

September 7, 2011

TO: Senior Vice-Chancellor Marc Shaw

FROM: Janet Krone *JMK*

SUBJECT: Investment Update

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This memorandum provides an overview of the markets and our portfolio for the calendar year-to-date [CYTD] period ending July 31, 2011.

### **Market Summary**

*[Note: all figures are in US dollars].*

For the seven months ended July 31, 2011, developed global equity markets, as represented by the MSCI World Index, returned 3.4%, while developed global equity markets excluding the US [MSCI EAFE Index] returned 3.3% and the US market [S&P500 Index] returned 3.9%. However, emerging markets equity [MSCI Emerging Markets Index] continued to lag developed markets with a CYTD return of 0.7%.

During this period, US large- and mid-capitalization stocks [Russell 1000 and Russell Mid-Cap] outperformed small-capitalization stocks [Russell 2000] by 169 and 180 basis points, respectively. Growth led performance by style across all capitalization sectors. In addition, all S&P500 economic sectors were in the black CYTD, except for financials. Top performing sectors during this period included energy [+12.2%], health care [+9.5%], and utilities [+8.1%], while those at the bottom of the list included industrials [+0.5%], materials [+0.2%] and financials [-6.6%]

Global sovereign bonds [JPMorgan Global Government Bond Index] were up 6.3% during the last seven months and the Citigroup Non-US World Government Bond Index was up 7.3%. In U.S. credit markets, long governments and long government/credit [Barclays Long Government Bonds and Long Govt/Credit Bonds] returned 6.7% and 7.8%, respectively, outperforming both the Barclays Aggregate Bond Index return of 4.4% and the Barclays High Yield Bond return of 6.2%.

Commodities continued to be in the black with the Dow Jones-UBS Commodity TR Index and the S&P Goldman Sachs Commodity Index up 0.3% and 5.2%, respectively.

### **CUNY Long-Term Pool**

During this period, the Pool returned 4.1%, bringing the market value to approximately \$166 million. All asset classes produced positive composite returns calendar year-to-date through July 2011.

The Total U. S Equity composite [23.1% of the Pool] is invested entirely in the Vanguard S&P500 Index Fund and produced a 3.9% benchmark return with no tracking error. Likewise, the Total Fixed Income composite [27.1% of the Pool] produced a benchmark-like return of 4.8%. This reflects the composition of the composite: 80% is invested in the State Street U.S. Government/Credit Bond Index with a CYTD return of 4.5% and 20% is invested with Colchester [active global bond manager hired in March 2011] with an inception-to-date return of 5.8%.

Our Total International Equity composite [23.4% of the Pool] returned 4%, adding 70 basis points over the MSCI EAFE Index. All of the component international equity managers contributed value [Philadelphia, Walter Scott and IVA Worldwide]. Likewise, the Emerging Market Equity composite [7% of the Pool] returned 2.6%, adding 190 basis points in value over the MSCI Emerging Markets Index comprised as follows: roughly 70% is invested in Aberdeen's active product with a CYTD return of 2.3%, and roughly 30% is invested with Dimensional Fund Advisors [a semi-passive small cap emerging market equity fund hired in March 2011] with an inception-to-date return of 8.9%.

Finally, our Hedge Fund composite [9.2% of the Pool] returned 0.3% CYTD and is roughly even with its benchmark, the HFRI Fund of Funds Index, while Real Assets [10.1% of the Pool] returned 4.3% CYTD but is 130 basis points under the Wellington DIH Benchmark.

