



C A M B R I D G E A S S O C I A T E S L L C

CAMBRIDGE ASSOCIATES' OPERATIONS MANAGEMENT SURVEY: A STATISTICAL SUMMARY

2011

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Operations Management Survey: A Statistical Summary

Over the last five years, changes in financial reporting and liquidity demands have made the linkage between investments and operations—and communication between these functions—more important than previously. In addition, certain changes brought about by UPMIFA¹ have made the distinction between restricted and unrestricted assets more of a focus than before. Planning for liquidity has also become more important and has forced better communication regarding capital calls. In a recent survey of clients, we sought information to help provide perspective on how institutions are dealing with the increased need for coordination between investment and operations functions and the enhanced complexity of investments, financial reporting, and liquidity.

Summary of Survey Responses

We surveyed all of our U.S.-based endowment clients on aspects of operations management, with a focus on six categories: (1) finance office staffing; (2) liquidity; (3) debt; (4) financial reporting and accounting; (5) performance reporting; and (6) regulatory, tax, and legal matters. The survey was designed to share information on how institutions are staffed and how they approach different operational functions. The 107 respondents represent a mix of institutions: 39 colleges and universities, 31 foundations, 12 cultural institutions, nine secondary schools, seven hospitals, and nine institutions that fell in the “other” category (including professional research organizations, religious institutions, and service groups). Survey responses tended to differ based on the size of

the institution’s assets. As a result, we show the majority of responses in three different size categories: (1) \$200 million and under (33 institutions), (2) between \$200 million and \$1 billion (41 institutions), and (3) \$1 billion and over (33 institutions). In some cases, like liquidity and debt, responses reflected differences in institution type rather than asset size.

Finance Office Staffing

- Institutions with assets of \$200 million and under had a median staff of three employees. The staff generally performed multiple functions, with the same team handling general accounting and investment accounting. Most institutions (94%) did not have an investment office separate from the finance office (Exhibit 3).
- Institutions between \$200 million and \$1 billion had larger staffs, with a median staff of ten employees. Similar to the smaller institutions, most institutions (73%) did not have an investment office separate from the finance office, and the staff members who performed general accounting also performed investment accounting.
- Institutions with assets of \$1 billion and over had a median staff of 18 employees. Unlike the smaller institutions, most of these institutions’ finance offices (79%) were separate from the investment offices. The staff roles tended to be more specialized, with only 52% of the respondents answering that the same team handled general accounting and investment accounting.

¹ The Uniform Prudent Management of Institutional Funds Act.

Liquidity and Debt

- In general, hospitals tended to be the institutions with largest allocations to liquid assets. This is not surprising, given that hospitals generally face greater uncertainty with regard to revenues and therefore need to be able to access their portfolios more readily. On the other hand, secondary schools tend to have more predictable revenues and can tolerate more illiquidity; this was supported by the responses, which showed that secondary schools had less liquid portfolios (Exhibit 4).
- On average, institutions with assets of \$200 million and under had relatively liquid portfolios and could access 68% of their portfolio on a monthly basis. As institutions increase in size, liquidity tends to decrease due to larger private investment exposure. Institutions with assets between \$200 million and \$1 billion could access an average of 59% of their portfolio on a monthly basis while larger institutions (\$1 billion and over) could access an average of 44% of their portfolio on a monthly basis.
- When asked about unrestricted funds, responses varied. Of the institutions, 43% had half or less of their long-term investments classified as unrestricted, meaning the other 57% of institutions had more than half of their long-term investments classified as restricted (Exhibit 7). Restricted assets are less attractive to creditors and debt rating agencies.
- As expected, all hospitals and nearly all colleges and universities (92%) reported that they issue debt, whereas very few (only 3%) of the foundations issue debt (Exhibit 11).
- While we found the responses to questions regarding debt more meaningful based on type of institution, it is interesting to note that the majority of the small institutions (less than \$200 million) do not issue debt, whereas

the majority of the large institutions (greater than \$1 billion) do issue debt.

- Survey results show that some of those clients with debt face constraints at the nexus of investment policy and debt policy. Fully 24% of institutions with debt expressed concern about the possibility that their investment strategies might have a negative impact on their debt rating. Meanwhile, 16% of institutions are changing their debt policy to accommodate their investment strategies (Exhibit 14).

Accounting and Performance Reporting

- Overall, internal staff members reconciled the transfer of funds on a monthly basis; however, the larger institutions reconciled transfers more frequently (weekly and even daily) (Exhibit 15).
- The most challenging aspect of institutions' audits was the lack of timeliness of investment managers' reports (Exhibit 18). Most institutions responded that they were satisfied with their auditors (Exhibit 17), but some provided commentary that their auditors lacked investment knowledge (particularly regarding alternative investments).
- Overall, institutions tended to track performance using internal and external sources, but smaller institutions tended to rely more on external reporting (Exhibit 19) and larger institutions depended more on internal reporting supported by monthly data feeds from their custodians.
- Valuing private investments and timeliness of reports were the most challenging aspects of the valuation process for all institutions (Exhibit 20).

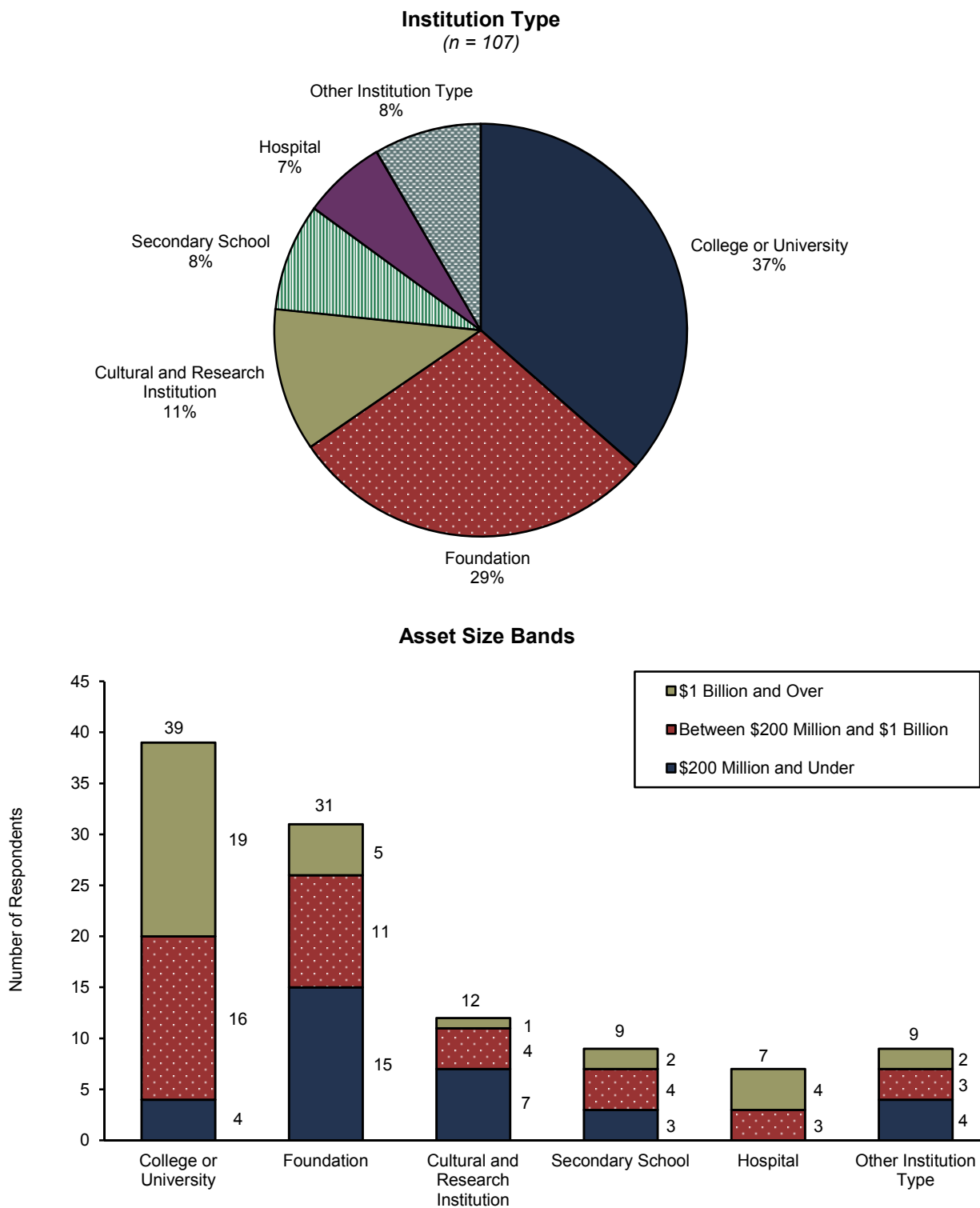
Regulatory, Tax, and Legal Matters

- The majority of institutions did not adjust performance to reflect the payment of unrelated business income tax (Exhibit 24).
- For smaller institutions, most operational due diligence was outsourced to Cambridge Associates. More medium-sized institutions used both internal and external outsourced resources, and large institutions typically relied on the CIO or other internal investment staff to conduct most of their operational due diligence.
- A number of institutions commented that they were in the process of building out their operational due diligence capabilities and some expressed a need for additional staff members to assist with due diligence.

Conclusion

When surveying our endowment clients regarding operations management, we found that smaller institutions tended to be thinly staffed, and employees wore multiple hats. There was a desire on the part of smaller institutions to be able to hire more resources to assist with areas like operational due diligence and coordination with custodial banks. As assets grow, efforts become more specialized and organizations take activities in-house or partner with key service providers. The larger institutions tended to have separate finance and investment offices, which occasionally led to insufficient communication between the investment and finance offices. Overall, institutions seemed fairly satisfied with their service providers and approaches to operational functions, but all institutions wanted more timely performance reporting information. ■

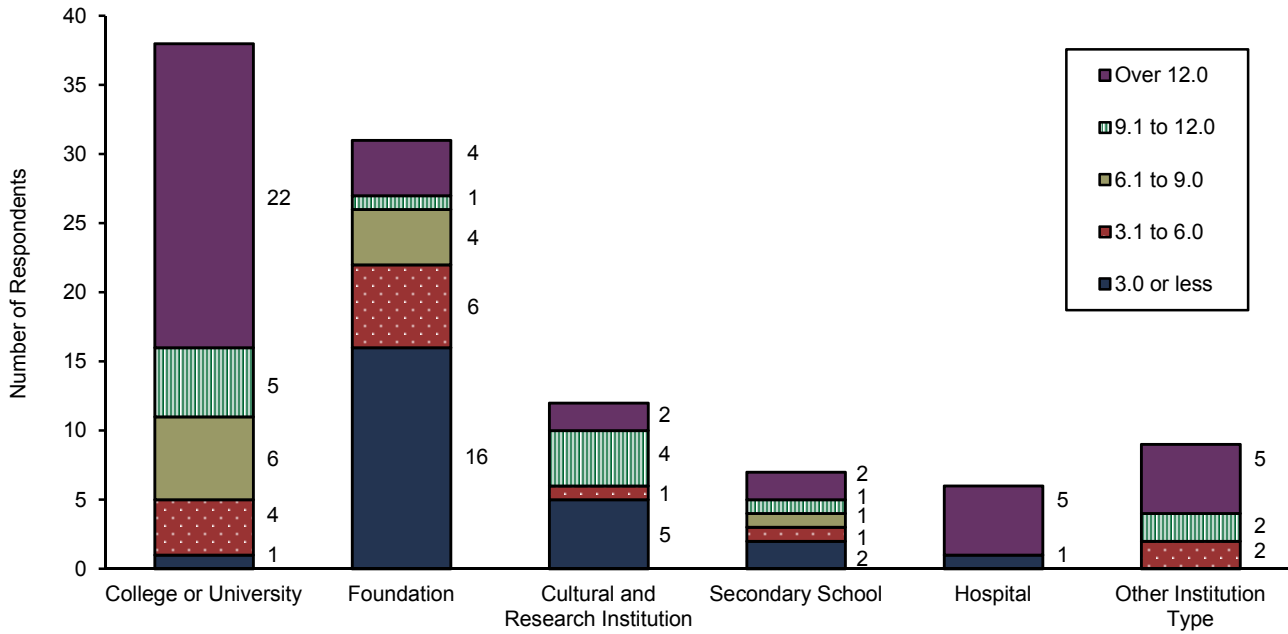
Exhibit 1
Respondent Profile: Institution Types and Asset Sizes
 As of 2011



Note: Other institution types include professional research organizations, religious institutions, and service groups.

Exhibit 2
Staff Size and Responsibilities
 As of 2011

Staff Size in FTE



Average Percentage of Time Spent on the Following Functions

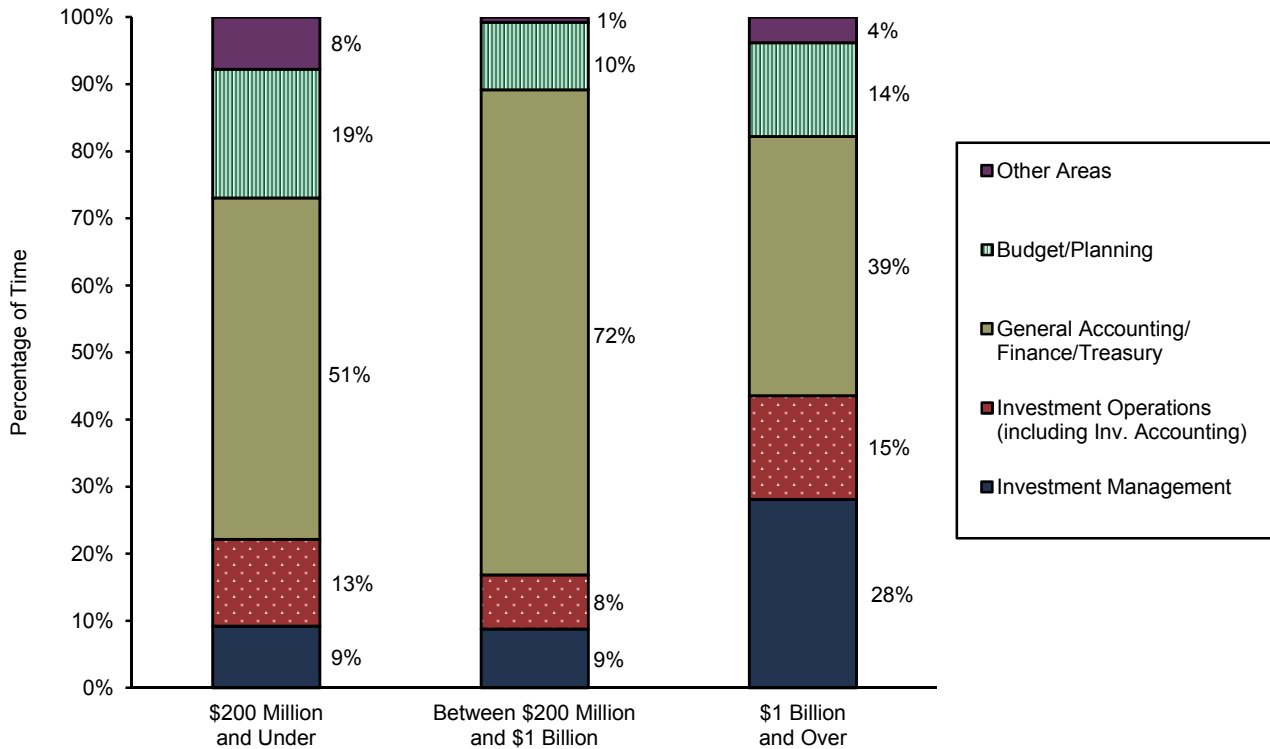
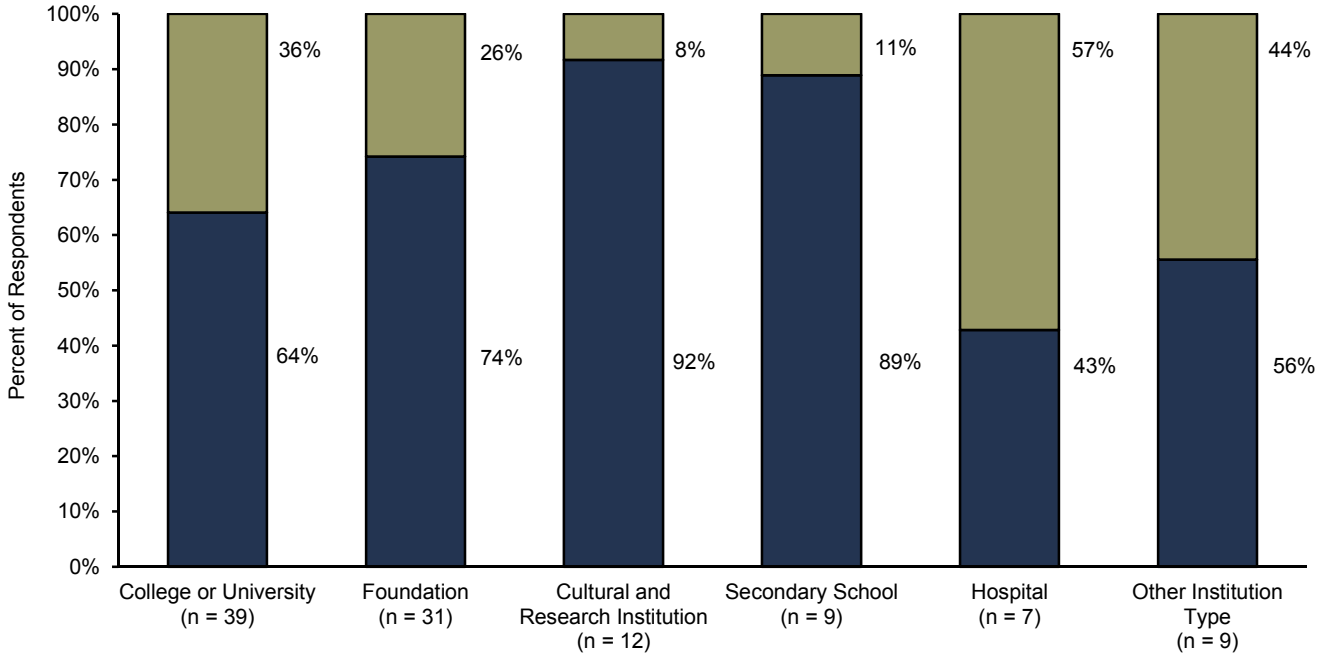


