CITY UNIVERSITY OF NEW YORK
SHORT-TERM INVESTMENT POLICY

1. Purpose of the Short-Term Investment Policy

This Short-Term Investment Policy governs The City University of New York's ("CUNY") short-term investment of available cash, if any, and CUNY's Short-Term Investment Pool (the "STIP").

2. Background

The STIP was created to serve the short- to intermediate-term financial needs of CUNY and its Colleges and related entities, including Alumni Associations and Foundations, that choose to invest in the STIP. The STIP is a pooled investment vehicle for multiple individual accounts that includes non-tax levy funds with a short to intermediate timeframe but excludes dedicated operational cash.

Currently, CUNY and its Colleges and related entities independently invest their short- to intermediate-term funds mainly in various money market and certificate of deposit accounts at low yields without any coordination among them. Given the large aggregate size of these accounts and the scale advantages that are achievable, it is prudent to seek a higher-yielding alternative that offers an acceptable risk/return tradeoff with operational ease and a high level of transparency. It is understood that achieving higher returns requires increasing investment risk and/or reducing liquidity; however by combining multiple accounts and with proper cash flow forecasting, an acceptable balance between good returns, adequate liquidity and acceptable investment risk should be achievable.

It is the aim of the STIP to become the preferred choice for placement of the short- to intermediate-term assets.

This policy adheres to the standards of prudent management of investment assets set forth in the New York Prudent Management of Institutional Funds Act ("NYPMIFA").

3. Responsibilities

A. CUNY's Vice Chancellor for Budget and Finance serves as steward and is responsible for providing broad oversight of the STIP investment program, including developing objectives and strategies for the STIP consistent with the Short-Term Investment Policy and setting an optimal asset allocation. The University Controller and his Investment Staff shall perform all other responsibilities relating to the STIP.

B. The University Controller and his Investment Staff shall be responsible for the total investment program and will provide prudent oversight of the STIP in order to further the goals and mission of CUNY and the College and related entity participants. The University Controller and his Investment Staff shall be responsible for implementing the Vice Chancellor for Budget and Finance's decisions relating to the STIP; ensuring the STIP is invested according to the Short-Term Investment Policy; administering the STIP; selecting and terminating Investment Managers; determining whether or not to engage external agents such as Investment Consultants and Custodians, and selecting and terminating any such external agents; rebalancing the STIP; presenting investment results; coordinating with any selected Investment Managers, Investment Consultant(s) and Custodian; and ensuring that CUNY's investment and management of STIP assets comply with NYPMIFA.

In addition, the University Controller and his Investment Staff shall report at least annually to the Subcommittee on Investments of the Board of Trustees on investment policy, asset allocation and performance of the STIP as well as other substantive matters. The Subcommittee on Investments shall in turn report at least annually to the Board of Trustees on the same matters relating to the STIP.

The University Controller and his Investment Staff may delegate certain investment responsibilities to external agents such as consultants and investment managers. Such delegation must be conducted in a prudent manner and in good faith and requires at a minimum:

a) Clear definition of the scope and terms of the delegation and assessment of the reasonableness of the compensation charged by the agent;
b) Proper due diligence including assessment of the agents' independence and potential conflicts of interest;
c) Subsequent monitoring of the delegated areas including reasonable efforts to verify accuracy of information provided by the agents; and
d) Contracts with external agents must specify that (i) they can be terminated without penalty by CUNY upon no more than 60 days' notice and (ii) the external agent owes a duty to CUNY to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

C. The Vice Chancellor for Budget and Finance and the University Controller and his Investment Staff must adhere to New York State ethics provisions under Public Officer Law, Sections 73 and 74.

D. Each Investment Consultant shall provide assistance to the University Controller and his Investment Staff, as requested, on the development, implementation, and ongoing practice of specific Investment Manager guidelines and practices consistent with the mandate to provide prudent oversight of the STIP. Each Investment Consultant shall also assist the University Controller and his Investment Staff with the selection of Investment Managers and provide periodic investment ideas tailored to CUNY's specific needs as well as provide investment performance measurement and advice concerning risk management strategies, primarily through asset allocation studies and diversification strategies. Each Investment Consultant shall act as a fiduciary of the STIP.

E. Each Investment Manager shall be responsible for investing as a fiduciary with discretion the assets under its management and in reporting and communicating with the University Controller and his Investment Staff in accordance with the Short-Term Investment Policy and the applicable Investment Manager guidelines.