Composite (Inception Date)	Percentage of Portfolio (%)	Assets \$ mil	Total Return (%)
			CYTD 1/1/11 - 7/31/11
<b>Total U.S. Equity (01/01/00)</b>	<b>23.1</b>	<b>38.3</b>	<b>3.9</b>
S&P500 Index (01/01/00)			3.9
Value Added			0.0
<b>Total International Equity (07/02/02)</b>	<b>23.4</b>	<b>38.8</b>	<b>4.0</b>
MSCI EAFE Index (07/02/02)			3.3
Value Added			0.7
<b>Total Emerging Markets (04/21/09)</b>	<b>7.0</b>	<b>11.6</b>	<b>2.6</b>
MSCI Emerging Markets Index(04/21/09)			0.7
Value Added			1.9
<b>Total Hedge Funds (04/30/10)</b>	<b>9.2</b>	<b>15.3</b>	<b>0.3</b>
HFRI Fund of Funds Index (04/30/10)			0.4
Value Added			-0.1
<b>Total Real Assets (07/01/09)</b>	<b>10.1</b>	<b>16.8</b>	<b>4.3</b>
Wellington DIH Benchmark (06/30/09)			5.6
Value Added			-1.3
CPI-U +5% (06/30/09)			6.1
Value Added			-1.9
<b>Total Fixed Income (01/01/00)</b>	<b>27.1</b>	<b>45.0</b>	<b>4.8</b>
BC Govt/Credit Bond Index (04/20/10)			4.7
Value Added			0.2
<b>Total CUNY Assets (7/31/11)</b>		<b>165.8</b>	<b>4.1</b>

## Conclusion and Recommendations

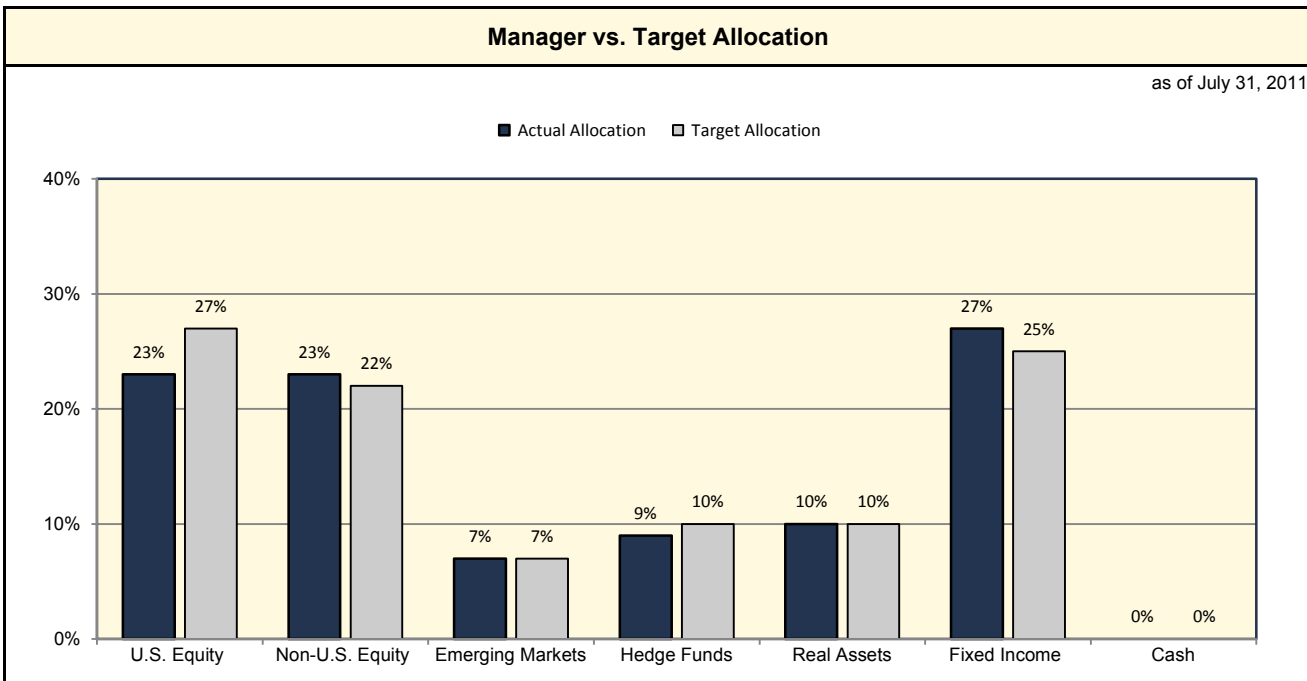
While the restructured Investment Pool is significantly more diversified than its predecessor portfolio of three years ago and is likely to meet our 5% expected long-term real return net of fees, we continue to look for opportunities that are appropriate for CUNY's risk-return profile. We look forward to discussing such opportunities with you in the future.

