role in the College's investment strategy
5. Poor performance related to benchmark and/or peers
6. Unacceptable service
7. Legal/ethical concerns

B. Satellite investment managers selected for specific focus will be hired from time to time and should be near fully invested at all times. The same criteria for hiring, monitoring and terminating managers that is described in A above will be used for satellite managers.

C. The Asset Allocation Model will be continuously reviewed by the Committee, in consultation with the Vice President for Finance and consultants.

D. Investment Objectives and Policies will be issued to each manager of Capital Project Support Fund monies. Periodically, as the Committee deems appropriate, that guidance will be modified.

E. From time to time, the Committee may engage consultants to assist with the development of policies and appraisal of fund manager performance.

EXHIBIT B

KENYON COLLEGE
PHILOSOPHY AND PROCEDURE FOR SHORT-TERM
INVESTMENT OF CASH

NEW POLICY IS BEING DEVELOPED

EXHIBIT C

KENYON COLLEGE

ENDOWMENT SPENDING POLICY

Market element adjusts annual endowment spending to the long-term sustainable target spending of 4.00% of the average actual market value of the endowment for the most recent three years. This component of the spending rate receives a 30 percent weighting in the spending rate calculation.

Spending element increases last year's spending rate by a factor for inflation (3.5%) plus budget growth (1.5%). This element of the spending rate receives a weight of 70%.

EXHIBIT D

KENYON COLLEGE
ASSET ALLOCATION MODEL

APPROVED FEBRUARY, 2008

ASSET CLASS	TARGET ALLOCATION	RANGES AND REBALANCING TARGETS
DOMESTIC EQUITY:		
Large Cap	7.0%	0.0% - 45.0%
Mid-Cap	9.0%	0.0% - 45.0%
Small Cap	7.0%	0.0% - 45.0%
INTERNATIONAL EQUITY:		
Developed EAFE (Large Cap)	8.0%	0.0% - 35.0%
Small Cap EAFE	3.0%	0.0% - 35.0%
Emerging Market	6.0%	0.0% - 35.0%
PRIVATE EQUITY:		
Venture Capital	6.0%	0.0% - 20.0%
Buyout	6.0%	0.0% - 20.0%
Other	3.0%	0.0% - 20.0%
EQUITY HEDGE FUNDS	10.0%	0.0% - 15.0%
REAL ASSETS:	10.0%	0.0% - 18.0%
OPPORTUNISTIC	15.0%	0.0% - 25.0%
TOTAL EQUITIES	90.0%	
FIXED INCOME	10.0%	0.0% - 25.0%
	100.0%	
	=====	

EXHIBIT E

KENYON COLLEGE
ROLE OF EACH ASSET CLASS IN THE ENDOWMENT

Diversification is Important!

	Safety	Current Income	Real Growth	Deflation Hedge	Enhanced Return	Diversification
Core Bonds	✓✓	✓		✓✓		
High Yield		✓✓			✓	
Global Bonds	✓✓	✓		✓✓		✓✓
Emerg. Mkts Fixed Income		✓✓		✓	✓	✓
Large Cap			✓			
Int'l Equity			✓			✓
Small Cap Dom & Int'l			✓		✓	
Emerg. Mkts Equity			✓✓		✓✓	✓
Emerg. Mkts Debt		✓✓		✓	✓	✓
Private Equity			✓✓		✓✓	
Equity Hedge Funds					✓	✓✓
Real Estate	✓	✓	✓			✓✓
Fixed Income Hedge Funds		✓			✓	✓
Cash	✓	✓				
TIPS	✓	✓				✓
Opportunistic	**Could fit any of these roles in the portfolio**					

EXHIBIT F

KENYON COLLEGE
INVESTMENT COMMITTEE
SUBCOMMITTEES

CHARTER

Subcommittees of the Investment Committee are formed at the direction of the Chairman of the Investment Committee. Examples of active subcommittees are:

1. The Subcommittee for Venture Capital and Buyout Funds, and;

2. The Subcommittee for Real Assets

Subcommittees are charged with the oversight of these investment processes. The significant elements of the oversight process are as follows:

A. Develop and recommend investment policy

B. Oversee the due diligence process including recommendations for additional due diligence when circumstances dictate.

C. Recommend investments to the Investment Committee for their approval.

D. Monitor performance at both the manager and portfolio levels.

E. Monitor portfolio exposure and decide on the appropriate action to maintain a satisfactory risk profile. Note: selling into the secondary market requires the approval of the Investment Committee.