F. Each Custodian shall be responsible for all needs relating to the custody and accounting of the STIP assets, including processing all Investment Manager transactions, related additions or withdrawals, and securities lending (if agreed to), and reporting and communicating with University Controller and his Investment Staff, Investment Managers and Investment Consultant(s), in accordance with the Short-Term Investment Policy and with the applicable Investment Manager guidelines.

G. In carrying out their responsibilities, the Vice Chancellor for Budget and Finance, University Controller and his Investment Staff, and external agents shall comply with the duties of loyalty and care, which require each such person to act in what he or she believes is the best interest of CUNY and in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

4. Investment Objectives and Liquidity

The Investment Objective of the STIP is to provide a return greater than the return achievable through investment in common money market funds at a standard deviation that does not exceed 3%.

It is recognized that these objectives may not be achieved over shorter time periods, but should be achievable over longer periods and the objectives shall therefore be evaluated over rolling three-year periods.

The liquidity profile of the STIP must be high with at least 50% of it having daily liquidity and no more than 10% having liquidity beyond a quarter.

5. Additions and Withdrawals

Investments in the STIP are subject in all respects to the Short-Term Investment Policy and the STIP Rules attached hereto as Appendix A (the "Rules") and as updated from time to time by the University Controller. Participants can withdraw funds from the STIP as needed in accordance with the requirements of the Rules.

Among other things, the Rules address reporting to participants, stress the need for proper cash flow forecasting of additions and withdrawals to the STIP, and require Participants to communicate requests for withdrawals in advance to facilitate rebalancing and planning, especially for larger transactions.

6. Asset Allocation and Composition of the STIP

The STIP is a commingled pool consisting of at least three separate Tiers as described below:

A. <u>Short-Term Tier</u>: The purpose of the Short-Term Tier is to ensure capital preservation and daily liquidity and this Tier will be invested conservatively in fixed income and cash securities with daily liquidity and shorter maturities.

B. <u>Intermediate-Term Tier</u>**:** The purpose of the Intermediate-Term Tier is to ensure capital preservation over time but with some excess return potential using predominantly daily liquidity and fixed income investments at short to intermediate maturities.

C. <u>Long-Term Tier</u>: The purpose of the Long-Term Tier is to provide excess return potential through a variety of investments including both equity and fixed income with varying liquidity terms and at significantly higher levels of risk than normally used in short-term cash pools, with the potential for significant gains as well as the potential for loss of capital. Specific investment guidelines for the Long-Term Tier are contained in CUNY's Investment Policy related to the Long-Term Investment Pool, where this Tier will be co-invested.

The asset allocation among the Tiers shall be the following:

Tier	Target Allocation	Range
Short-Term	20%	15%-25%
Intermediate-Term	70%	60% - 80%
Long-Term	10%	5% - 15%

In establishing the asset allocation and in its implementation, the following factors shall be taken into consideration, if relevant:

- General economic conditions;
- The potential impact of inflation/deflation;
- The expected tax consequences, if any, of investment decisions or strategies;
- The role of individual investments in context of the overall STIP;
- The expected total return from income and the appreciation of investments;
- The overall resources of CUNY and College and related entity participants;
- The needs of CUNY and College and related entity participants to make distributions and preserve capital; and
- The relationship of any given investment asset to the mission/purpose of CUNY and College and related entity participants.

Also, any investment decision shall always take into account the purposes of CUNY and College and related entity participants and the funds that comprise the STIP. Investment decisions shall, furthermore, not be considered in isolation but on the basis of the total STIP. Also, as specified below, the STIP shall be diversified and implemented in a cost-effective way.

The asset allocation of the STIP shall reflect a proper balance of its investment objectives, risk tolerance and need for liquidity.

7. Rebalancing

The Tiers shall be rebalanced back to their respective targets to ensure that the asset allocation remains an accurate reflection of CUNY's desired risk profile. The following methods shall be used: 1) rebalancing using cash inflows and outflows on a monthly basis, 2) rebalancing semi-annually in October and April and 3) rebalancing back to the target allocations should actual allocations move outside allowable ranges.

8. Investment Management

The Short- and Intermediate-Term Tiers shall be invested with one or more managers with fixed income and cash management expertise. Given the liquidity and capital preservation needs, the assumption is that these Tiers will be invested through separate account vehicles. On an exception basis, limited use of commingled vehicles is permitted if sufficient diversification cannot be achieved otherwise or significant cost savings can be achieved at an acceptable level of risk.