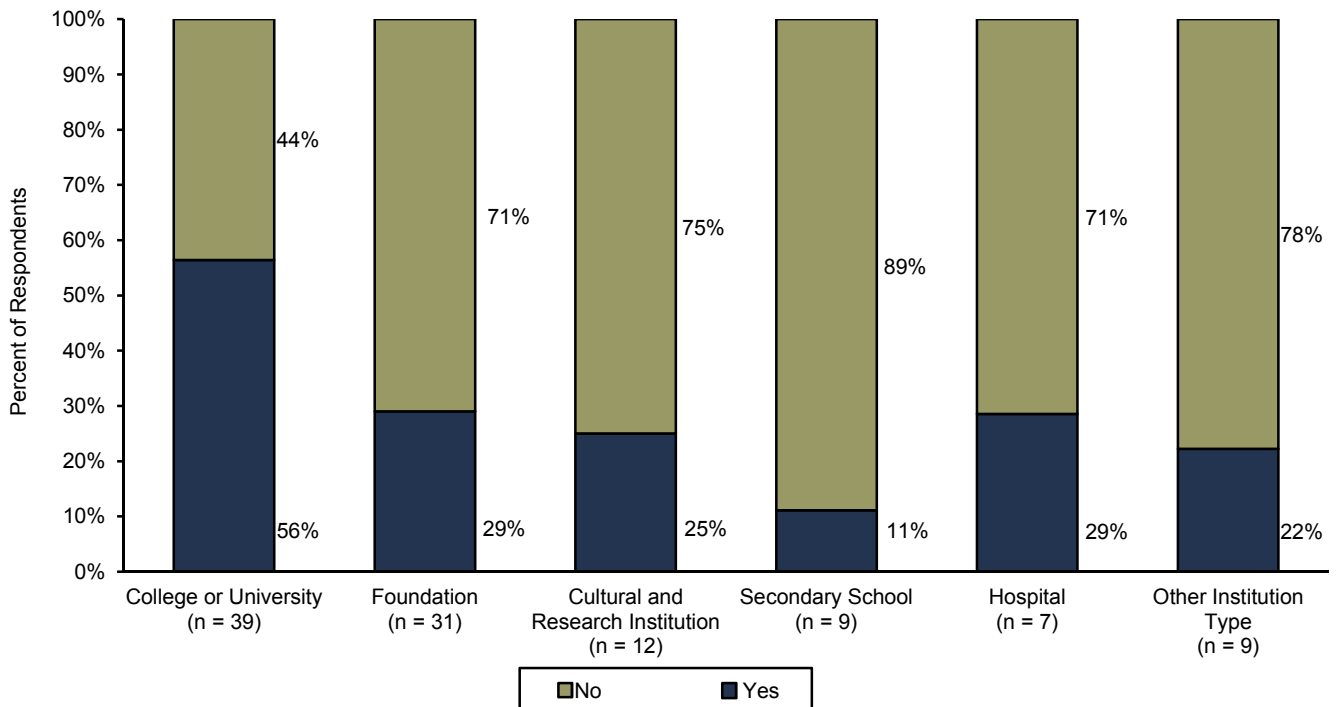
Exhibit 3
Office Structure

As of 2011 • By Institution Type

Are Those Who Are Responsible for General Accounting Also Responsible for Investment Accounting?



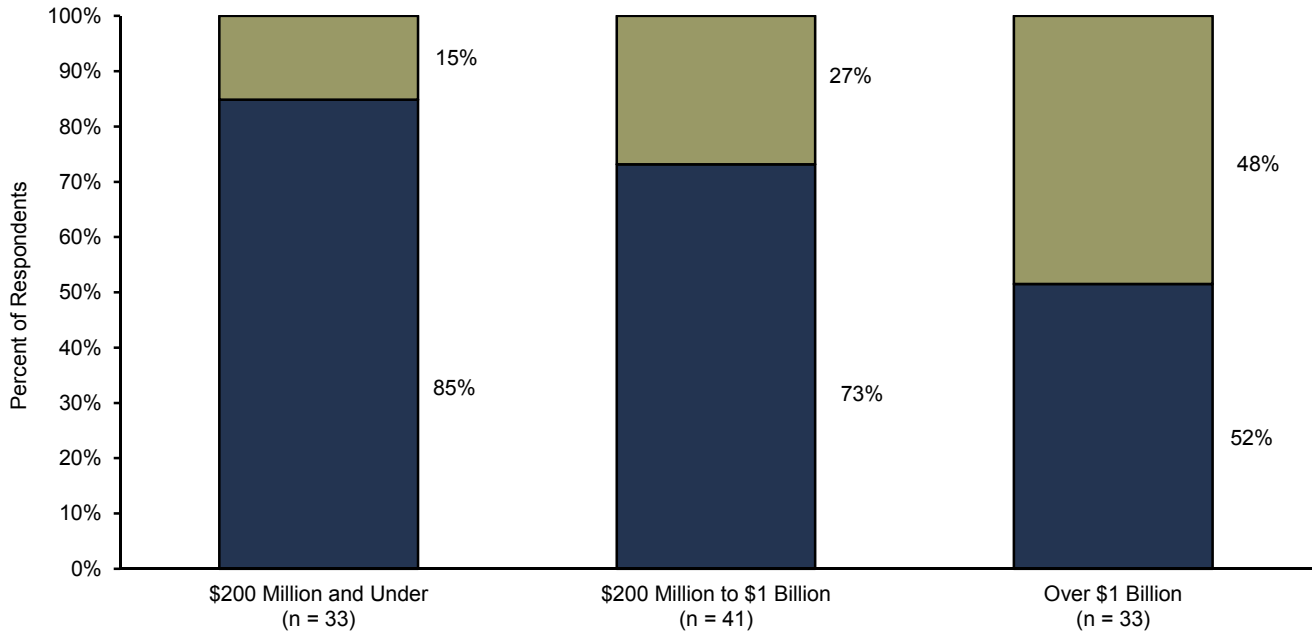
Is the Investment Office/Department Separate From the Finance/Treasury Office?



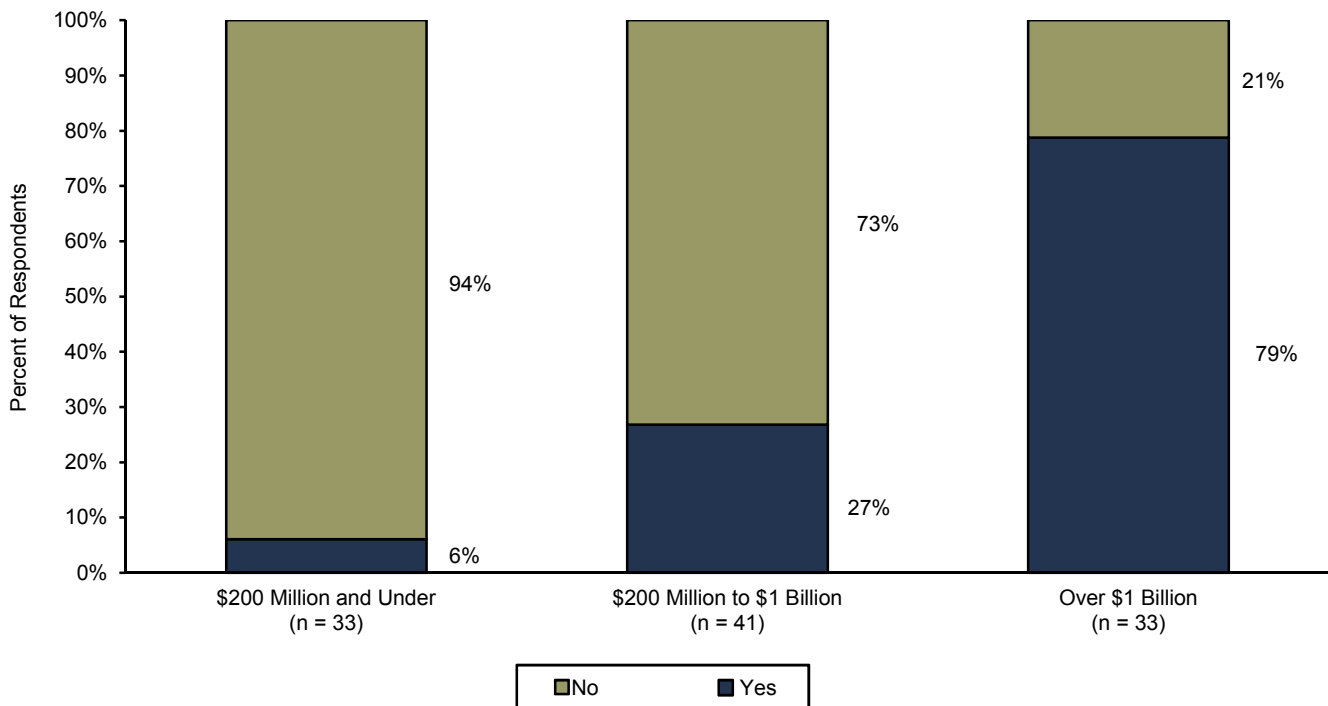
■ No ■ Yes

Exhibit 3 (continued)
Office Structure
 As of 2011 • By Asset Size

Are Those Who Are Responsible for General Accounting Also Responsible for Investment Accounting?



Is the Investment Office/Department Separate From the Finance/Treasury Office?



■ No ■ Yes

Exhibit 4

Liquidity: What Percentage of the Portfolio Can Be Accessed and When?