<u>EXHIBIT G</u>

KENYON COLLEGE

PRIVATE EQUITY, VENTURE CAPITAL AND REAL ASSET INVESTMENT POLICY

I. OBJECTIVE

The objective of investing in Private Equity is to achieve significant incremental risk adjusted returns and add diversification to the overall investment portfolio. Significant Risk Adjusted Returns are defined as performing at or better than the benchmarks defined in point III below for this asset class.

II. TARGET ASSET ALLOCATION

The target asset allocation is established in conjunction with setting the overall Asset Allocation Model for the portfolio. See *Exhibit D*. Because of the nature of the asset class, i.e., capital calls and return of capital takes place over several years, if the Asset Allocation changes, it may take several years to adjust to the new target.

A. Determining Exposure to the Asset Class

Valuations reported by fund managers are necessary in order to calculate the current Internal Rate of Return (IRR) and for reporting comparable portfolio valuations. However, valuations reported by fund managers are typically unreliable for forecasting and are, therefore, inappropriate tools to use to control exposure to the asset class.

Accordingly, the current exposure to this asset class will be determined using a net cash flow model which defines exposure (Dollars at Work) with the following formula:

$E = C – (D + W)$

C = Capital Calls, D = Distributions and W = Write-offs ((D + W) is up to but not in excess of the commitment to the Fund)

See *Exhibit H* for a sample calculation of Exposure.

B. Rebalancing Exposure

While an illiquid portfolio (non-marketable) cannot rebalance to its desired risk profile with the precision and ease of the liquid (marketable) portfolio, there are two methods that can be employed to “steer” the exposure to the asset class in the direction desired.

1. If the portfolio is above or below the allocation target, new commitments might be decelerated or accelerated to bring forecasted exposure back to target in a reasonable period of time; usually less than three years.

2. Because of the high costs, selling off our limited partnership interest to secondary markets will generally not be considered. Accordingly, selling into the secondary market will only be considered in extreme circumstances and must be approved by the Investment Committee.

C. Forecasting Exposure to the Asset Class

Forecasting exposure to the asset class requires adopting a cash flow model that plots the points on the “J-Curve.”

This model attempts to forecast the timing of capital calls and return of capital for the aggregate illiquid portfolio. The following is a model developed by the Yale International Center For Finance. We will use the Yale model to forecast cash flows in the Kenyon program and refine it going forward as actual experience and circumstances dictate. The model uses several inputs to project capital calls, distributions and net cash value.

Inputs

1. Capital Committed

2. Rate of Contribution

   Note: The rate of contribution will be set based on our actual experience as well as our expectations going forward. It is likely that different contribution rates will be used for the various types of investments.

3. Life of the Fund in Years = 12 for all funds except Oil and Gas which will be 15.

4. “The Bow” which is the Factor Describing the Rate of Distribution Over Time. The Higher the Bow, the slower the Initial Increase of the Distribution Rate and the Faster the Later Acceleration.

5. The Annual Growth Rate
   The Annual Growth Rate will be set based upon our assessment of the fund target rate of return at the time we commit to the Fund. Likewise, the portion of return that is expected to be yield will be set at the time we commit to the Fund.

   Portfolio Growth Rate

   The overall portfolio is expected to grow, on average, by the projected average nominal return, as determined by an efficient frontier analysis, less spending. In addition, new gifts and excess gifts from Capital Campaigns will be factored in as Campaigns are initiated.

III. PERFORMANCE MEASUREMENT AND BENCHMARKING

A. Performance Measurement

The College aspires to invest with the best funds possible. Historic performance data, as measured by the IRR, suggests that top quartile funds significantly and consistently out perform the remaining manager universe. It is understood, however, that IRR can be a very misleading statistic; see *Exhibit I*. Because of this, IRR will only be considered when evaluated along with the return multiple desired or achieved.

B. Benchmarking

The following benchmarks may be used to assess the outcome of an Investment.

1. Internal Rate of Return

2. Absolute Return Multiple

3. Public Market Comparable

    a. Absolute benchmark

    b. Opportunity cost – investment alternative

C. Internal Rate of Return (IRR)

IRR will be compared by vintage year to as wide and reliable data base as possible. The objective is to be in the top quartile of the universe; understanding that having a high IRR is not necessarily an indicator of a satisfactory outcome.

D. Absolute Return Multiple

The absolute return multiple will be evaluated based on the type of fund, vintage year and investment focus.