Attachment

Cc:  
 Matthew Sapienza, Associate Vice Chancellor  
 Barry Kaufman, University Controller

**City University of New York (CUNY)**  
**Asset Allocation Policy** as of July 31, 2011

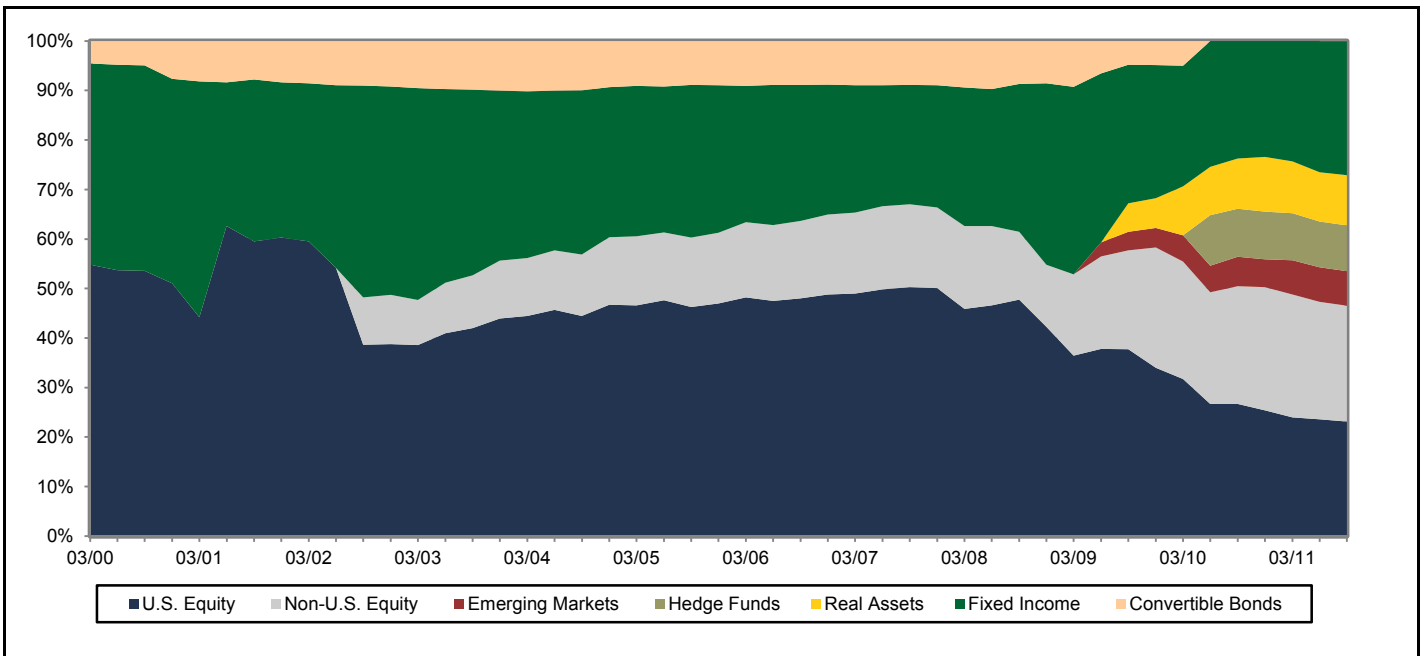
	<b>Actual Allocation</b>	<b>Target Allocation</b>	<b>Allocation Range</b>
U.S. Equity	23.1%	26.5%	17.5%-32.5%
Non-U.S. Equity	23.4%	21.5%	12.5%-30%
Emerging Markets	7.0%	7.0%	4%-11%
Hedge Funds	9.2%	10.0%	5%-15%
Real Assets	10.1%	10.0%	5%-15%
Fixed Income	27.1%	25.0%	20%-30%
Cash	0.0%	0.0%	0%-5%



Note: Actual Allocation includes discretionary cash held by managers.