As of 2011

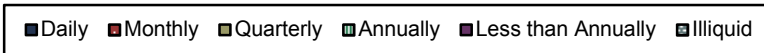
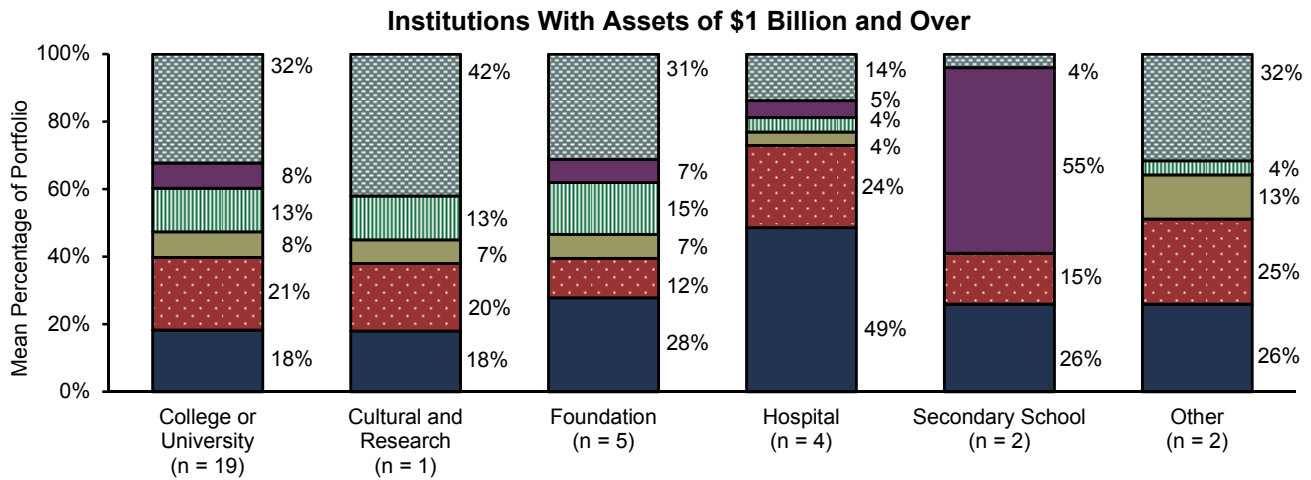
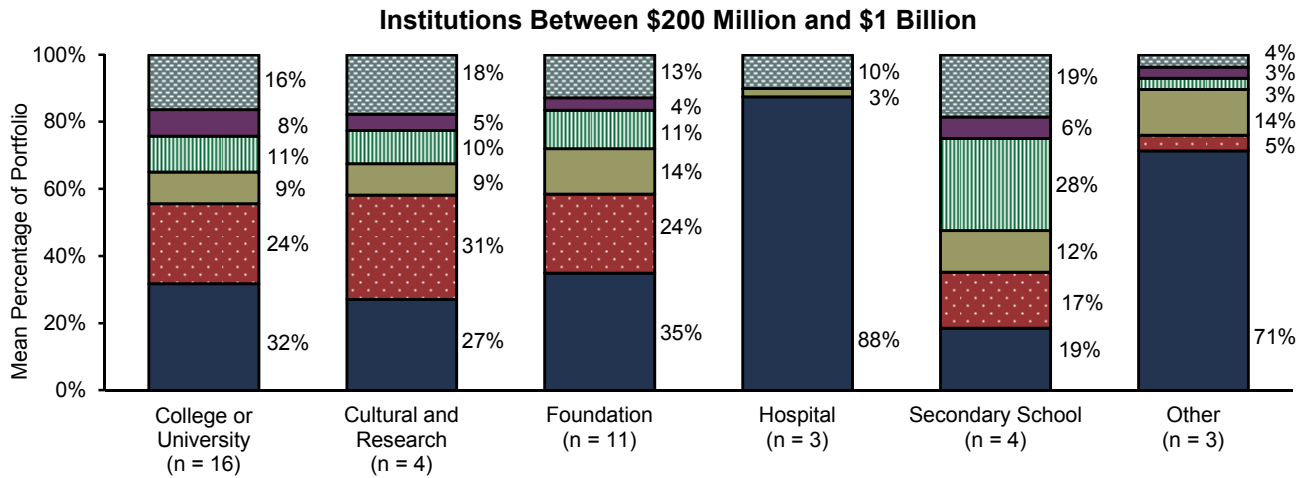
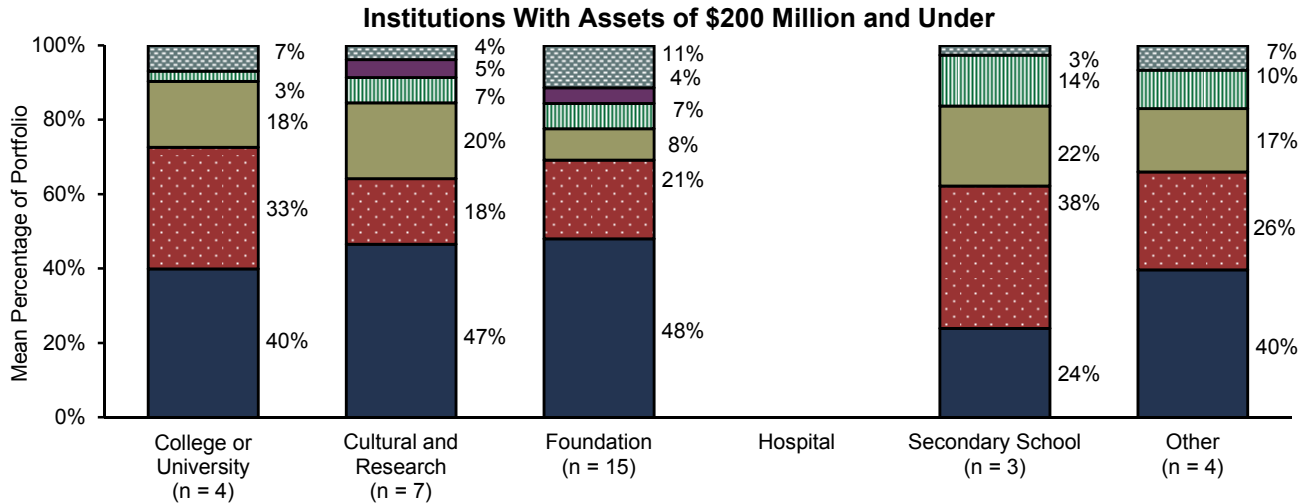
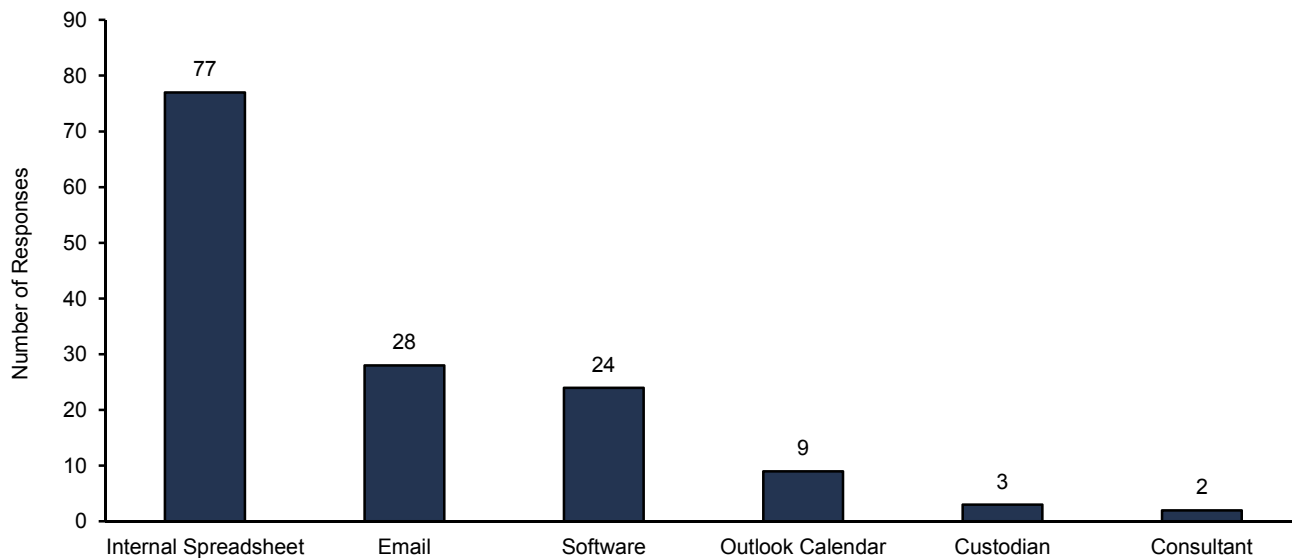
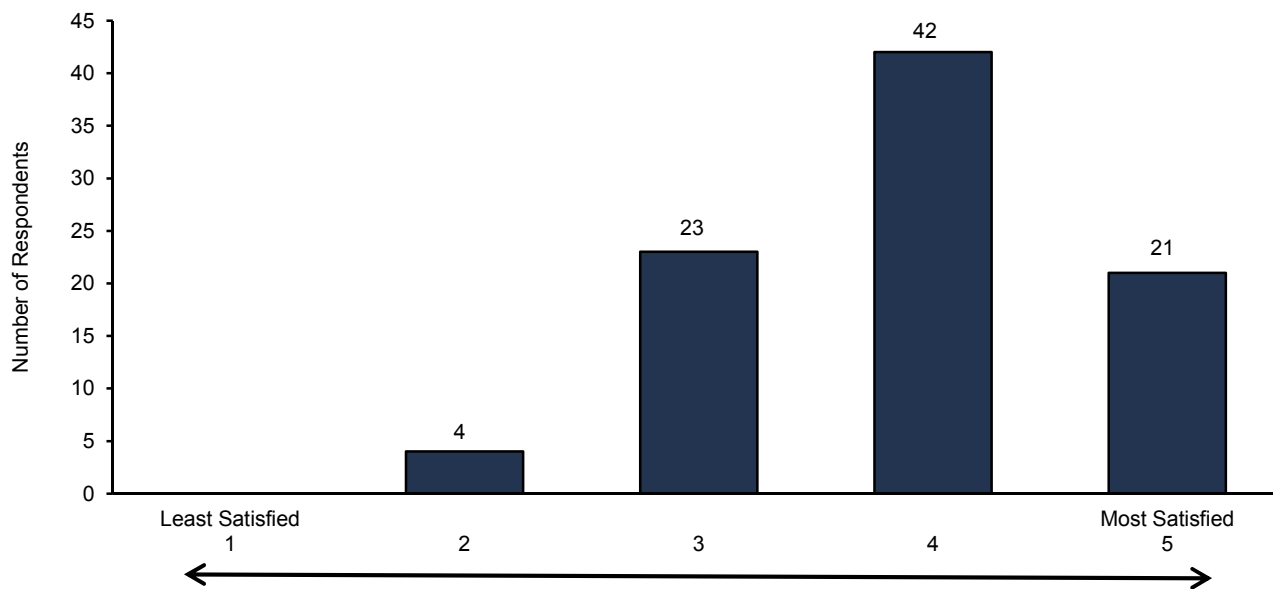


Exhibit 5
Capital Call Tracking
 As of 2011

Tracking Methods for Capital Calls



Satisfaction With the Capital Call Tracking System

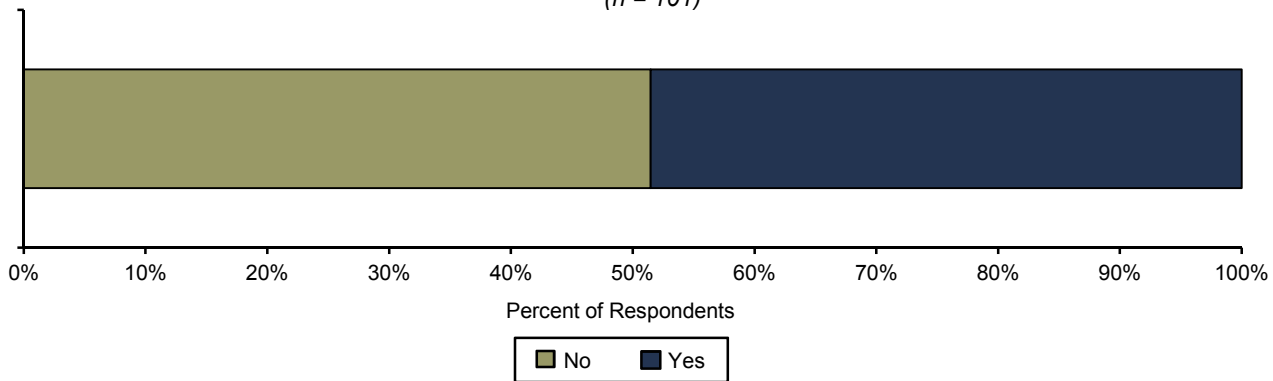


Notes: Data for the top chart are based on the information provided by 92 respondents. Respondents could select multiple options.

Exhibit 6
Capital Calls
As of 2011 • By Total Responses

Do You Integrate Projected Capital Calls into Your Budget?

(n = 101)



Who Owns the Capital Call Process?

(n = 87)

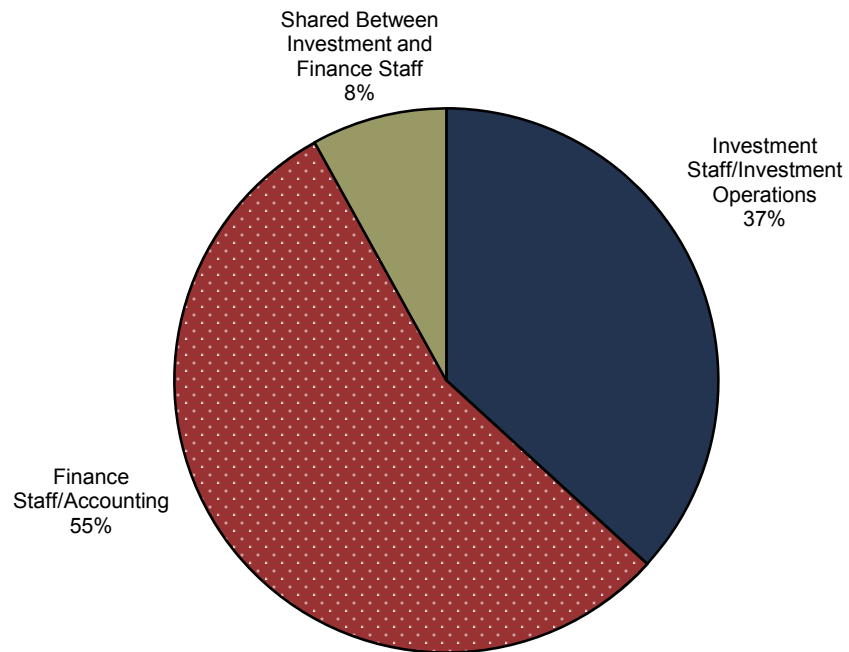


Exhibit 6 (continued)
Capital Calls
 As of 2011 • By Asset Size

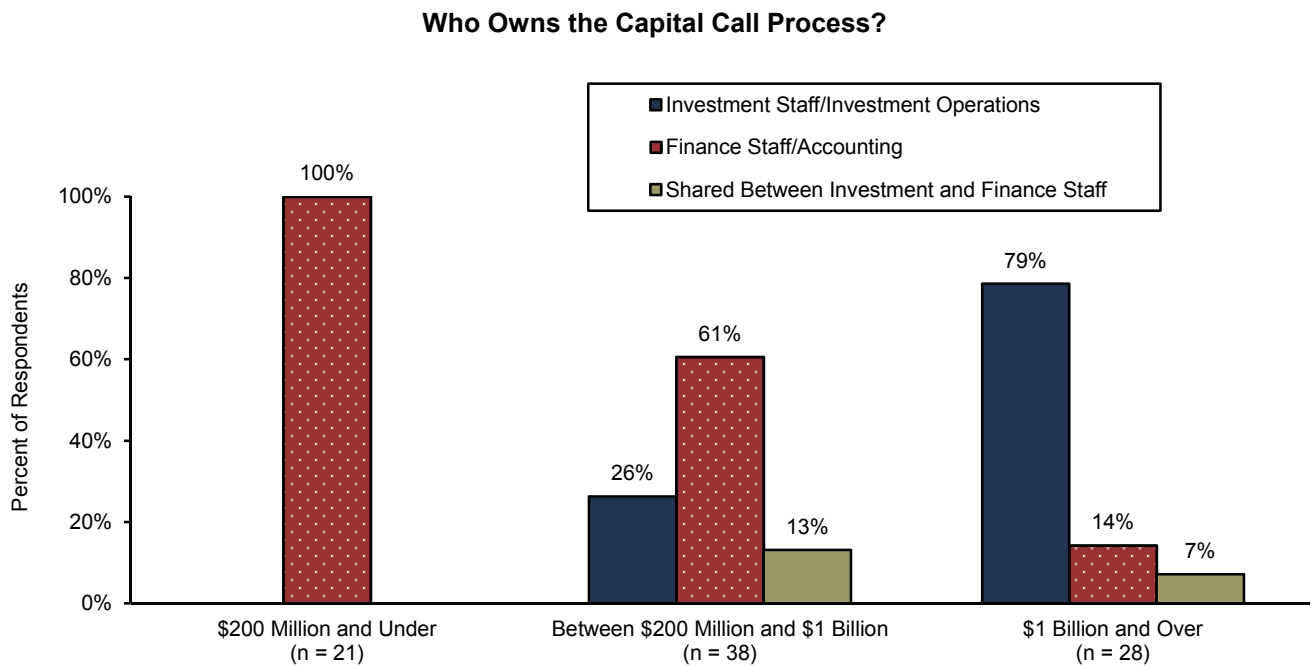
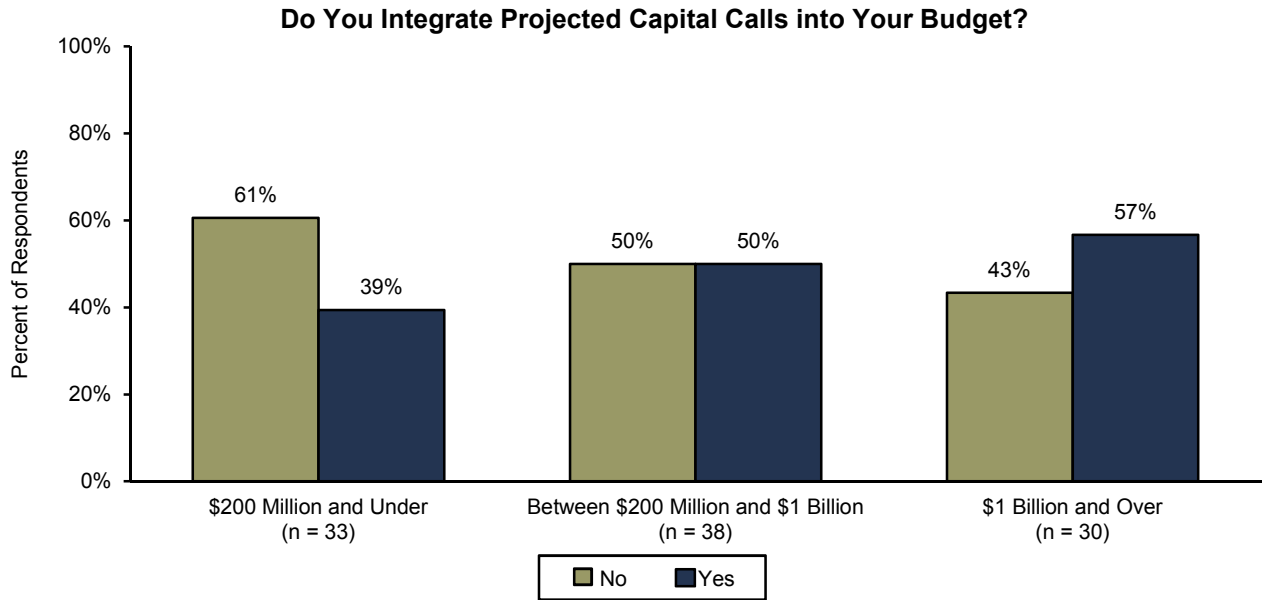
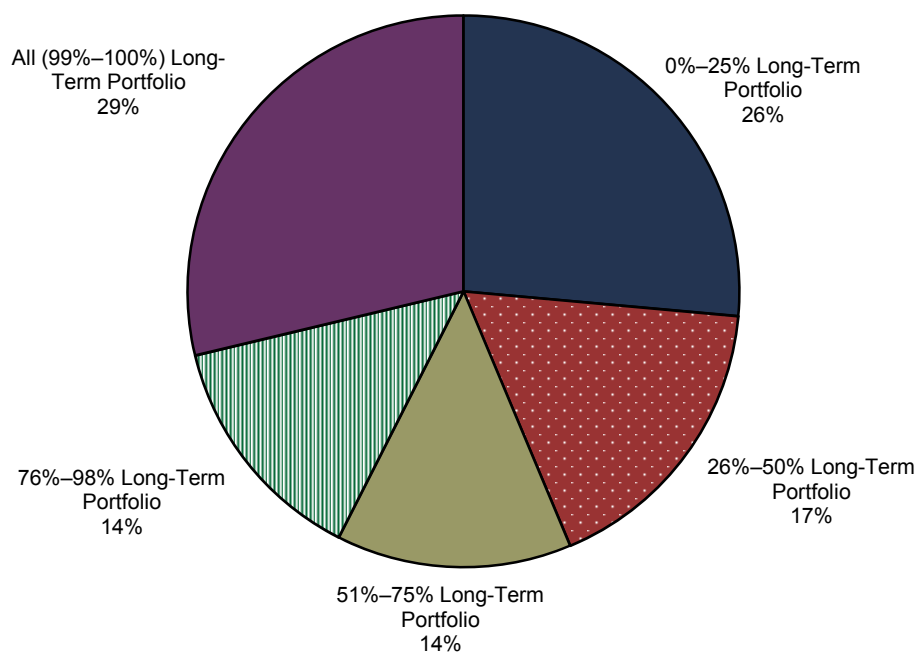


Exhibit 7
Unrestricted Funds

As of 2011 • By Total Responses and Asset Size

Approximately What Percentage of Your Long-Term Investments, Excluding Pension Funds, Is Classified as Unrestricted?