E. Public Market Comparable

1. Absolute Benchmark

Each investment's return will be compared to the return of the S&P 500 total return index over that same period of time. The expected return will vary depending on the type of fund, vintage year and investment focus.

2. Opportunity Cost

The College's current Asset Allocation Model is 90.0% Equity exposed and 10.0% Fixed Income. Of the portion that is equity, 35.0% is the target for venture capital, private equity and real assets without the diversification that these investments add to the portfolio, the opportunity cost assumption is that the overall asset allocation would be 70.0% equity and 30.0% fixed income. Accordingly, the opportunity cost of each investment will be compared to a portfolio invested 70.0% in the S&P 500 and 30.0% in Lehman Aggregate Bond Index.

IV. PORTFOLIO CONSTRUCTION

In general, the intent is to construct as diversified a Portfolio as is possible while recognizing that, at our current allocation size, opportunity may dictate where and when we invest as much as a plan. Nevertheless, to the extent possible, the Committee will attempt to diversify the portfolio and consider the following factors when evaluating an opportunity:

A. The balance of commitments between venture capital and buyout funds

B. Seed, early stage and late stage venture capital and secondaries

C. Small, medium and large buyouts; recognizing that certain of these sectors may, from time to time, be over crowded with available capital and, therefore may not be attractive opportunities.

D. Sectors such as technology, biotech, healthcare, retail, etc.

E. Current exposure across real asset strategies.

V. ELIGIBLE FUNDS

For the most part, a previous track record of the fund managers working together is preferred. However, no opportunities will be excluded from consideration. There are numerous situations that give rise to "first time" funds; many of which may be attractive investment opportunities for us.

VI. NEW FUND DUE DILIGENCE PROCESS

Unless otherwise waived by the Investment Committee or the appropriate subcommittee, the following procedures apply.

Phase I

A. Screen For Program Fit – Strategy And Focus

Determining that the team primary strategy, if validated, fits in with our current program.

B. Screening For Track Record

Although new funds may not have a track record as a team, individuals will likely have track records at previous funds. Before going further in the due diligence process, it is important to assess the adequacy of the previous track record and verify the validity of its attribution.

The adequacy of the previous track record can be assessed vis-à-vis how it compares to our current portfolio benchmarks. The validation of the partner's return attribution may include but need not be limited to a preliminary reference check with prior team members, co-investors and/or previous Limited Partners and company Chief Executive Officers, for example.

C. Review Key Terms Including But Not Limited To:

1. Carried Interest

Carried interest may not exceed 20.0% for a first time fund.

2. Management fees

Management fees can materially impact the overall performance of an investment especially in the IRR calculation. In general, a management fee in excess of 2.5% should be challenged and managers should be asked to justify the fee before continuing the due diligence process.

3. Clawback Provisions

In general, the College will not invest in any fund that does not have a legally binding clawback provision in the documents.

4. Hurdle Rate

Hurdle rates are preferred returns to Limited Partners before the General Partner may receive any share of the profits. Hurdle rates are typical to buyout funds and less common in venture capital. While it would be too restrictive to define a preferred return with specificity, we expect it to be competitive at the time the fund is being raised. An evaluation of the competitiveness of the rate is easiest done by comparing it to other opportunities that are or have recently been reviewed and by seeking opinion from other potential investors as part of detailed due diligence should we decide to proceed to that step.

D. Preliminary Review by the Subcommittee For Private Equity

Summarize findings and obtain a preliminary reaction to the potential investment from the Subcommittee. If the Subcommittee's preliminary reaction is favorable, alert the entire Investment Committee that Phase II Due Diligence is underway.

Phase II Due Diligence

A. Independent Consultants

Especially for a new fund, a proper evaluation and assessment of the team's primary strategy is a critical element in determining the attractiveness of the opportunity. Independent consultants may be employed to assist us with that assessment. It is essential that we develop full confidence in the team's strategy and in their ability to execute their strategy successfully. Otherwise, we will pass on the opportunity.