**City University of New York (CUNY)**  
**Asset Allocation Over Time** as of July 31, 2011

	% of Portfolio				Market Value (\$)
	07/31/08	07/31/09	07/31/10	07/31/11	As Of 07/31/11
U.S. Equity	47.1%	38.4%	27.1%	23.1%	\$38,322,074
Non-U.S. Equity	15.7	19.2	23.3	23.4	38,768,116
Emerging Markets	---	3.0	5.6	7.0	11,617,655
Hedge Funds	---	---	9.8	9.2	15,300,121
Real Assets	---	4.0	9.8	10.1	16,802,476
Fixed Income	28.2	30.7	24.4	27.1	44,952,718
Convertible Bonds	9.0	4.7	---	---	---
Cash	---	---	---	---	---
<b>Total CUNY Assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$165,763,161</b>



Note: Allocation includes discretionary cash held by managers.

**City University of New York (CUNY)**  
**Investment Manager Allocation Over Time** as of July 31, 2011

Investment Manager	Market Value (\$000)					% Of Portfolio As Of 07/31/11	EQ/FI/CE
	09/30/10	12/31/10	03/31/11	06/30/11	07/31/11		
<b>U.S. Equity</b>							
Vanguard Institutional Index Fund	\$35,003	\$40,225	\$39,081	\$39,120	\$38,322	23.1%	100/0/0
BlackRock Large-Cap Value	5,431	---	---	---	---	---	---
<b>Subtotal</b>	<b>40,434</b>	<b>40,225</b>	<b>39,081</b>	<b>39,120</b>	<b>38,322</b>	<b>23.1</b>	<b>100/0/0</b>
<b>International Equity</b>							
Philadelphia International	21,295	21,571	22,232	20,747	20,292	12.2	99/0/1
Vanguard Developed Market Idx	7,750	---	---	---	---	---	---
Walter Scott International	6,942	7,395	7,495	7,650	7,682	4.6	99/0/1
IVA Worldwide Fund	---	10,402	10,751	10,894	10,794	6.5	100/0/0
<b>Subtotal</b>	<b>35,986</b>	<b>39,367</b>	<b>40,478</b>	<b>39,290</b>	<b>38,768</b>	<b>23.4</b>	<b>99/0/1</b>
<b>Emerging Markets</b>							
Aberdeen Emerging Markets Fund	8,944	8,946	8,128	8,278	8,340	5.0	96/0/4
DFA Emerging Small Cap Fund	---	---	3,178	3,241	3,278	2.0	100/0/0
<b>Subtotal</b>	<b>8,944</b>	<b>8,946</b>	<b>11,306</b>	<b>11,520</b>	<b>11,618</b>	<b>7.0</b>	<b>97/0/3</b>
<b>Hedge Funds</b>							
Archstone	7,294	7,569	7,704	7,679	7,651	4.6	100/0/0
Evanston Weatherlow, Ltd	7,351	7,686	7,756	7,626	7,649	4.6	100/0/0
<b>Subtotal</b>	<b>14,644</b>	<b>15,255</b>	<b>15,460</b>	<b>15,306</b>	<b>15,300</b>	<b>9.2</b>	<b>100/0/0</b>
<b>Real Assets</b>							
Wellington Inflation Hedge	15,366	17,468	17,074	16,519	16,802	10.1	82/10/8
<b>Fixed Income</b>							
State Street US Gov't Credit	35,956	37,127	31,774	35,789	36,489	22.0	0/100/0
Colchester Global Bond Fund	---	---	7,928	8,183	8,464	5.1	0/100/0
<b>Subtotal</b>	<b>35,956</b>	<b>37,127</b>	<b>39,702</b>	<b>43,972</b>	<b>44,953</b>	<b>27.1</b>	<b>0/100/0</b>
<b>Total CUNY Assets</b>	<b>\$151,330</b>	<b>\$158,389</b>	<b>\$163,101</b>	<b>\$165,726</b>	<b>\$165,763</b>	<b>100.0%</b>	<b>71/28/1</b>