(n = 87)



Unrestricted Funds by Asset Size Range

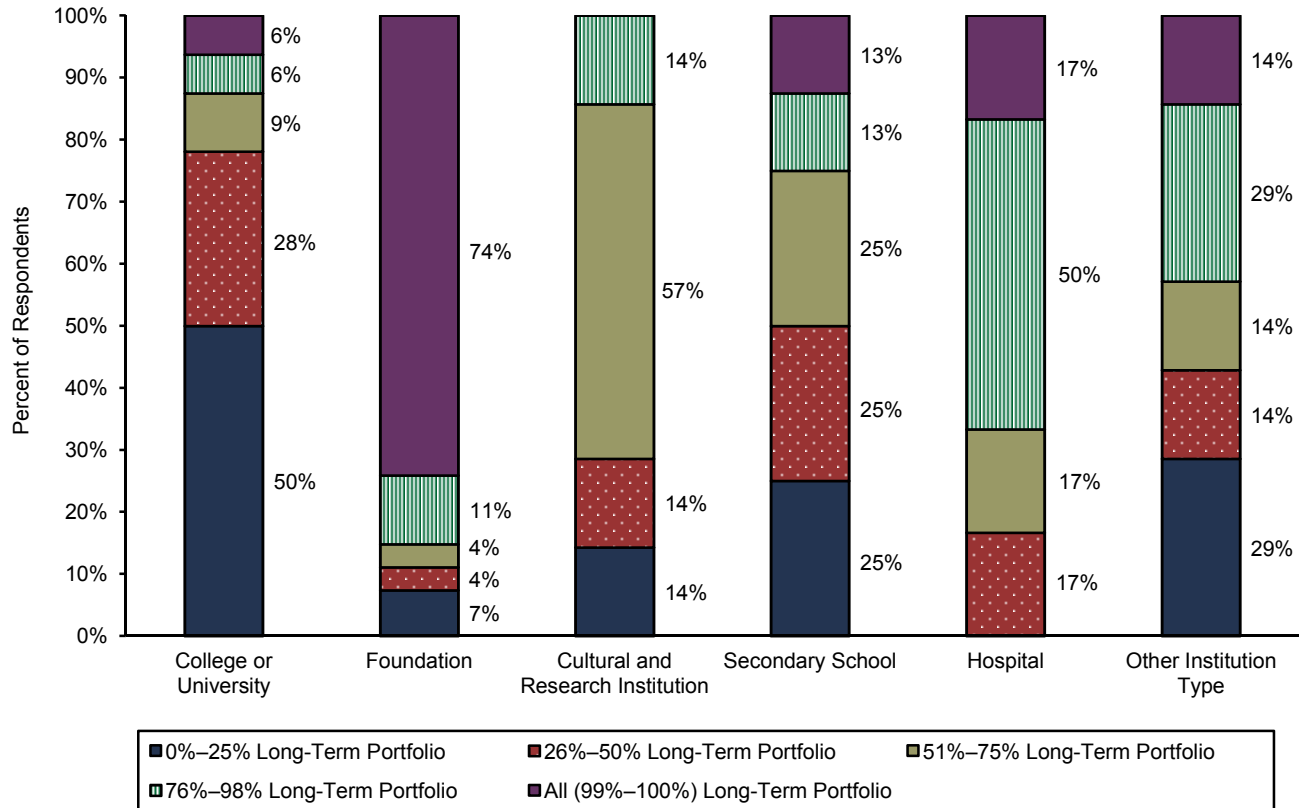
	\$200 Million and Under	Between \$200 Million and \$1 Billion	\$1 Billion and Over
Median	93%	48%	41%
Average	72%	52%	51%
Range	10%–100%	0%–100%	0%–100%
n	29	38	20

Were Unrestricted Net Financial Assets Greater in 2010 Than in 2008?

	\$200 Million and Under	Between \$200 Million and \$1 Billion	\$1 Billion and Over
Yes	74%	43%	50%
No	26%	57%	50%
n	31	35	22

Exhibit 7 (continued)
Unrestricted Funds
 As of 2011 • By Institution Type

Approximately What Percentage of Your Long-Term Investments, Excluding Pension Funds, Is Classified as Unrestricted?



Unrestricted Funds by Institution Type

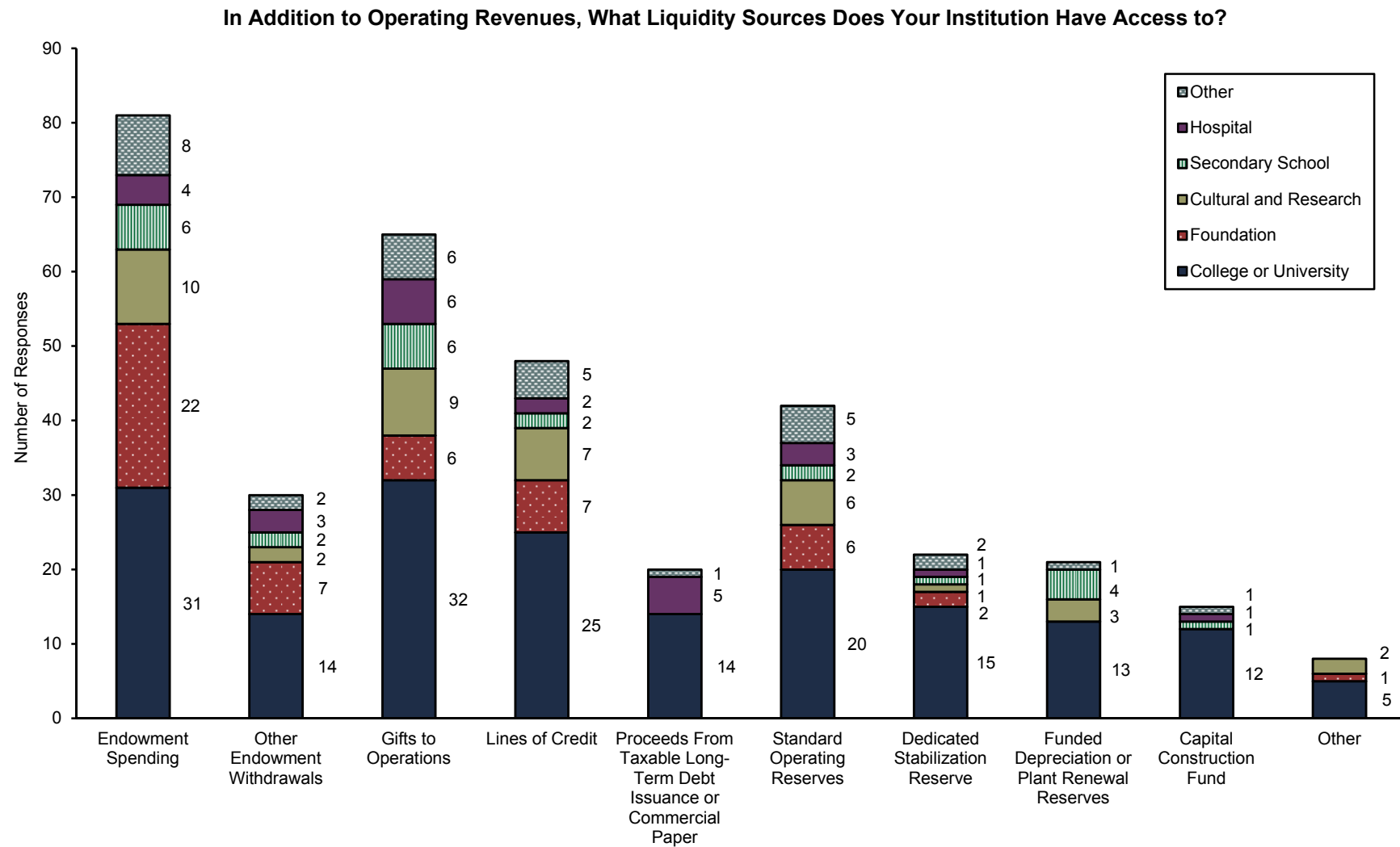
	College or University	Foundation	Cultural and Research Institution	Secondary School	Hospital	Other Institution Type
Median	23%	100%	62%	53%	90%	55%
Average	33%	88%	53%	53%	78%	56%
Range	0%–100%	0%–100%	13%–77%	11%–100%	30%–100%	19%–99%
n	32	27	7	8	6	7

Were Unrestricted Net Financial Assets Greater in 2010 Than in 2008?

	College or University	Foundation	Cultural and Research Institution	Secondary School	Hospital	Other Institution Type
Yes	32%	74%	38%	71%	83%	67%
No	68%	26%	63%	29%	17%	33%
n	31	27	8	7	6	9

Exhibit 8 Liquidity Sources in Addition to Operating Revenues

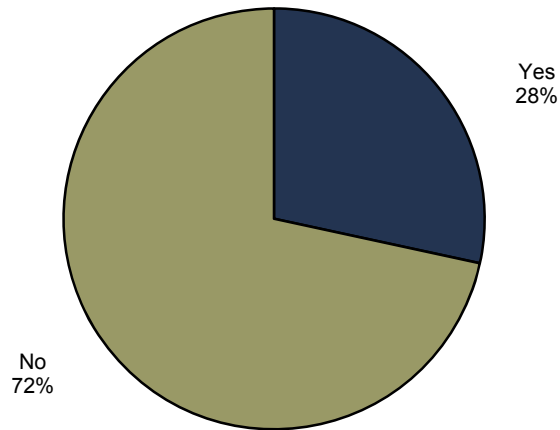
As of 2011



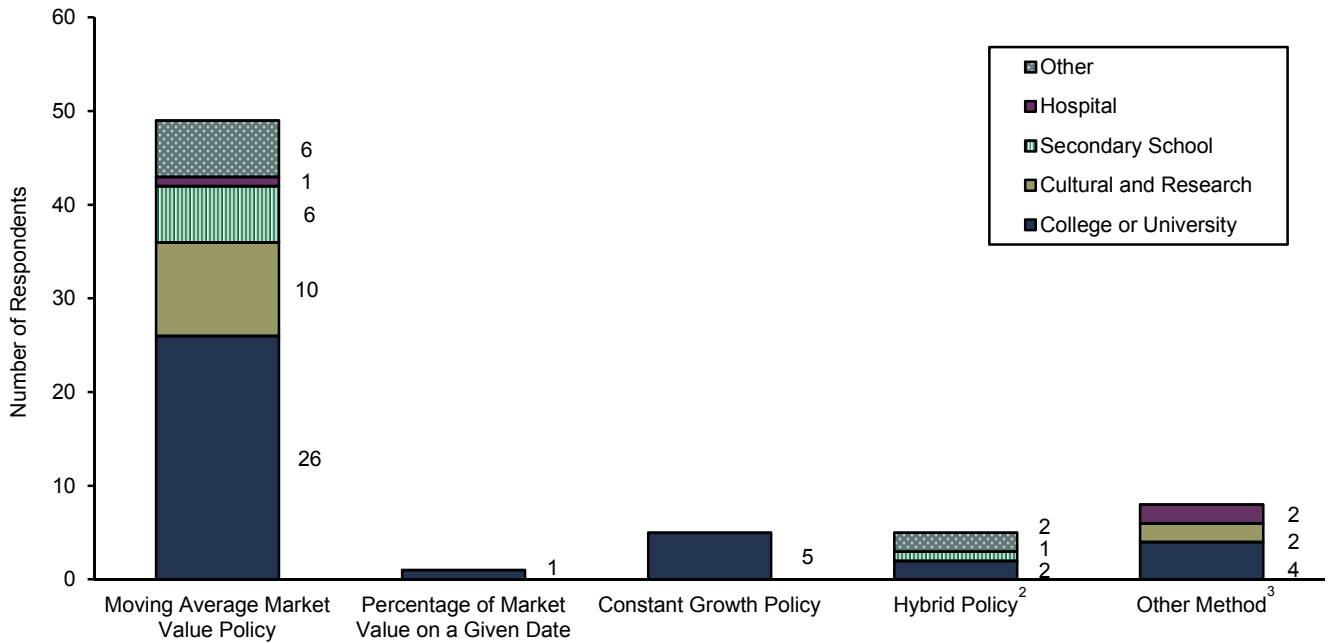
Notes: Chart data are based on the information provided by 38 colleges or universities, 27 foundations, 11 cultural and research institutions, eight secondary schools, seven hospitals, and nine other institutions. Respondents could select multiple options.

Exhibit 9
Spending Policy
 As of 2011

Have You Changed Your Spending Policy Since 2009?
 (n = 74)



Spending Policy¹



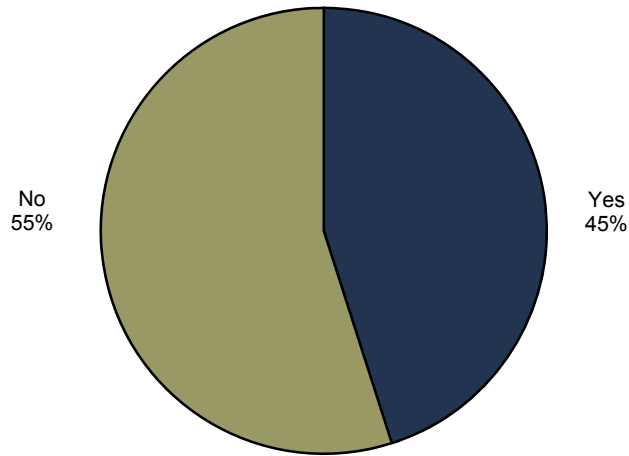
¹ Foundations have been excluded from this chart due to specific regulations governing their spending requirements.

² Hybrid spending policies essentially have the effect of spending a prespecified percentage of an exponentially weighted average market value. The rule is expressed as a weighted average of a constant growth rule and a percentage of market value (or average market value over one to two years) rule.

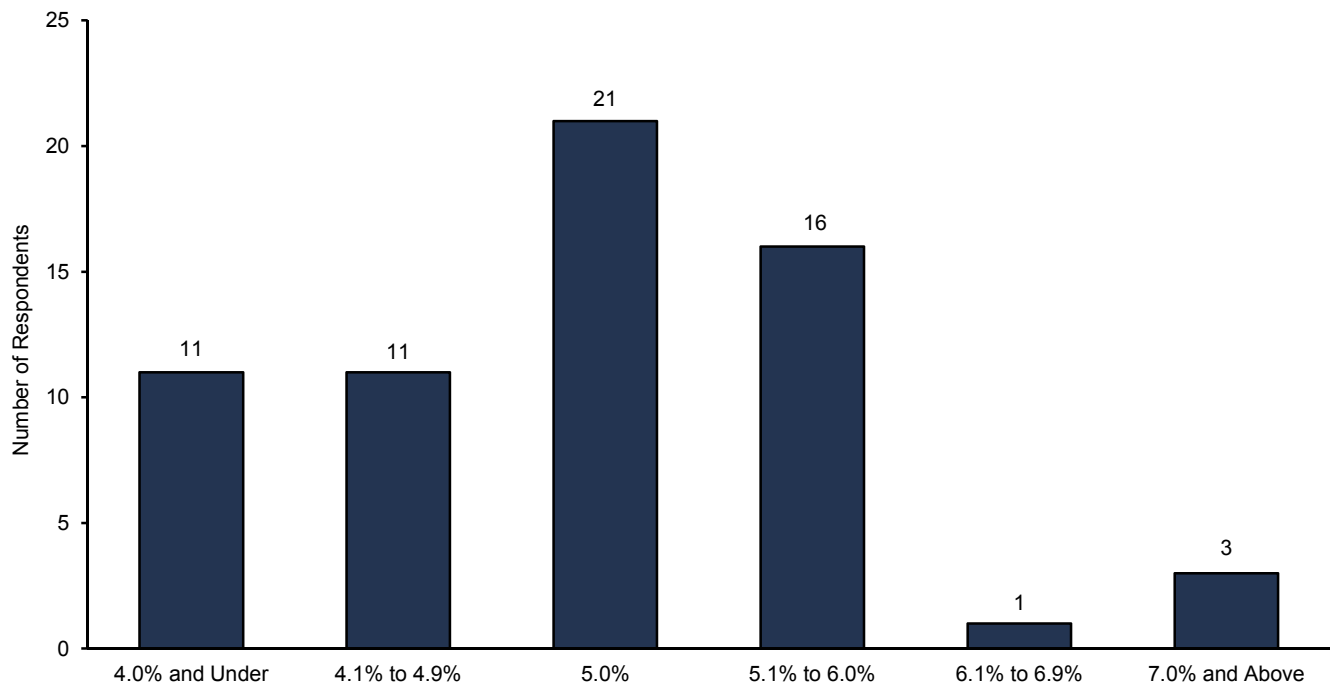
³ Other spending rule types are those that cannot be classified as market value-based, constant growth, or hybrid policies.