B. Visit General Partner at Their Offices

Meet with as many General Partners as possible. Evaluate intangibles such as commitment and drive. Discuss prior experience and determine where/how the partners are advantaged in the market. Obtain co-invest, prior investment and other LP references. Use references to assess whether or not the new fund has a "brand" carryover from prior relationships. (This may be done while "screening" the track record in Phase I.) Obtain information to allow for:

1. Partner Attribution Analysis
2. Recalculation Of IRR
3. Sample Calculation Of "Waterfall"
   Note: This is usually in the PPM.
4. Obtain Copies Of All Side Letters
5. If available, Determine How Carried Interest Is Shared

C. Review Consultants Report; If Any

D. Prepare Final Recommendation For Subcommittee Review

E. Recommend, Or Not, To The Investment Committee

F. If Approved, Document Review By Legal Counsel

VII. EXISTING FUND DUE DILIGENCE PROCESS

Unless otherwise waived by the Investment Committee or the appropriate subcommittee, due diligence procedures for existing funds will be identical to new funds except as follows:

A. Independent consultants are not likely to be engaged to evaluate strategy. It is expected that, in most circumstances, ongoing contact such as attending annual meetings and periodic due diligence meetings with the general partners will be sufficient for the Kenyon Staff and Investment Committee to adequately assess the team's strategy.

B. It likely will not be necessary to visit the general partners at their offices. A telephone interview, discussions with references, annual meeting contacts and due diligence meetings with the Investment Committee should be sufficient for the Kenyon Staff and the Investment Committee to evaluate intangibles such as commitment and drive.

C. Kenyon Staff should review all documents. As long as there are no material changes to the documents and/or no changes that are unclear as to their meaning, legal counsel need not review the documents.

VIII. INVESTMENT APPROVAL

A majority vote of two or more by the voting members of the Investment Committee is required to make a commitment to a fund.

EXHIBIT H

KENYON COLLEGE
PRIVATE EQUITY

SAMPLE EXPOSURE CALCULATION
06/30/04

Fund	Vintage Year	Capital Commitment	Called	Distributions	Write Offs	"Dollars At Work" Exposure
OVP IV	1997	$2,000,000	$2,000,000	$5,154,524		$ -0-
WCAS VIII	1998	5,000,000	4,500,000	3,000,000	$500,000	1,000,000
Trident IV	1999	2,000,000	1,940,000	3,000,000		-0-
JW Childs III	2002	3,000,000	1,125,000	-0-		1,125,000

EXHIBIT I

KENYON COLLEGE
INVESTMENT COMMITTEE
SUBCOMMITTEE FOR PRIVATE EQUITY

Track Record Analysis

The truth about IRRs

Date of Cash Flow	Scenario 1	Scenario 2	Scenario 3
1/31/1990	($1.0)	($5.0)	($5.0)
1/31/1991	$1.2	$1.0	$0.0
1/31/1992	($1.0)	$1.0	$0.0
1/31/1993	$1.2	$1.0	$0.0
1/31/1994	($1.0)	$1.0	$0.0
1/31/1995	$1.2	$1.0	$0.0
1/31/1996	($1.0)	$1.0	$0.0
1/31/1997	$1.2	$1.0	$0.0
1/31/1998	($1.0)	$1.0	$0.0
1/31/1999	$1.2	$6.0	$25.8
Invested (I)	($5.0)	($5.0)	($5.0)
Returned (R)	$6.0	$14.0	$25.8
Net Returned (NR)	$1.0	$9.0	$20.8
IRR	20.0%	20.0%	20.0%
Times Earned (TE) = R/I	1.2 X	2.8 X	5.2 X

EXHIBIT J
GLOSSARY OF TERMS

Active Management – A broad class of management in which the manager's portfolio decisions are based on valuation and judgment, rather than on replicating a benchmark.

Alpha – The risk-adjusted excess return (positive or negative) of an asset relative to its benchmark. For a detailed, technical explanation of alpha, see William F. Sharpe, Gordon J. Alexander and Jeffrey V. Bailey, *Investments*, 5th Edition (Englewood Cliffs, NJ: Prentice Hall, 1995).

Asset Allocation – The process of determining the optimum asset mix for a portfolio; universally considered the determining factor in long-term portfolio performance.

Basis Point – One hundredth of one percent, a convenient measure of securities price or yield. The difference in yield between an 8.25% bond and a 8.50% bond is 25 basis points.

Benchmark – A performance standard used as a basis for comparison. The performance of a fund manager is often compared to a predetermined benchmark that reflects the manager's trading style. In some cases, a standard index, such as the S&P 500 may be used; in other cases, the benchmark may be a custom-made combination of indices.

Beta – A coefficient that measures a stock's volatility relative to the stock market as a whole. The S&P 500 Index has a beta of 1; a stock with a higher beta is more volatile than the market and one with a lower beta is less volatile than the market.

Book Value – A measure of a security's value upon liquidation. Book value can differ greatly from market value, which indicates a security's current market price at the time of measurement.