**City University of New York (CUNY)**  
**Investment Manager Allocation Over Time** as of July 31, 2011

Investment Manager	% of Portfolio					Market Value (\$000) 07/31/11	EQ/FI/CE
	09/30/10	12/31/10	03/31/11	06/30/11	07/31/11		
<b>U.S. Equity</b>							
Vanguard Institutional Index Fund	23.1%	25.4%	24.0%	23.6%	23.1%	\$38,322	100/0/0
BlackRock Large-Cap Value	3.6	---	---	---	---	---	---
<b>Subtotal</b>	<b>26.7</b>	<b>25.4</b>	<b>24.0</b>	<b>23.6</b>	<b>23.1</b>	<b>38,322</b>	<b>100/0/0</b>
<b>International Equity</b>							
Philadelphia International	14.1	13.6	13.6	12.5	12.2	20,292	99/0/1
Vanguard Developed Market Idx	5.1	---	---	---	---	---	---
Walter Scott International	4.6	4.7	4.6	4.6	4.6	7,682	99/0/1
IVA Worldwide Fund	---	6.6	6.6	6.6	6.5	10,794	100/0/0
<b>Subtotal</b>	<b>23.8</b>	<b>24.9</b>	<b>24.8</b>	<b>23.7</b>	<b>23.4</b>	<b>38,768</b>	<b>99/0/1</b>
<b>Emerging Markets</b>							
Aberdeen Emerging Markets Fund	5.9	5.6	5.0	5.0	5.0	8,340	96/0/4
DFA Emerging Small Cap Fund	---	---	1.9	2.0	2.0	3,278	100/0/0
<b>Subtotal</b>	<b>5.9</b>	<b>5.6</b>	<b>6.9</b>	<b>7.0</b>	<b>7.0</b>	<b>11,618</b>	<b>97/0/3</b>
<b>Hedge Funds</b>							
Archstone	4.8	4.8	4.7	4.6	4.6	7,651	100/0/0
Evanston Weatherlow, Ltd	4.9	4.9	4.8	4.6	4.6	7,649	100/0/0
<b>Subtotal</b>	<b>9.7</b>	<b>9.6</b>	<b>9.5</b>	<b>9.2</b>	<b>9.2</b>	<b>15,300</b>	<b>100/0/0</b>
<b>Real Assets</b>							
Wellington Inflation Hedge	10.2	11.0	10.5	10.0	10.1	16,802	82/10/8
<b>Fixed Income</b>							
State Street US Gov't Credit	23.8	23.4	19.5	21.6	22.0	36,489	0/100/0
Colchester Global Bond Fund	---	---	4.9	4.9	5.1	8,464	0/100/0
<b>Subtotal</b>	<b>23.8</b>	<b>23.4</b>	<b>24.3</b>	<b>26.5</b>	<b>27.1</b>	<b>44,953</b>	<b>0/100/0</b>
<b>Total CUNY Assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$165,763</b>	<b>71/28/1</b>