Exhibit 10
Spending Rate
As of 2011

Have You Changed Your Spending Rate Since 2009?
(n = 71)

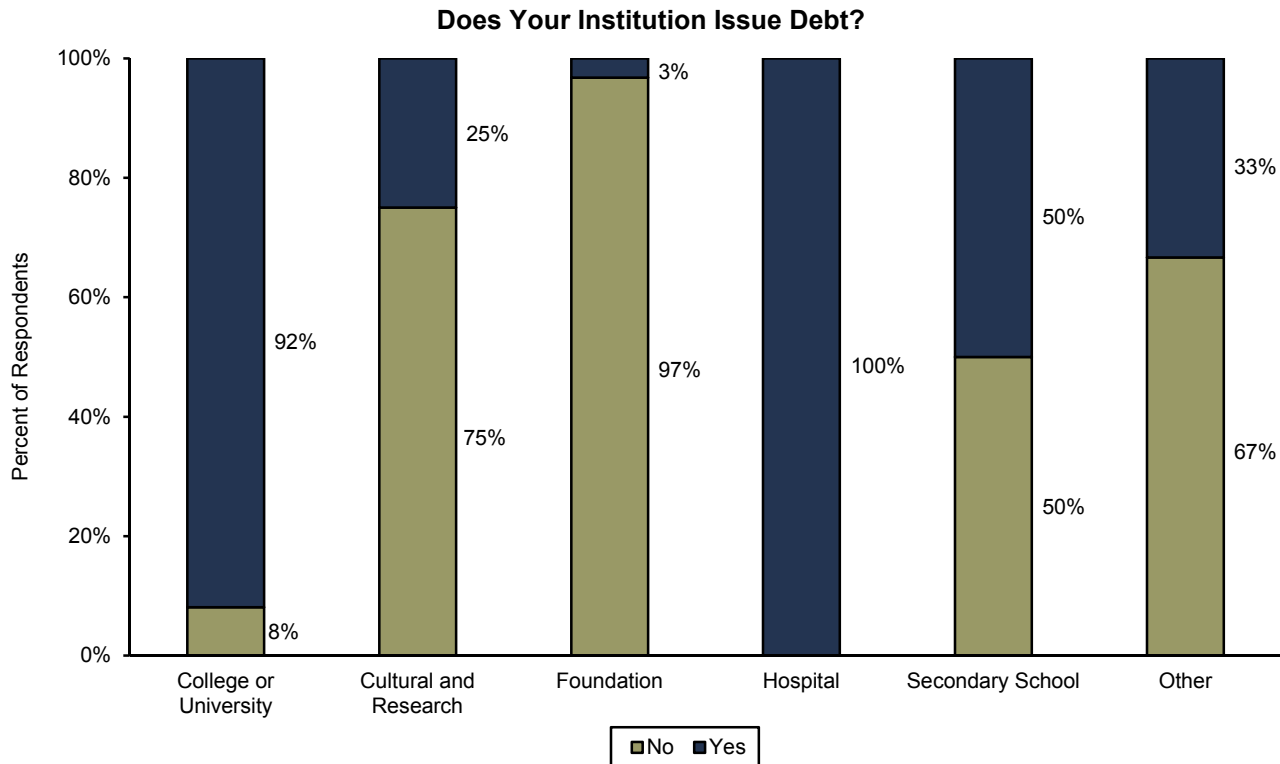


Spending Target Rate



Note: Foundations have been excluded from this exhibit due to specific regulations governing their spending requirements.

Exhibit 11
Debt Issuance
 As of 2011



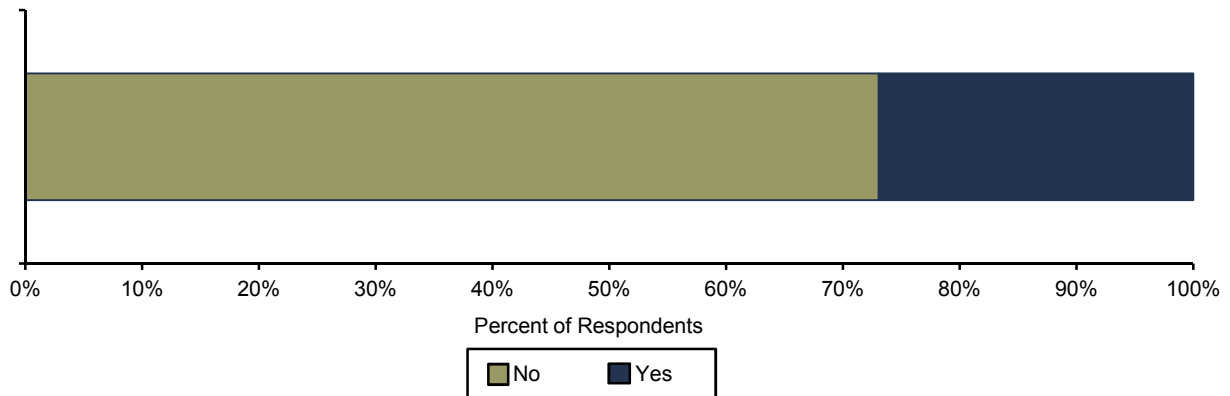
		College or University	Cultural and Research	Foundation	Hospital	Secondary School	Other
\$200 Million and Under	Yes (n)	4	2	0	--	1	0
	No (n)	0	5	14	--	2	4
Between \$200 Million and \$1 Billion	Yes (n)	14	0	1	3	3	2
	No (n)	1	4	11	0	1	1
\$1 Billion and Over	Yes (n)	16	1	0	4	0	1
	No (n)	2	0	5	0	1	1

Note: (n) denotes the number of participants in a particular category.

Exhibit 12
Servicing Debt
As of 2011

Do You Use a Bond Reserve Fund That Is Used to Service Debt?

(n = 52)



If Yes, How is it Replenished?

- Operating budget transfers with some gifts as well
- Gifts from donors
- Annual charges to schools and units benefitting from the debt
- Budgeted annually based on that year's total debt service requirements
- Internal loan repayments
- Has never needed to be replenished
- Recovery of depreciation expense in excess of principal payments plus accumulated investment return on bond reserve fund
- Rental revenue of the properties
- Investment gains/interest payments
- Replenished every year through university budgeted funds

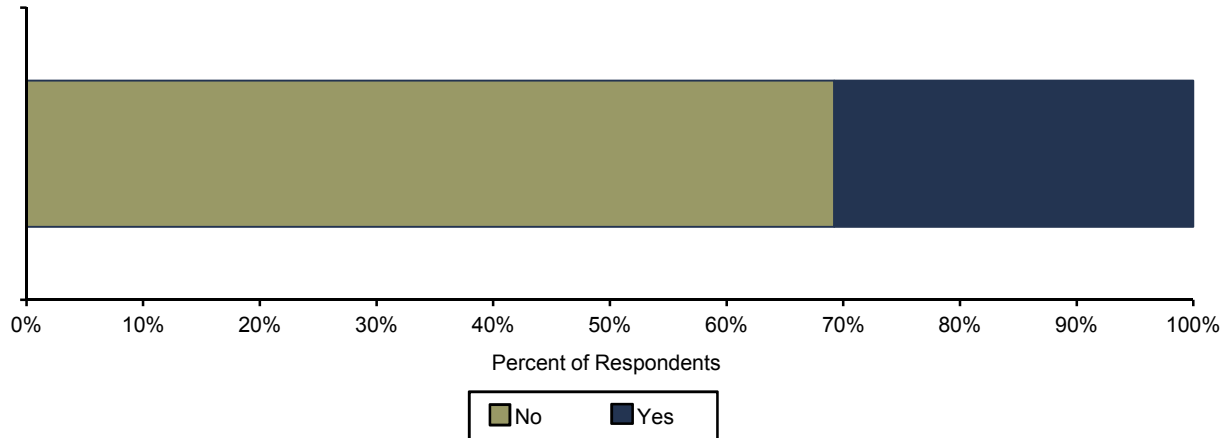
If No, Where Do You Source Your Debt Payments

- Operating budget/reserves (cited by 20 institutions)
- Endowed funds (cited by 6 institutions)
- Depreciation expense
- Fees from students
- Dedicated/pledged revenues from auxiliary enterprises
- Sale of any assets related to debt issuance
- Bullet principle on maturity, interest in operating budget

Notes: Four institutions indicated using a bond fund to service debt but did not provide a replenishment method. Seven institutions that did not use a bond fund did not provide a source of debt payments.

Exhibit 13
Independent Debt Advisors
 As of 2011

Do You Use an Outside Independent Debt Advisor (Separate From Your Investment Bank)?
 (n = 52)



Independent Debt Advisors Included:

- Fairmount Capital Advisors (cited by 2 institutions)
- Kaufman Hall (2)
- Ponder & Company
- Public Financial Management, Inc. (6)
- Swap Financial Group (2)
- Yuba Group (3)

Satisfaction With Independent Debt Advisor

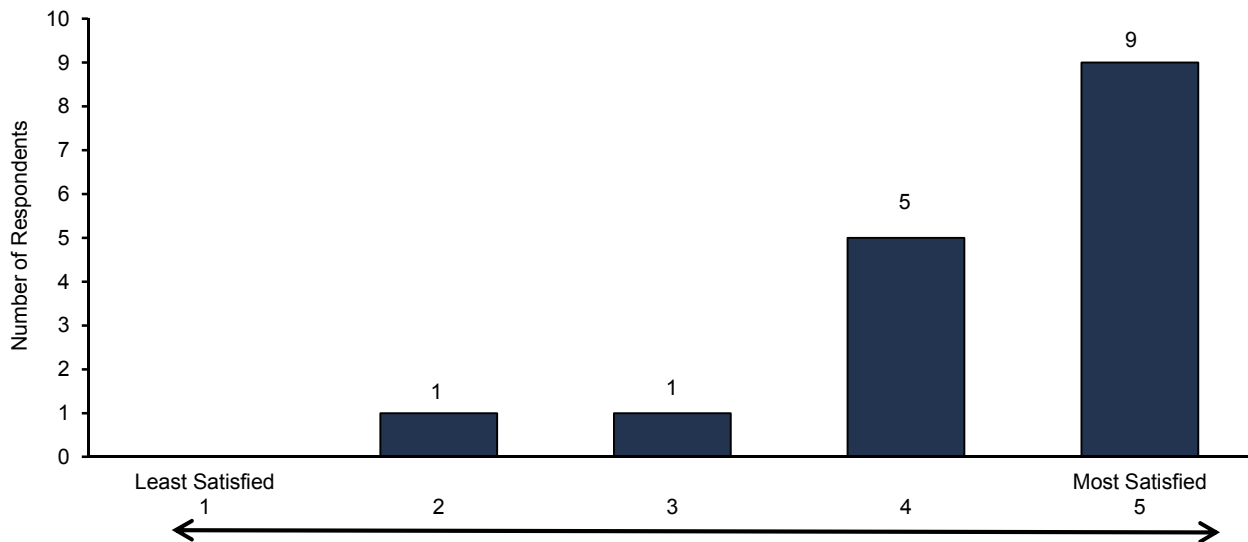
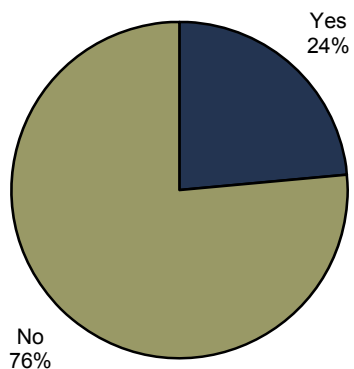


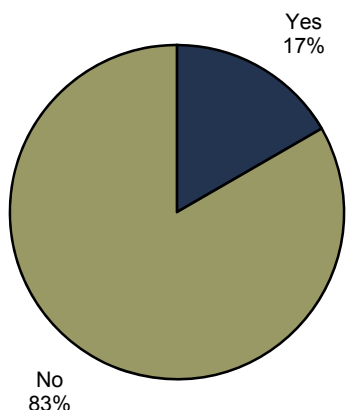
Exhibit 14
Debt Policy and Investment Strategy
 As of 2011

Are You Concerned That Your Institution's Investment Strategy Will Impact Your Debt Rating?



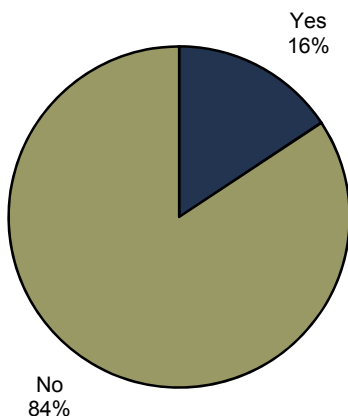
	<u>Yes (n)</u>	<u>No (n)</u>
College or University	9	25
Foundation	0	1
Cultural and Research Institution	1	2
Secondary School	0	4
Hospital	1	5
Other Institution Type	1	2

If Yes, Are You Altering Your Investment Strategy to Avoid Negative Impact on Debt Rating?



	<u>Yes (n)</u>	<u>No (n)</u>
College or University	1	8
Cultural and Research Institution	0	1
Hospital	0	1
Other Institution Type	1	0

Are You Altering Debt Policy in Order to Implement Your Desired Investment Strategy?

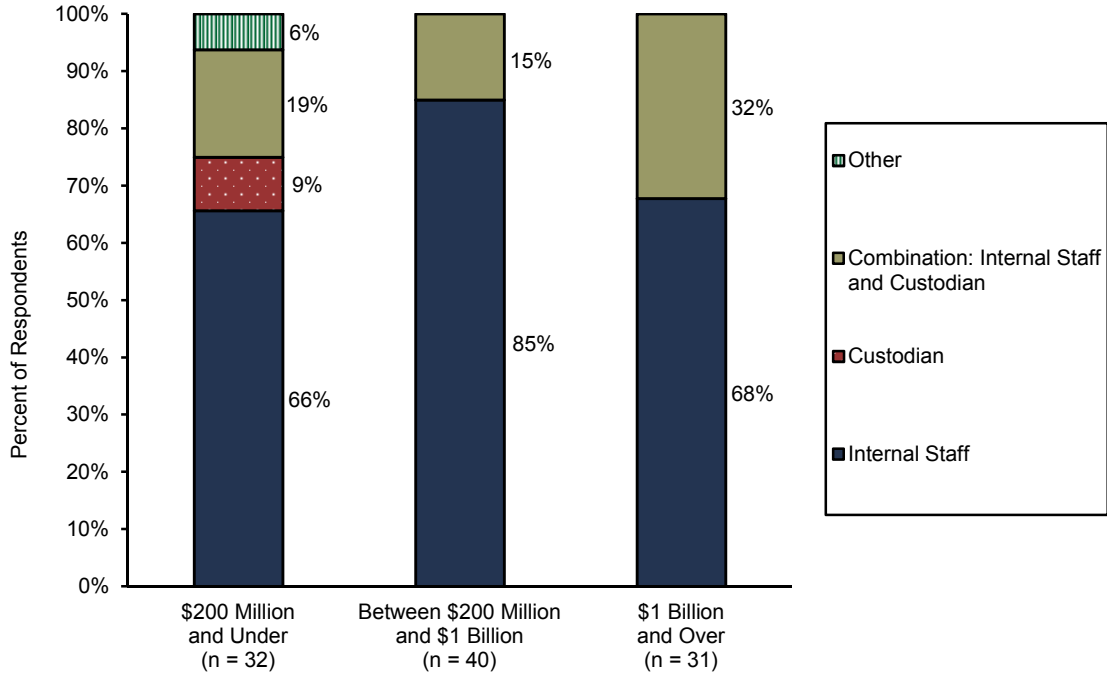


	<u>Yes (n)</u>	<u>No (n)</u>
College or University	5	29
Foundation	0	1
Cultural and Research Institution	1	2
Secondary School	0	4
Hospital	1	5
Other Institution Type	1	2

Note: Only institutions that issue debt are included in this exhibit.