Closed-End Mutual Fund – A publicly traded mutual fund that sells a fixed number of shares on stock exchanges or over-the-counter. In contrast to open-end mutual funds, closed-end funds do not continuously issue and redeem their shares. Typically, the funds are specialized in terms of asset types and/or objectives. For example, the Korea Fund, listed on the New York Stock Exchange, concentrates on Korean equities.

Contrarian View – A view that is opposite to that of most investors. For example, a contrarian investor may purchase out-of-favor asset classes or securities, such as stocks with low price/earnings ratios.

Correlation – The relationship between the returns of one asset class or investment and those of another. Common stocks and venture capital, for example, both represent corporate equity and correlate more closely than do common stocks and Treasury bills. One objective of asset diversification is to reduce correlation, so that when the value of one asset is declining, the value of the other is rising. A statistical measure of this relationship is called the "correlation coefficient".

Counterparty Risk – The risk that the other party in a transaction will default, thereby failing to complete the agreement. In an options agreement, for example, it is the risk to the option buyer that the option seller will fail to execute the transaction (i.e., buy or sell the underlying security as agreed) in the event the option is exercised.

Coverage Ratios – Ratios used to test the adequacy of the College's unrestricted assets to pay off long term debt and lease obligations. Coverage ratios measure a company's margin of safety. Examples include the interest coverage ratio and the fixed charge coverage ratio.

Currency Risk – The underlying investment risk in securities of, or investments in, a foreign country denominated in the local currency. Foreign exchange fluctuations make the currency's value volatile, thus affecting the value of the security (its net gain or loss). Currency valuation must be factored into the calculation of the risk of an international investment. Many investors hedge currency risk through currency futures or options.

Custodian – A financial institution that handles numerous custodial, clearance and related administrative functions on behalf of its clients. The custody process involves: safekeeping responsibility (ensuring good title to the securities), security transfer and clearance for transactions and settlement, accounting for all transactions, collection of dividends and interest, and possible reinvestment of these proceeds.

Derivatives – Tradable instruments with a price based on an underlying security or commodity. Options and futures, for example, are based on stocks, bonds, currencies and indices and are not the responsibility of the issuer. Other derivatives, such as mortgage-backed securities and CMOs (collateralized mortgage obligations), are the issuers' responsibility.

Duration – Generally, a measure of the sensitivity of an instrument or portfolio to the movement of interest rates. Originally, it was applied only to fixed-income instruments as a means of characterizing the impact of interest rate changes on bond price movements; today, it is used for equities, real estate and other asset classes, as well. Technically, duration is the mid-point of the present value of all income generated by a security held to maturity (assuming all cash flows are reinvested): it is the number of years required to receive the present value of future payments, both interest and principal, from a security or investment. Duration changes as a result of changing interest rates, and also as a security or investment approaches maturity.

EAFE Index (Europe and Australasia, Far East Equity Index) – An international stock index calculated by the Morgan Stanley Capital International group. The EAFE index is often used as a benchmark for global stock portfolios.

Equity Index Options – Options on stock indexes. Equity index options allow traders to speculate on particular market segments without having to buy all the stocks represented in the index.

Futures Contract – A binding agreement between two parties to deliver or accept delivery of a specified commodity or financial instrument at a preset price and future date. These agreements are standardized with respect to the type and amount of the asset, as well as to the times and places of delivery. Traders buy and sell futures in order to manage their risk or to make a profit.

Growth Manager – A portfolio manager who buys the stocks of corporations which have shown rapid earnings increases in recent years, and which are expected to continue to have high growth in profits. Growth stocks usually outperform slower growing stocks, but they are riskier because they have a higher price/earnings ratio and make little or no dividend payments to shareholders. The objective of a growth strategy is to provide long-term capital appreciation.

Index – A statistical measure of the value of a group of securities selected to represent a market or market segment. Common examples include the Dow Jones Industrial Average, a price-weighted average of 30 blue-chip stocks, and Standard & Poor's 500 Index, a market value-weighted index of 500 stocks.

Information Ratio – The ratio of active return to active risk annualized. The information ratio can be used as an indicator of a manager's opportunity to add value. Theoretically, the most skillful managers will have the highest information ratios.

Leverage – An investment strategy that allows an investor to control a large amount of assets with a minimal investment. In some cases, an investor may use borrowed funds to acquire assets. In other cases, leverage can be achieved through the purchase of options and futures contracts, which give the investor control of the underlying assets. Leverage is a double-edged sword: it can increase profits or it can exaggerate losses.