## City University of New York (CUNY)

**Flash Investment Returns by Composite** (net of fees) as of July 31, 2011

Composite (Inception Date)	Assets \$ mil	Total Return (%)					
		Latest Month	CYTD	Cumulative	Annualized	Annualized	Annualized
		06/30/11- 07/31/11	12/31/10- 07/31/11	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
<b>Total U.S. Equity (01/01/00)</b>	<b>38.3</b>	<b>-2.0</b>	<b>3.9</b>	<b>19.4</b>	<b>2.2</b>	<b>1.5</b>	<b>0.6</b>
Russell 3000® Index (01/01/00)		-2.3	3.9	20.9	3.5	2.9	1.5
Value Added		0.3	-0.1	-1.6	-1.2	-1.4	-0.9
<b>Total International Equity (07/02/02)</b>	<b>38.8</b>	<b>-1.3</b>	<b>4.0</b>	<b>18.1</b>	<b>-0.2</b>	<b>0.2</b>	<b>6.6</b>
MSCI EAFE Index (07/02/02)		-1.6	3.3	17.2	-1.2	1.0	7.5
Value Added		0.2	0.7	0.9	1.0	-0.8	-0.9
<b>Total Emerging Markets (04/21/09)</b>	<b>11.6</b>	<b>0.8</b>	<b>2.6</b>	<b>19.5</b>	<b>---</b>	<b>---</b>	<b>40.0</b>
MSCI Emerging Markets Index (04/21/09)		-0.4	0.7	17.8	---	---	33.4
Value Added		1.2	1.9	1.7	---	---	6.6
<b>Total Hedge Funds (04/30/10)</b>	<b>15.3</b>	<b>-0.0</b>	<b>0.3</b>	<b>7.0</b>	<b>---</b>	<b>---</b>	<b>3.8</b>
HFRI Fund of Funds Index (04/30/10)		0.7	0.4	6.6	---	---	2.9
Value Added		-0.7	-0.1	0.5	---	---	0.9
<b>Total Real Assets (07/01/09)</b>	<b>16.8</b>	<b>1.7</b>	<b>4.3</b>	<b>26.8</b>	<b>---</b>	<b>---</b>	<b>20.8</b>
Wellington DIH Benchmark (06/30/09) <sup>(1)</sup>		1.8	5.6	26.6	---	---	19.4
Value Added		-0.1	-1.3	0.1	---	---	1.3
CPI-U +5% (06/30/09) <sup>(2)</sup>		0.7	6.1	8.8	---	---	7.4
Value Added		1.0	-1.9	17.9	---	---	13.4
<b>Total Fixed Income (01/01/00)</b>	<b>45.0</b>	<b>2.2</b>	<b>4.8</b>	<b>4.7</b>	<b>7.6</b>	<b>7.0</b>	<b>5.8</b>
BC Govt/Credit Bond Index (01/01/00)		2.0	4.6	4.5	6.9	6.5	6.4
Value Added		0.3	0.2	0.2	0.8	0.5	-0.6
<b>Total CUNY Assets (01/01/00)<sup>(3)</sup></b>	<b>165.8</b>	<b>0.0</b>	<b>4.1</b>	<b>15.1</b>	<b>4.4</b>	<b>3.5</b>	<b>2.9</b>
Policy Benchmark (12/31/99) <sup>(4)</sup>		-0.2	3.9	15.4	6.1	5.2	4.0
Value Added		0.2	0.2	-0.2	-1.7	-1.6	-1.1
Allocation Benchmark (12/31/99) <sup>(4)</sup>		-0.2	3.9	15.3	4.3	4.0	3.6
Value Added		0.2	0.1	-0.1	0.1	-0.4	-0.7

Note: Since Inception returns are cumulative for composites with less than one full year of performance history.

(1) Benchmark returns provided by Wellington Management Company.

(2) CPI-U +5% is not available as of July 2011. The average of the last twelve months is used as a proxy.

(3) Performance on Total Assets does not include historical performance for Bond Procope, terminated at some point in 2000, as no performance records could be located.

(4) See Endnotes for benchmark composition on page 8.

## City University of New York (CUNY)

**Flash Investment Returns by Manager** (net of fees) as of July 31, 2011

Manager (Inception Date)	Assets \$ mil	Total Return (%)					
		Latest Month	CYTD	Cumulative	Annualized	Annualized	Annualized
		06/30/11- 07/31/11	12/31/10- 07/31/11	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
<b>U.S. Equity</b>							
Vanguard Institutional Index Fund (03/31/09)	38.3	-2.0	3.9	19.6	---	---	25.5
S&P 500 Index (03/31/09)		-2.0	3.9	19.7	---	---	25.5
Value Added		0.0	0.0	0.0	---	---	0.0
<b>International Equity</b>							
Philadelphia International (07/02/02)	20.3	-2.2	4.0	17.4	-0.4	0.1	6.6
MSCI EAFE Index (07/02/02)		-1.6	3.3	17.2	-1.2	1.0	7.5
Value Added		-0.6	0.7	0.2	0.9	-0.8	-0.9
Walter Scott International (11/30/09)	7.7	0.4	3.9	19.2	---	---	10.6
MSCI EAFE Index (11/30/09)		-1.6	3.3	17.2	---	---	7.6
Value Added		2.0	0.6	2.0	---	---	3.0
IVA Worldwide Fund (10/29/10)	10.8	-0.9	3.8	---	---	---	8.0
MSCI All Country World Index (10/29/10)		-1.6	3.3	---	---	---	8.5
Value Added		0.7	0.5	---	---	---	-0.5
<b>Emerging Markets</b>							
Aberdeen Emerging Markets Fund (04/21/09)	8.3	0.7	2.3	19.2	---	---	39.9
MSCI Emerging Markets Index (04/21/09)		-0.4	0.7	17.8	---	---	33.4
Value Added		1.1	1.7	1.4	---	---	6.5
DFA Emerging Small Cap Fund (02/28/11)	3.3	1.1	---	---	---	---	8.9
MSCI Emerging Markets Index (02/28/11)		-0.4	---	---	---	---	4.4
Value Added		1.5	---	---	---	---	4.5
<b>Hedge Funds</b>							
Archstone (04/30/10)	7.7	-0.4	1.1	7.1	---	---	3.8
HFRI Fund of Funds Index (04/30/10)		0.7	0.4	6.6	---	---	2.9
Value Added		-1.0	0.7	0.5	---	---	0.9