Exhibit 15
Accounting: Transfer of Funds
 As of 2011

Who Reconciles the Transfer of Funds?



How Frequently Are Transfers Reconciled?

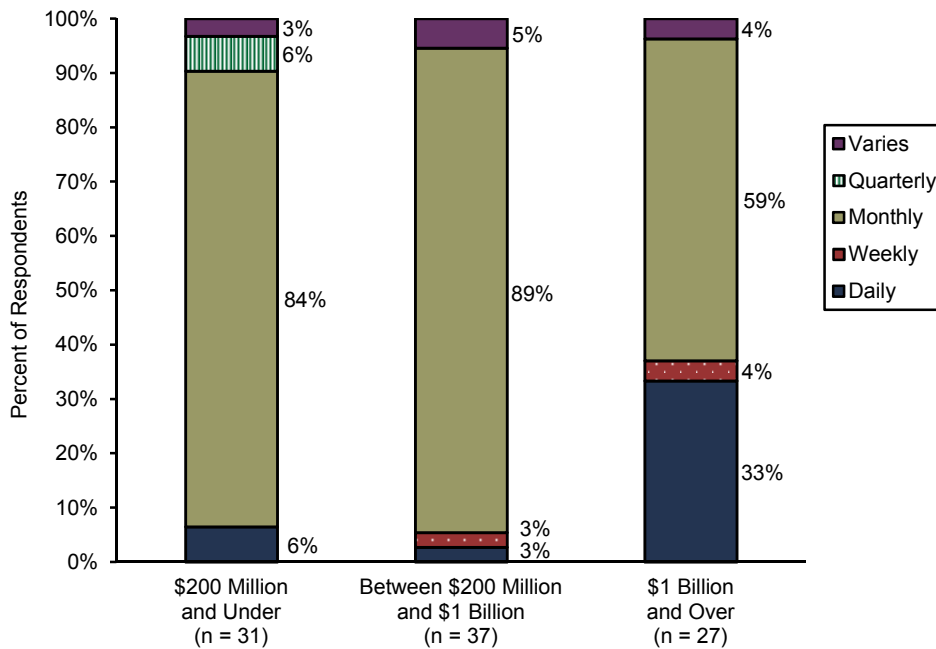


Exhibit 16
Accounting Software
 As of 2011

Software Vendors Used

\$200 Million and Under

- Quickbooks (n = 5)
- Blackbaud Financial Edge (4)
- Microsoft Dynamics (3)
- Datatel (2)
- Financial Edge (2)
- Fundware (2)
- Peachtree (2)
- Solomon (2)
- Intacct
- Microsoft Dynamics GP
- MV BASE
- PeopleSoft/Oracle
- Sage MIP
- SCT: Banner

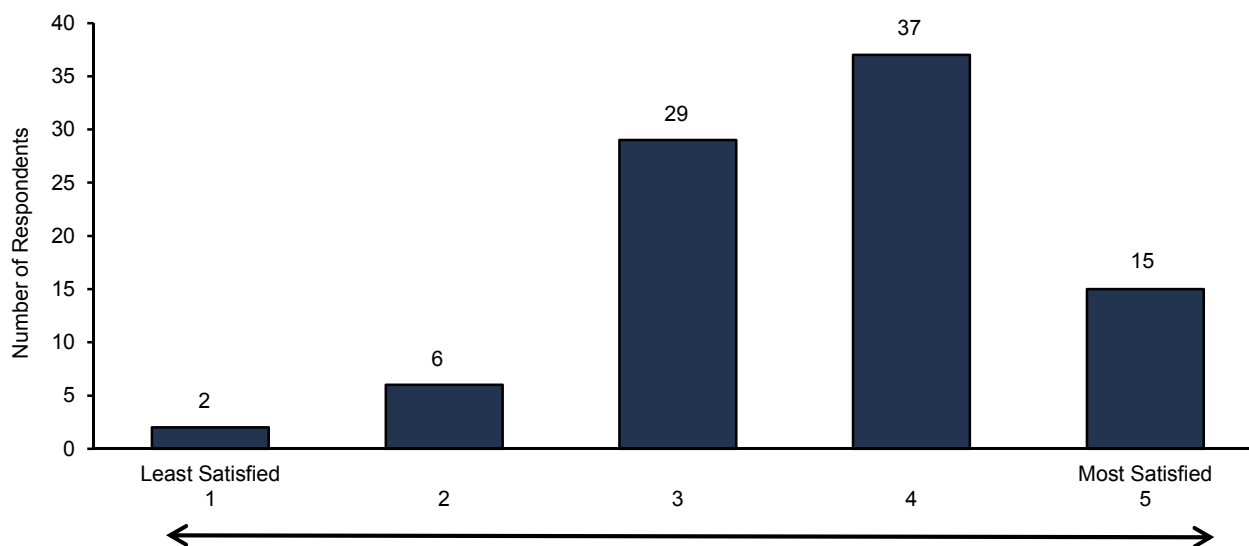
\$200 Million to \$1 Billion

- PeopleSoft/Oracle (n = 7)
- Blackbaud Financial Edge (5)
- Datatel (4)
- Sage MIP (3)
- SCT: Banner (3)
- Microsoft Dynamics (2)
- Endowment Solutions
- Financial Edge
- IFAS and Fundriver
- Internally Developed
- Lawson
- Peachtree
- Senior Systems
- Siemens
- Solomon

Over \$1 Billion

- PeopleSoft/Oracle (n = 9)
- Microsoft Dynamics (5)
- Internally Developed (2)
- SAP (2)
- Financial Records System/FRS
- Lawson
- SCT: Banner

Satisfaction With the Software



Note: Only 32% of respondents use accounting software that incorporates endowment unitization.

Exhibit 17
Auditors
 As of 2011

Auditors Used

\$200 Million and Under

- Blackman Kallick (n = 4)
- CBIZ Tofias/Mayer Hoffman McCann (4)
- KPMG (3)
- Blum Shapiro (2)
- O'Connor Davies Munns & Dobbins (2)
- ParenteBeard (2)
- PricewaterhouseCoopers (2)
- Beene Garter
- Cover and Rossiter
- Deloitte & Touche
- Ernst & Young
- Hinricher & Crasnick
- House Park Dobartz
- Kindinger, Corder & Engle
- McGladrey & Pullen
- Milligan & Comp
- Plante and Moran
- Samet & Co.
- Schneider Downs

\$200 Million to \$1 Billion

- KPMG (n = 10)
- McGladrey & Pullen (4)
- Larson Allen (3)
- PricewaterhouseCoopers (3)
- Baker Newman Noyes (2)
- Blackman Kallick (2)
- Ernst & Young (2)
- Grant Thornton (2)
- Moss Adams (2)
- CBIZ Tofias/Mayer Hoffman McCann
- Clifton Gunderson
- Deloitte & Touche
- Draffin Tucker
- Hood & Strong
- Jenkins, Bowler & Perkins
- Sisterson & Co.
- State Board of Accounts

Over \$1 Billion

- KPMG (n = 11)
- PricewaterhouseCoopers (11)
- Deloitte & Touche (3)
- Ernst & Young (2)
- State Board of Accounts (2)
- HoganTaylor
- McGladrey & Pullen

Satisfaction With the Auditor

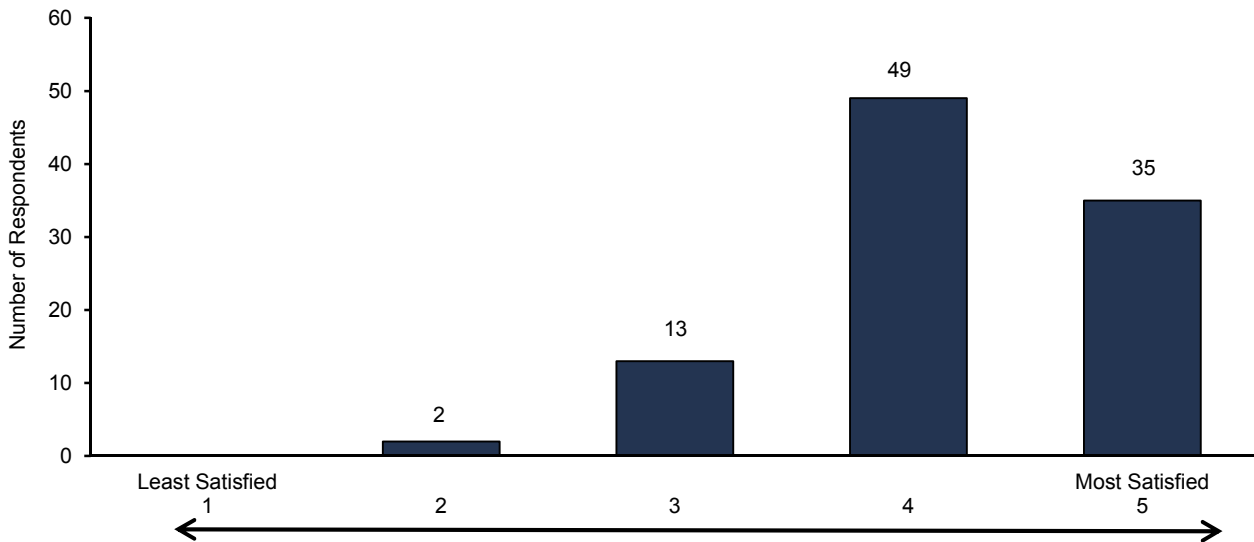


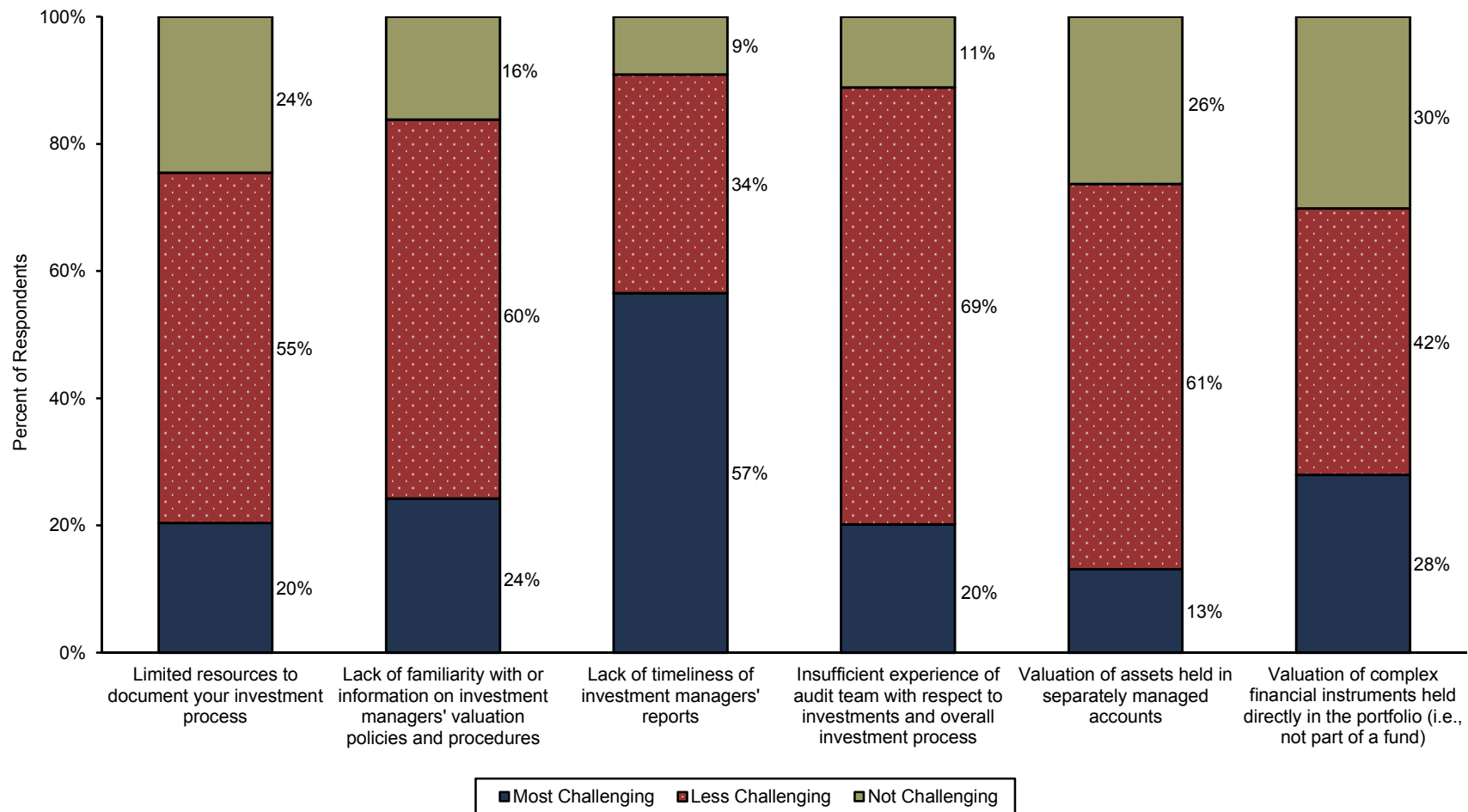
Exhibit 18

Accounting: Level of Difficulty with Audit

As of 2011

When Preparing Your Institution's Audit, What Is the Level of Difficulty for These Items?

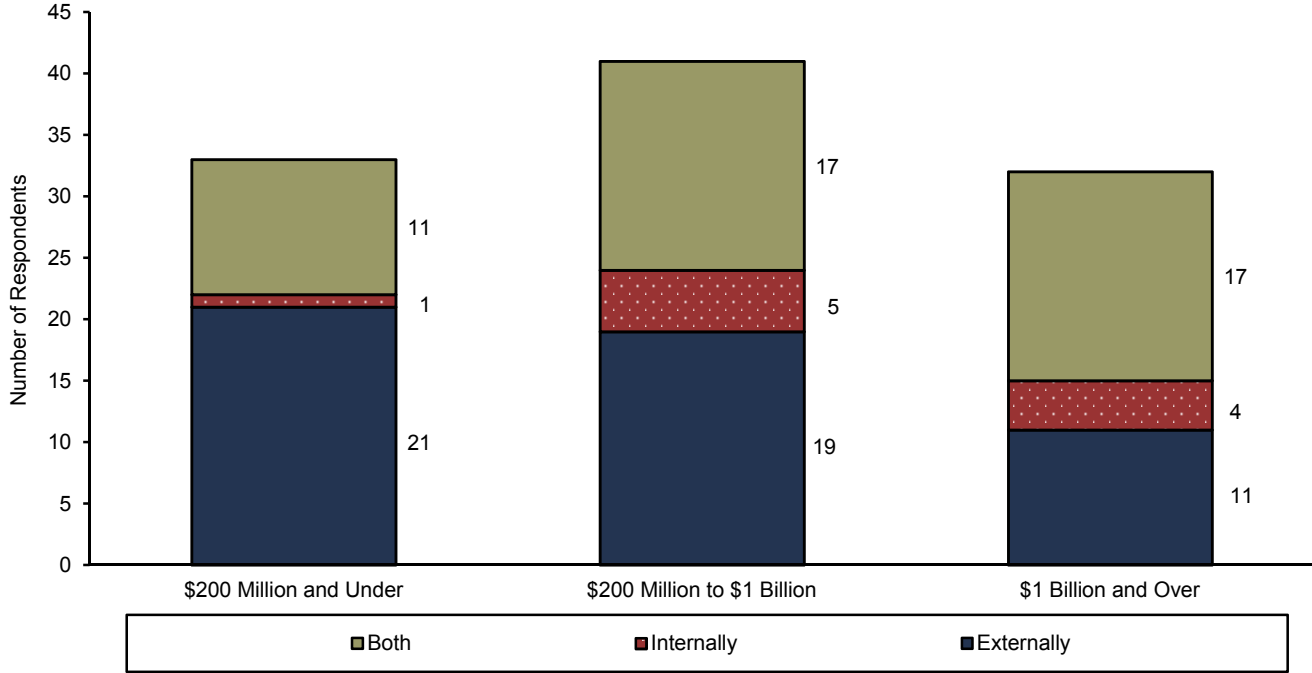
(n = 99)