Liquidity Risk – The possible failure to maintain sufficient funds (cash and marketable securities) to meet short-term obligations. Also, market liquidity risk is the difficulty in liquidating certain investments due to the lack of active markets in these securities.

Mark to Market – The market value of an instrument or portfolio at a given point in time. Typically, this term is used to describe a valuation at a time other than the time of purchase or sale. Because this is not necessarily a transaction price, it is not necessarily representative of the value upon liquidation, which might suffer from market impact and other transaction costs.

Market Risk – The possibility of loss due to large movements in market prices (e.g., due to changes in interest rates, foreign exchange rates, volatility, correlations between markets, capital flows).

Modeling Risk – The potential for loss due to actions taken or policies implemented based on views of the world, in general, and the investment community, in particular, that are derived from improper models. These views are derived from representation(s) of reality that do not capture all significantly relevant information or are inappropriately applied throughout the investment program.

Optimization Process – A mathematical technique used to create "optimal" mixes of asset classes. Generally, an optimal asset mix is one that produces the maximum expected return at a given level of risk or a minimum level of risk at a given level of expected return.

Option – A contract between two parties which grants the bearer the right, without obligation, to buy or sell a specified asset at a fixed price (called the “strike price”) until or on a preset date. In return for the option, the option buyer must pay the option seller a premium. There are two basic kinds of options: “calls” and “puts”. A call is the right to buy the underlying asset at the option’s strike price. A put is the right to sell the underlying asset at the option’s strike price. Call option holders hope that the market price of the underlying asset will increase above the option’s strike price, while put option holders hope that the price will fall below the option’s strike price.

Passive Management – A broad class of management, utilizing such vehicles as index funds and dedicated portfolios. Once the portfolio is structured, there is theoretically no subsequent management, other than rebalancing. A less expensive investment approach, adopted in cases when it’s doubtful that active management can add value or unnecessary for it to do so.

Performance Attribution – Analysis of the factors affecting a money manager’s performance. Performance attribution analysis seeks to identify the major sources of value-added, and to determine whether market timing, short-term factor timing and security selection were statistically significant.

Plain Vanilla Instrument – The most common form of interest rate swap. In such a swap, one party agrees to pay a fixed rate of interest, while the other pays according to a floating rate, such as the London Inter Bank Offering Rate (LIBOR). Payments are based on an agreed-upon principal amount (called the “notational principal amount”); however, only interest payments are exchanged in the transaction. Interest rate swaps can be used to synthetically alter the duration of an asset or liability.
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PRIVATE EQUITY

Alternative Investments – Investments that are privately negotiated, illiquid, and include investment styles (i.e., venture capital, buyout) that are not available in publicly-traded markets. Alternative investments, when fully investigated and properly structured, offer the potential for returns that are significantly above those available from public market alternatives.

Carried Interest – The general partner’s share of the profits generated from a partnership. Typically general partners receive 20% of the profits and the limited partners receive 80%.

Clawback Provisions (aka Look-Back Provisions) – A partnership provision that allows for a review of the total profit distribution from the partnership at the end of the term. The clawback is a mechanism to recapture overpayments to the general partners if they received more than their stated carried interest. The clawback provision requires return of any excess to the limited partners.

Co-investments – A direct investment by a Limited Partner in a portfolio company in which a fund is invested.

Commitment – A limited partner's obligation to provide a certain amount of capital to a fund.

Direct Investment – A direct investment may be either a co-investment or an independently-sourced investment. Please refer to these respective definitions in this glossary.

Distribution Policy – The term "distribution" relates to how both the general and limited partners receive profits as the investments are liquidated.

Due Diligence – The investigation and evaluation of an investment's characteristics, investment philosophy, and terms and conditions prior to committing capital.

Equity Buyouts – Acquisition of a company of the purpose of restructuring its balance sheet by replacing existing debt with equity.

General Partner – The managing member of a Limited Liability Company or the management company or managing organization of a limited partnership. The General Partner has full responsibility for investing the fund's capital. The General Partner also bears personal liability for any lawsuits that arise from the fund's activities but is often indemnified by the fund.

Hedge Funds – Highly specialized investment strategies in financial securities instruments (including certain derivatives) driven by markets such as the interest rate markets, securities index markets and foreign exchanged markets.

Hurdle Rate or Preferred Return – A minimum return that is paid to the Limited Partner before the General Partner receives any share of the profits.

Indemnification – Indemnification provisions seek to protect the members of General Partnerships from personal liability or loss arising out of their activities in conducting partnership business.