The Long-Term Tier will be co-invested with the CUNY Long-Term Investment Pool and therefore subject to the safeguards, manager diversification, and other requirements of CUNY's Investment Policy related to the Long-Term Investment Pool.

9. Performance Monitoring

With the assistance of the Investment Consultant(s) and the Custodian, the University Controller and his Investment Staff shall regularly review the STIP assets, the status of its investment Tiers, and shall make such adjustments as deemed necessary to achieve stated investment objectives. In addition, the University Controller and his Investment Staff shall receive monthly performance reports primarily for administrative purposes.

A. The STIP shall be evaluated against (a) the investment objectives set forth in Section 4 above and (b) a custom benchmark consisting of a weighted mix of appropriate benchmarks for each Tier.

B. The performance of each Tier of the STIP shall be measured against Tier-specific benchmarks, which will enable evaluation of the effectiveness of the implementation strategy used for that Tier. For the Long-Term Tier the benchmark is the CUNY Long-Term Investment Pool benchmark, as it may be updated from time to time.

C. Performance reporting shall be carried out in a manner and form that enables a clear evaluation of the STIP and Investment Manager performance, both on an absolute and on a risk-adjusted basis, as described above.

10. Investment Manager Guidelines

With the assistance of the Investment Consultant(s), the University Controller and his Investment Staff shall work with the Investment Manager(s) to create specific guidelines for each Investment Manager when it is hired and shall review and recommend changes to those guidelines as necessary.

In the exceptional event that the STIP (Short- and Intermediate-Term Tiers) invests in mutual funds and/or commingled vehicles, the Investment Manager guidelines will be contained in the offering documents. Since, in these cases, CUNY cannot impose any changes, the University Controller and his Investment Staff, assisted by the Investment Consultant(s), shall determine beforehand whether the Investment Manager guidelines contained in the offering document are acceptable and suitable for the given mandate.

Each Investment Manager shall be required to monitor compliance with its specific guidelines quarterly (or more frequently if market conditions warrant) and based on the then-current market values. Each Investment Manager shall be required to promptly communicate in writing to the University Controller and his Investment Staff any violations of the guidelines stating the nature of the violation, potential remedies, or a petition that a compliance waiver be granted setting forth the reasons therefore. The University Controller and his Investment Staff, assisted by the Investment Consultant(s) shall be responsible for enforcing this requirement.

All such Investment Manager guidelines shall incorporate the following basic principles:

A. Manager Autonomy

Decisions as to individual security selection, security size and quality, number of industries and holdings, current income level, turnover, and the other tools employed by active managers, shall be left to broad manager discretion, within the limits of any specific guidelines.

B. Leverage and Derivatives

Unless explicitly authorized, the use of leverage or speculative use of derivatives shall be prohibited unless as a means for investment managers to hedge investment risk, to hedge currency risk or replicate investment positions at a lower cost than would otherwise be created in a cash market.

C. Diversification

Each Investment Manager shall be required to diversify holdings so that the STIP is not exposed unduly to any single security issuer or sector. The Investment Manager guidelines shall set forth holding limits applicable to that Investment Manager.

D. Duty to Inform

Each Investment Manager shall be required to inform the University Controller and his Investment Staff as soon as possible if a deviation from its guidelines is anticipated and seek approval. In addition, each Investment Manager shall be required to inform the University Controller and his Investment Staff as soon as practicable of any significant change in firm ownership; acquisitions of other investment managers; changes to organizational structure; investigations or proceedings commenced by or subpoenas received from the Securities and Exchange Commission or any other regulatory or law enforcement agency; official notice of any disciplinary proceeding or litigation against the manager or any of its employees; departures of key professional personnel; changes of account structure or changes in the manager's fundamental investment philosophy.

Each Investment Manager shall be required to propose revisions to its guidelines at any time the existing guidelines would impede meeting the investment objectives established for the Investment Manager.

E. Best Execution

Except under unusual circumstances (in which case the University Controller and his Investment Staff shall be promptly notified), each Investment Manager shall be required to enter into all transactions on the basis of best execution, which means best realized net price. Turnover should be minimized consistent with the effective implementation of the strategy.

11. Changes to the Short-Term Investment Policy

The Short-Term Investment Policy shall be in force until modified in writing and approved by the Board of Trustees. The Vice Chancellor for Budget and Finance may propose revisions to the Short-Term Investment Policy to the Board of Trustees at any time.

APPENDIX A

STIP Rules