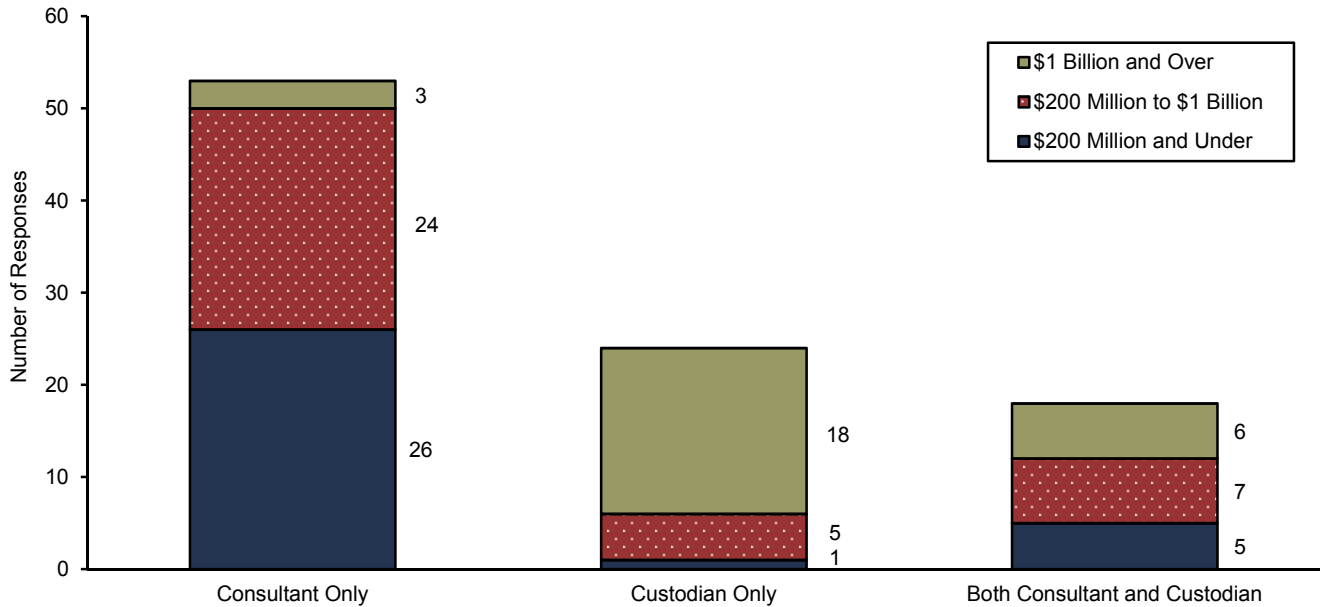
Notes: Respondents were given the option to rank the level of difficulty for these various tasks on a 1 to 5 scale, with 1 being least challenging and 5 being most challenging. Rankings of 4 and 5 are included in the "Most Challenging" category while rankings of 1, 2, and 3 are included in the "Less Challenging" category. The "Not Challenging" category is representative of respondents that indicated a task posed no challenge at all.

Exhibit 19
Performance Reporting: Tracking Performance
 As of 2011

How Does Your Organization Track Performance?



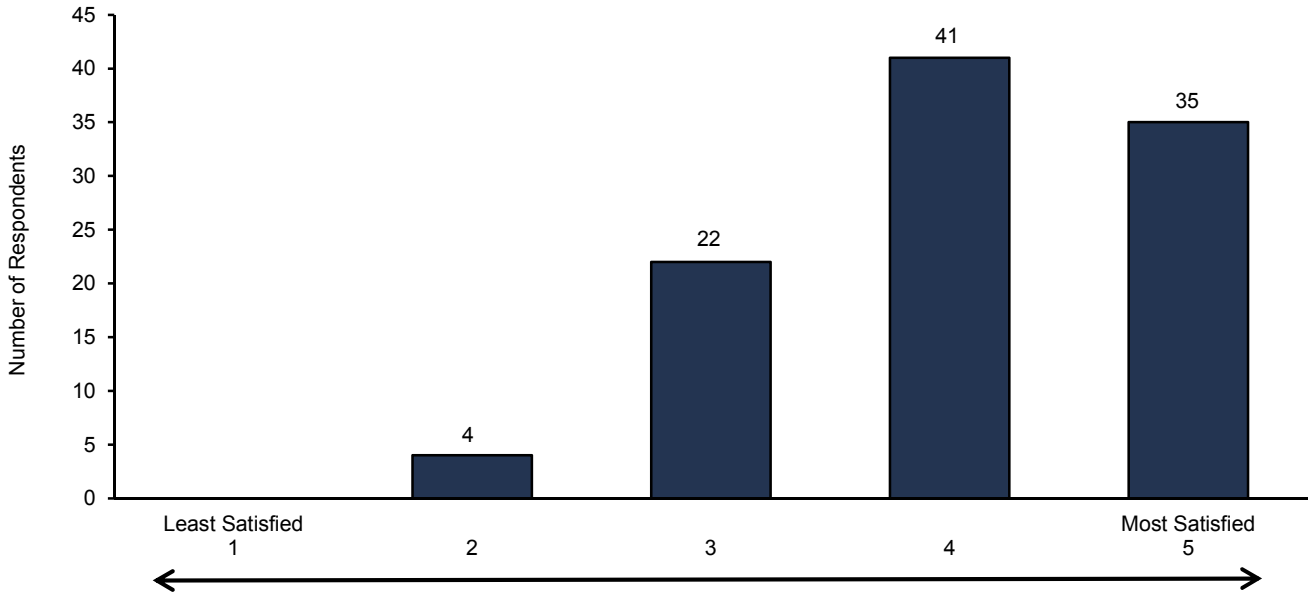
If You Are Using External Performance Reporting, What Type Of Service Providers Do You Use?



Notes: Data for bottom chart are based on the information provided by 32 institutions with assets of \$200 million and under, 36 institutions with assets between \$200 million and \$1 billion, and 28 institutions with assets of \$1 billion and over. Respondents could select multiple options.

Exhibit 19 (continued)
Performance Reporting: Tracking Performance
 As of 2011

How Satisfied Are You With Your Performance Measurement Provider?



How Often Do You Value Your Portfolio?

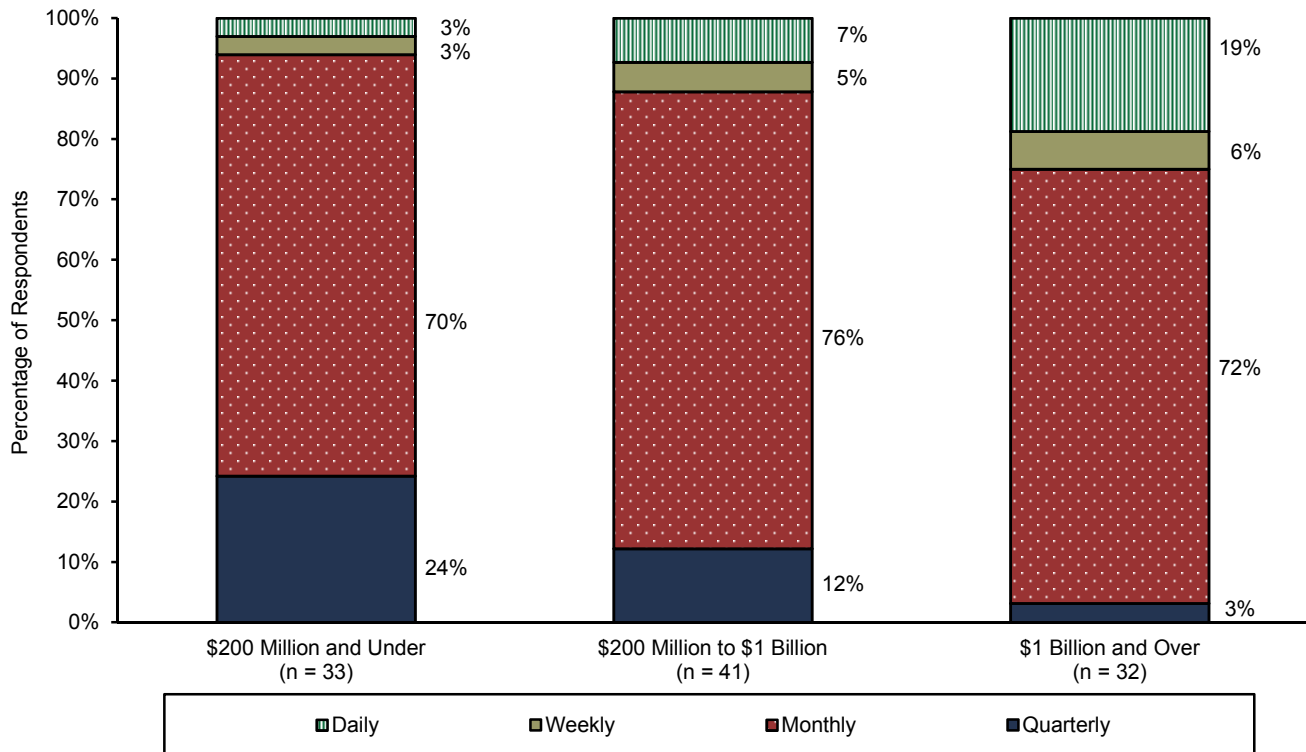
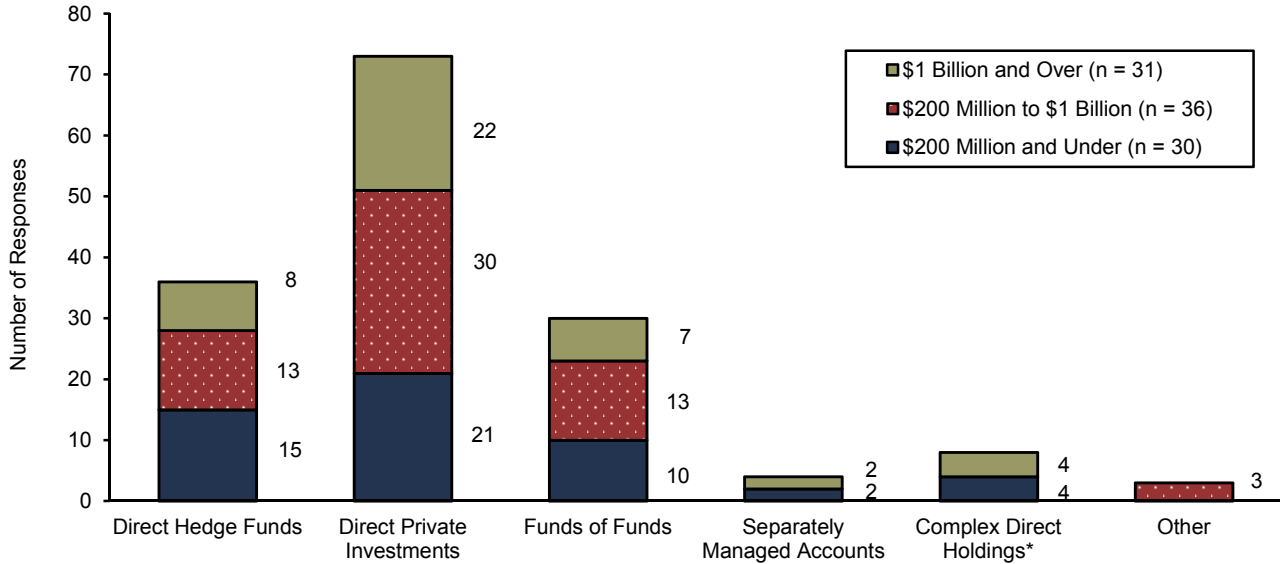


Exhibit 20

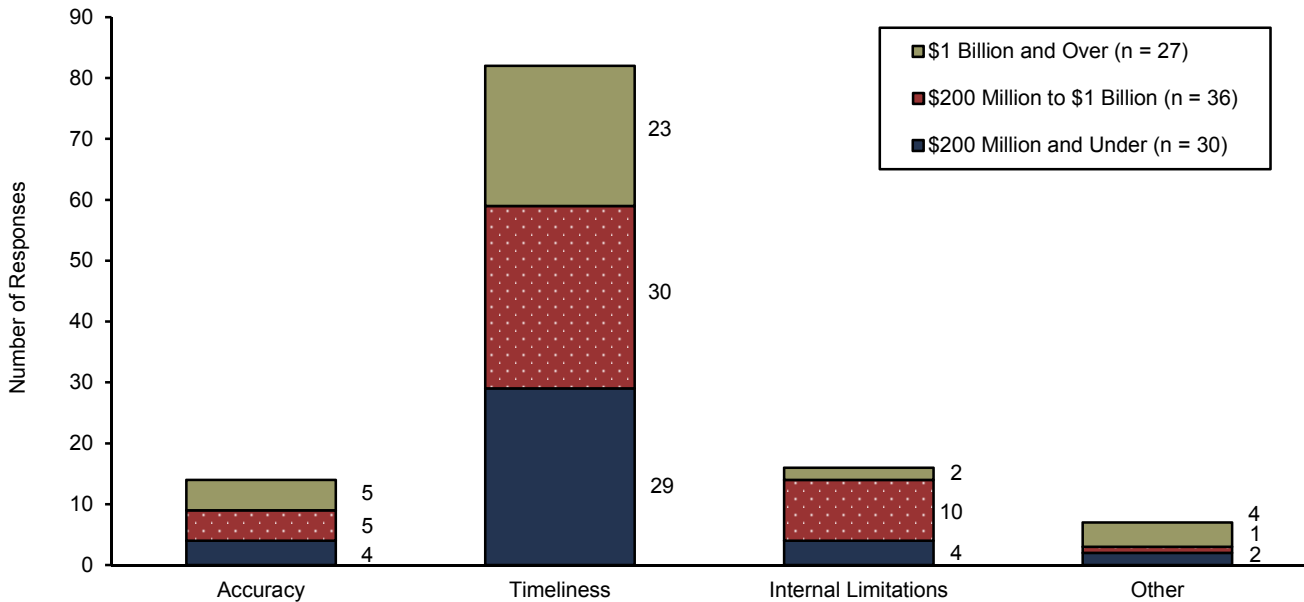
Challenges in Valuing Investments and Tracking Performance

As of 2011

What Is the Most Cumbersome Part of Your Valuation Process?



Greatest Challenges in Tracking Performance

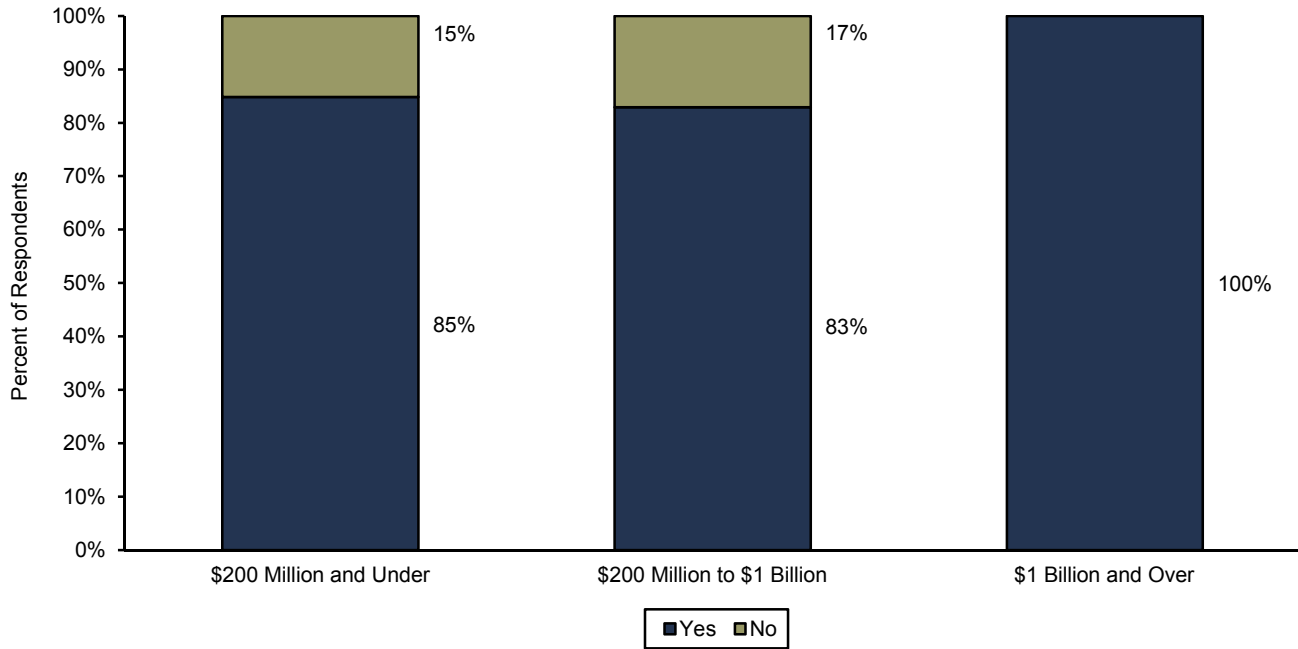


Notes: Data for both charts are based on the information provided by 30 institutions with assets of \$200 million and under, 36 institutions with assets between \$200 million and \$1 billion, and 27 institutions with assets of \$1 billion and over. Respondents could select multiple options.