Independently-Sourced Investment – A type of direct investment which is sourced through contacts other than the General Partners with which the College is invested.

Internal Rate of Return – The return received by limited partners that equates the current value of the fund to all the capital contributions into the fund and distributions out of the limited partners. Mathematically, the IRR is the implied discount rate that will make the present value of a stream of cashflows sum to zero.

Key-Man – Key-man provisions address the limited partners' concern for potential turnover of certain named individuals within the general partnership or the retention of a specified percentage of the original general partners.

Leveraged Buyout (LBO) – Purchase of all or part of the stock or assets of a company. The company may be privately or publicly owned, or a subsidiary or division of a privately or publicly owned company. Such investments are typically financed with a significant amount of borrowed capital and a relatively small portion of equity capital, making the company relatively more leveraged following the purchase transaction.

Limited Partner – An investor in a Limited Partnership. Limited Partners provide the capital, but have no direct involvement in the management of the fund. Limited Partners have limited liability but also have limited control over the management of the fund.

Limited Partnership – The most common structure used to organize a private equity fund.

Liquidity – A measurement of how quickly a particular investment can be converted into cash at a low transaction cost.

Management Buyout (MBO) – Acquisition of a company by its existing management. The financing structure may involve a significant amount of borrowed capital, (thus resembles an LBO), or may have a more balanced debt/equity mix if equity financing is available to management.

Management Fee – The fee paid to an investment manager to cover the expenses of managing a fund. Fees cover expenses such as salaries, travel and office expenses, and costs of developing and monitoring investments. Management fees are typically paid out of a fund's committed capital and are generally returned before the profit is split with the general partners.

Mezzanine Debt – Privately negotiated subordinated debt investments, usually with a parallel investment in equity securities at relatively low cost or at nominal cost.

Most Favored Nation Clause – A clause that states that any side agreements negotiated by other investors will be also extended to the investor who has the most favored nation clause.

No-Fault Divorce – A clause that stipulates the conditions under which limited partners may stop contributing capital to the partnership or even terminate the partnership.

Return – A measure of the total performance of an investment over a designated time period. It is comprised of income return and capital appreciation return. The return calculation is typically based upon the internal rate of return (IRR) net of all fees and will be consistent with industry standards.

Risk – The extent to which investment returns fluctuate from period to period. The primary types of risks associated with alternative investments include financial risk, operating and business risk, liquidity risk, structural risk, valuation risk, and country risk when undertaking international investments. (Also see Standard Deviation.)

Secondary Funds – Partnership-style funds formed for the purpose of acquiring limited partnership interests, as a secondary purchase, from an original investor who no longer wants to own the limited partnership interest. These funds are typically purchased at a discount from their estimated value in recognition that the purchaser is acquiring a relatively illiquid investment. Secondary Funds are often considered to be in the Special Situations category.

Staff – The Investment Staff of the College.

Term – The life of the partnership or direct investment.

Transaction – A partnership or direct investment. The word "transaction" is often used generically to refer to either a potential investment opportunity or to an existing investment.

Turnarounds – Investments in companies experiencing financial or operating problems. These companies may or may not be insolvent.

Unrelated Business Taxable Income ("UBTI") – Income produced by certain types of investments that is subject to tax (unrelated business income tax or "UBIT") for tax-exempt investors.

Venture Capital – The financing of relatively small, rapidly growing young companies that do not have access to public equity or debt financing. In recent years, most venture capital opportunities have been in the technology and bio-science areas, but the definition is not limited to those areas. There are further variations depending on how early in the life of the venture the investment is made:

a. Early-stage venture capital can involve a company right at the start whose only asset is an idea (sometimes sub-divided further as seed financing, start-up financing and first-stage financing);

b. Later-stage venture capital usually involves an established product, where the company is poised for rapid growth.

Vesting Schedule for the General Partners – The vesting schedule refers to the period of time from fund start-up date that partners of the general partnership are eligible to receive their share of the carried interest.

Vintage Year – The year of first drawdown of capital for investment purposes, which generally coincides with the first year of a partnership's term. Partnerships of the same vintage year are often monitored as a group, in order to assess which partnerships have been most and least effective in capitalizing on economic and market conditions over a common timeframe.

Waterfall – A term that refers to the formula for calculating the general partner's carried interest in the cash or securities distributed by the General Partner.