Note: Since Inception returns are cumulative for managers with less than one full year of performance history.



## City University of New York (CUNY)

**Flash Investment Returns by Manager** (net of fees) as of July 31, 2011

Manager (Inception Date)	Assets \$ mil	Total Return (%)					
		Latest Month	CYTD	Cumulative	Annualized	Annualized	Annualized
		06/30/11- 07/31/11	12/31/10- 07/31/11	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
Evanston Weatherlow, Ltd (04/30/10)	7.6	0.3	-0.5	7.0	---	---	3.8
HFRI Fund of Funds Index (04/30/10)		0.7	0.4	6.6	---	---	2.9
Value Added		-0.4	-0.9	0.4	---	---	0.9
<b>Real Assets</b>							
Wellington Inflation Hedge (07/01/09)	16.8	1.7	4.3	26.8	---	---	20.8
Wellington DIH Benchmark (06/30/09) <sup>(1)</sup>		1.8	5.6	26.6	---	---	19.4
Value Added		-0.1	-1.3	0.1	---	---	1.3
CPI-U +5% (06/30/09) <sup>(2)</sup>		0.7	6.1	8.8	---	---	7.4
Value Added		1.0	-1.9	17.9	---	---	13.4
<b>Fixed Income</b>							
State Street US Gov't Credit (04/20/10)	36.5	2.0	4.5	4.4	---	---	7.0
BC Govt/Credit Bond Index (04/20/10)		2.0	4.6	4.5	---	---	7.2
Value Added		0.0	-0.1	-0.1	---	---	-0.1
Colchester Global Bond Fund (02/28/11)	8.5	3.4	---	---	---	---	5.8
Citigroup WGBI Index (02/28/11)		2.3	---	---	---	---	6.0
Value Added		1.1	---	---	---	---	-0.2

Note: Since Inception returns are cumulative for managers with less than one full year of performance history.

(1) Benchmark returns provided by Wellington Management Company.

(2) CPI-U +5% is not available as of July 2011. The average of the last twelve months is used as a proxy.

**City University of New York (CUNY)  
Endnotes**

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(1) From inception through 03/31/09 the Policy Benchmark consisted of 48% Russell 3000, 10% MSCI EAFE, 8% BoFA ML Convertible Bond Index, and 34% BC Aggregate Bond Index. From 04/01/09 through 06/30/09 the benchmark consisted of 45% Russell 3000, 20% MSCI EAFE, 5% MSCI Emerging Markets Index, 5% HFRI FOF Index, and 25% BC Aggregate Bond Index. From 07/01/09 to 04/30/10 the Policy Benchmark consisted of 35% Russell 3000, 20% MSCI EAFE, 5% MSCI Emerging Markets Index, 5% HFRI FOF Index, 10% Wellington DIH Custom Benchmark, and 25% BC Aggregate Bond Index. From 05/01/10 to 02/28/11 the Policy Benchmark consisted of 30% Russell 3000, 20% MSCI EAFE, 5% MSCI Emerging Markets Index, 10% HFRI FOF Index, 10% Wellington DIH Custom Benchmark, and 25% BC G/C Bond Index. From 03/01/11 to present the Policy Benchmark consists of 26.5% Russell 3000, 21.5% MSCI EAFE, 7% MSCI Emerging Markets Index, 10% HFRI FOF Index, 10% Wellington DIH Custom Benchmark, 20% BC G/C Bond Index, and 5% Citigroup WGBI Index.

(2) The Allocation Benchmark represents the return of a hypothetical fund that combines CUNY's actual asset allocation with index returns, thereby measuring the extent to which active management has or has not added value.