"Winding Down" – Winding down provisions refer to the process of liquidating all

remaining investment holdings in the partnership at the end of the term or the effective date of dissolution.
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Rebalancing – The process of adjusting a portfolio's holdings (or factor exposure) to equal a desired exposure. For example: if a portfolio has a target investment allocation of 50% equities and 50% cash but, due to market movements, has a current allocation of 55% equities and 45% cash, rebalancing would move 5% of the portfolio from equities to cash so that the actual portfolio holdings equal the target investment allocation.

Risk Tolerance – The amount of risk or variability an investor is willing to accept in exchange for additional reward in the form of a higher expected return. Investors who demand a higher reward in exchange for an increase in risk have a lower risk tolerance than those who demand a lower reward.

Securities Lending – A transaction in which brokers (including banks and custodians with broker status) lend securities from their inventory to a customer making a short sale for delivery to the buying customer's broker. The borrowing broker deposits with the lending broker a cash amount equal to the market value of the securities as collateral. Securities lending is analogous to a bank making its loans with customer deposits and is a lucrative and important business activity for financial institutions. Customers whose securities are lent (large pension funds, for example) often share the income generated from such transactions, thereby offsetting investment management and custodial costs. The SEC requires that brokers obtain permission from their customers to have their securities used in loan transactions; this is requested in the standard agreement customers sign when they open general accounts.

Sharpe Ratio – A statistical measure used to determine a portfolio's reward relative to its total variability. Developed by Nobel Laureate William Sharpe, the Sharpe ratio is calculated by dividing "excess return", a measure of a portfolio's return in comparison to that of a risk-free investment, by the portfolio's standard deviation. The Sharpe Ratio represents a portfolio's excess return per unit of risk. The higher the ratio, the better the portfolio's risk-adjusted performance.

Short Selling – Selling an asset which one does not own. For example, a trader may sell a bond if he believes its price will decrease; if it does, he can buy the bond back at a lower price and make a profit. Short positions have limited profit potential because the price of an asset cannot decrease below zero; however, they have unlimited loss potential because prices can increase infinitely. Many pension investors believe that shorting stocks is inappropriate for pension portfolios because ultimately doing so can be riskier than simply holding poor performers.

Standard Deviation – A measure of the mathematical deviation from the mean of two-thirds of a statistical sample. For example, assume the average annual return on the stocks of the S&P 500 were +15% and the standard deviation were +/- 15%. Given a normal distribution, two-thirds of the time the return of any stock chosen at random would fall between 0% and +30%. Standard deviation reflects the unpredictability of returns and is a useful indicator of risk, *to the extent that returns are normally* *distributed*.

Style – The investment strategies used by fund managers and/or mutual funds. Generally categorized by the three major asset classes (i.e., equity, fixed-income and money market), style incorporates all aspects of trading methodology, including asset types and sizes, investment analysis and duration. Examples of equity styles include "large-cap", which invests in stocks of companies with large-capitalization and "growth-style", which concentrates on stocks with higher-than-average earnings growth.

Swap – An over-the counter derivative instrument used to change the characteristics of a portfolio. Originally, a swap referred to the simple exchange of one security for another; today, more complex swaps are being used, including currency swaps, interest rate swaps and swaps linked to mortgage-backed securities. In a typical interest rate swap, for example, two parties periodically exchange payments based upon the value of one or more market indices. Swaps can also provide leverage, since they require little or no initial capital outlay.

Tactical Asset Allocation – An asset allocation strategy which involves the relatively short-term process of making minor shifts within pre-established ranges.

Top-Down Investment Process – An investment strategy in which an investor first makes an assessment of overall economic indicators, and then decides which industries will profit most from economic conditions. The top-down investor then selects a portfolio of individual securities from within the favored industries.

Tracking Error – The differential in performance between a portfolio and its benchmark. Mathematically, it is the annualized standard deviation of the difference in return. In an indexing strategy, tracking error refers to the degree to which an index fund's performance diverges from its index.

Value-At-Risk (VAR) – A statistical estimate of maximum potential loss that can be expected over a given period a certain percentage of the time. VAR is applied to complex portfolios as a way for financial organizations to sum up their total risk in a simple measure. It's an old concept built on the foundations of Modern Portfolio Theory, recently rediscovered in response to the rising interest in and need for risk measures and controls. How it is computed, its use and reliability are all the subject of considerable debate.

Volatility – A measure of the fluctuation in the price of a security, commodity or market. Mathematically, it is computed as the annualized standard deviation of the percentage change in daily price. A highly volatile security may experience wide price swings and is therefore considered to be more speculative than one with a low volatility.

JGN:bjh
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