* Direct holdings of complex securities or financial instruments such as derivatives.

Exhibit 21
Custodians
 As of 2011

Do You Have a Custodian?



How Satisfied Are You With Your Custodian?

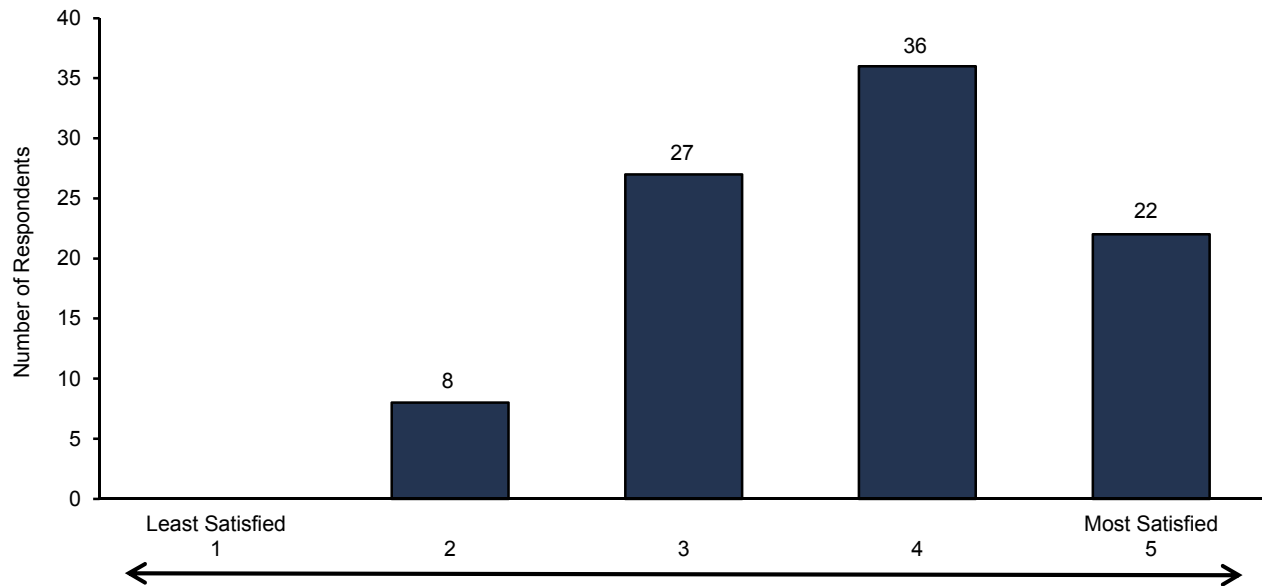
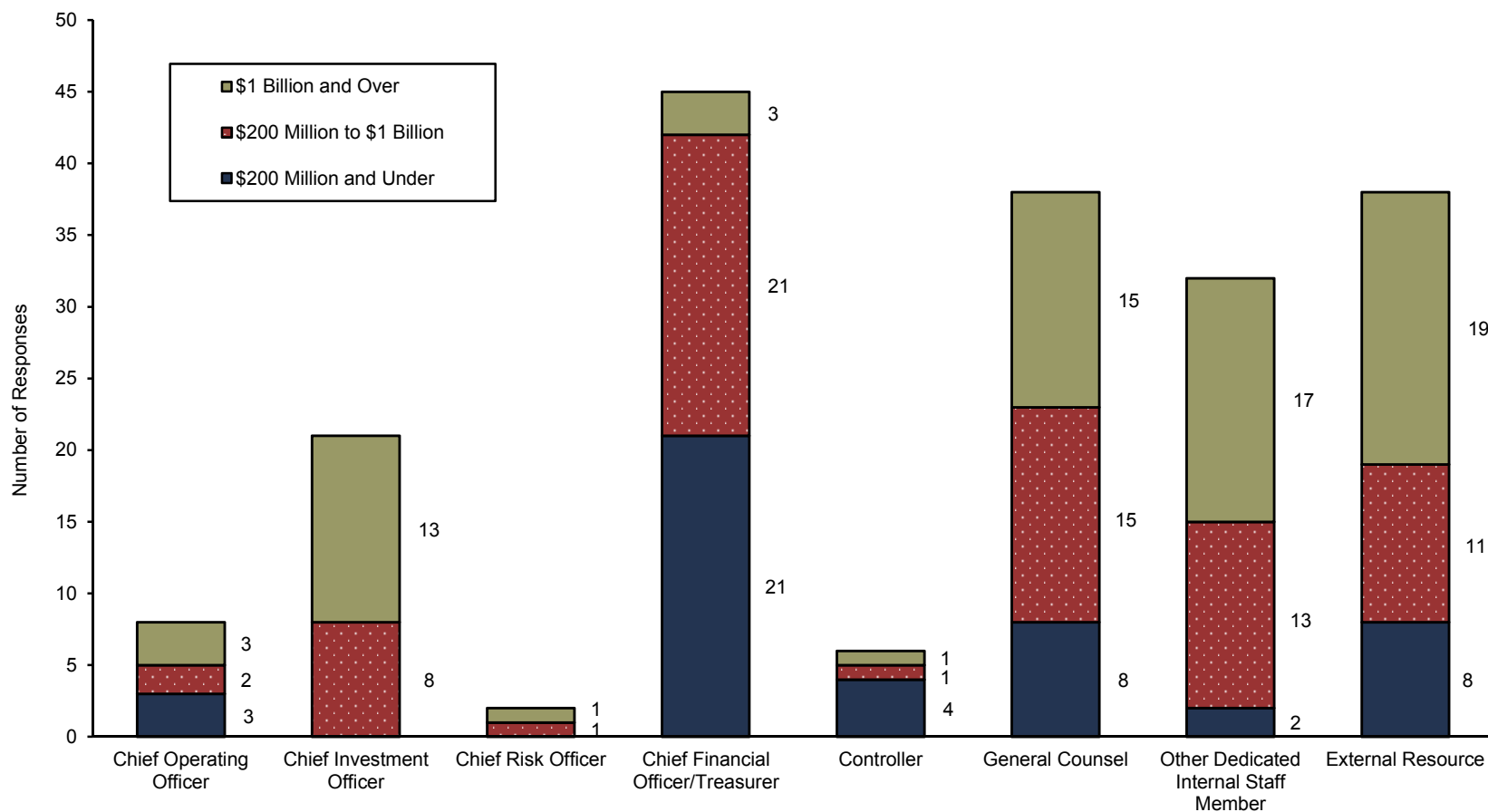


Exhibit 22
Legal Document Review

As of 2011

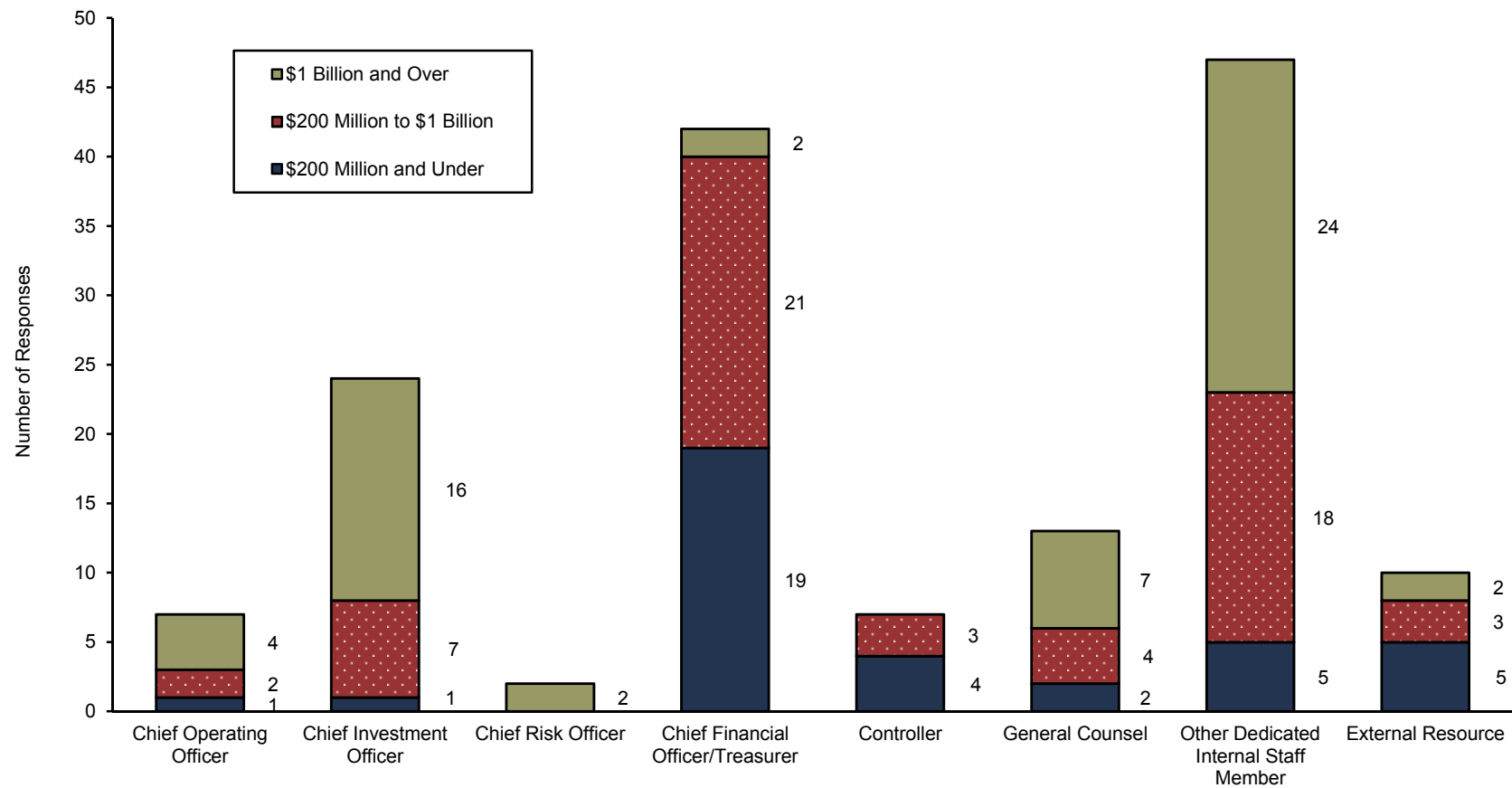
Who Reviews Legal Documents Related to Investments?



Notes: Chart data are based on the information provided by 30 institutions with assets of \$200 million and under, 41 institutions with assets between \$200 million and \$1 billion, and 32 institutions with assets of \$1 billion and over. Respondents could select multiple options.

Exhibit 23
Compliance
 As of 2011

Who Handles Compliance-Related Issues?

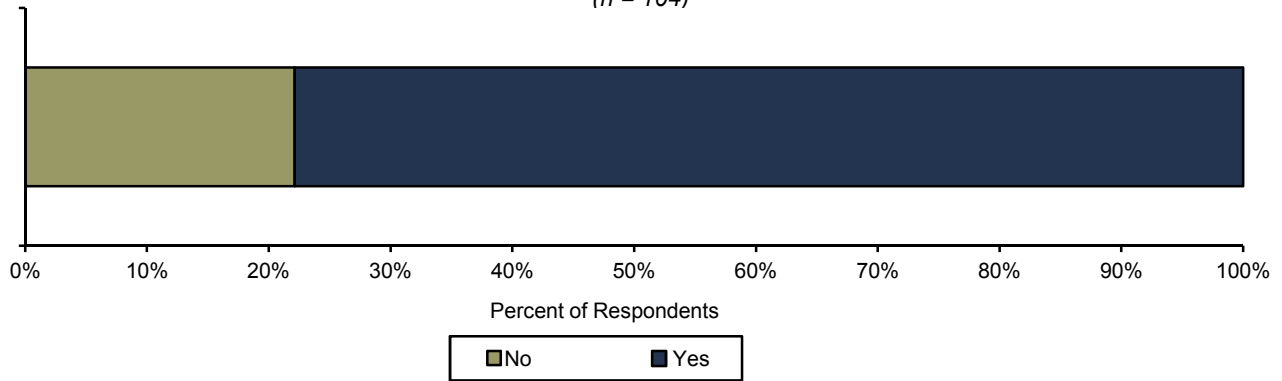


Notes: Chart data are based on the information provided by 31 institutions with assets of \$200 million and under, 41 institutions with assets between \$200 million and \$1 billion, and 32 institutions with assets of \$1 billion and over. Respondents could select multiple options.

Exhibit 24
Generation of UBTI and Payment of UBIT
 As of 2011

Have Any of Your Investments Generated Unrelated Business Taxable Income?

(n = 104)



How Does the Generation of UBTI Impact the Functioning of Your Staff?

(n = 81)

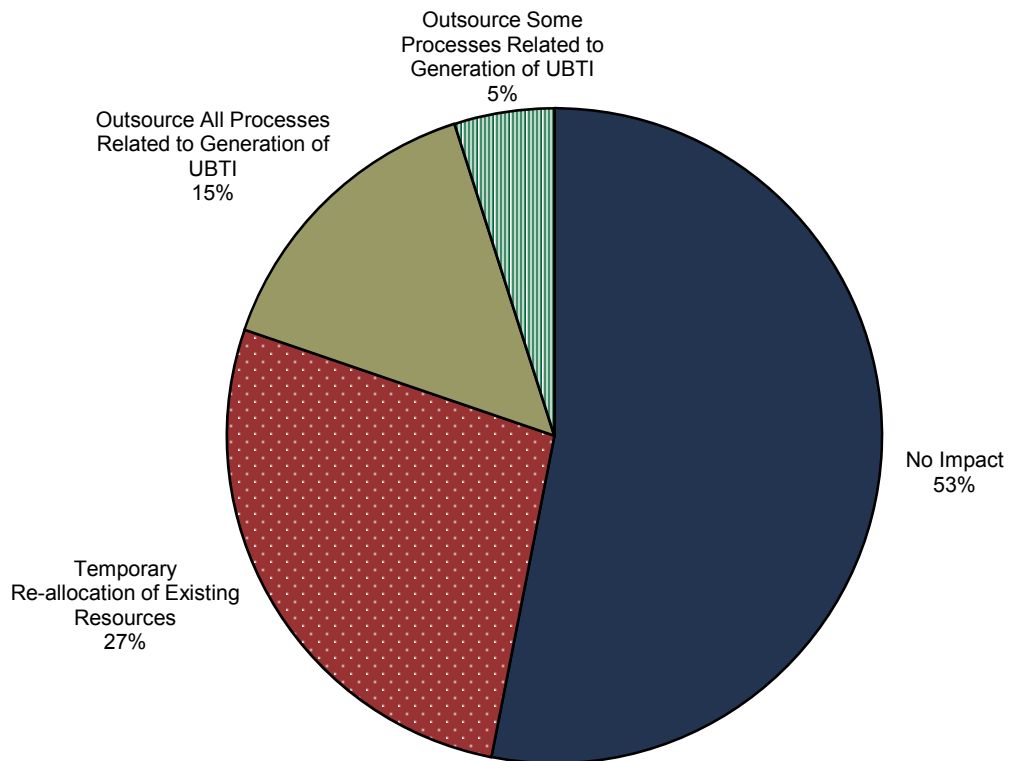
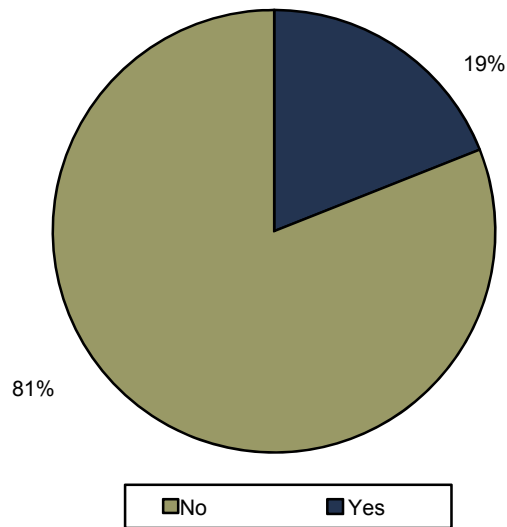


Exhibit 24 (continued)
Generation of UBTI and Payment of UBIT
As of 2011

Did You Adjust Performance for the Payment of Unrelated Business Income Tax?
(n = 79)



How Satisfied Are You With Your Process for Handling UBIT?

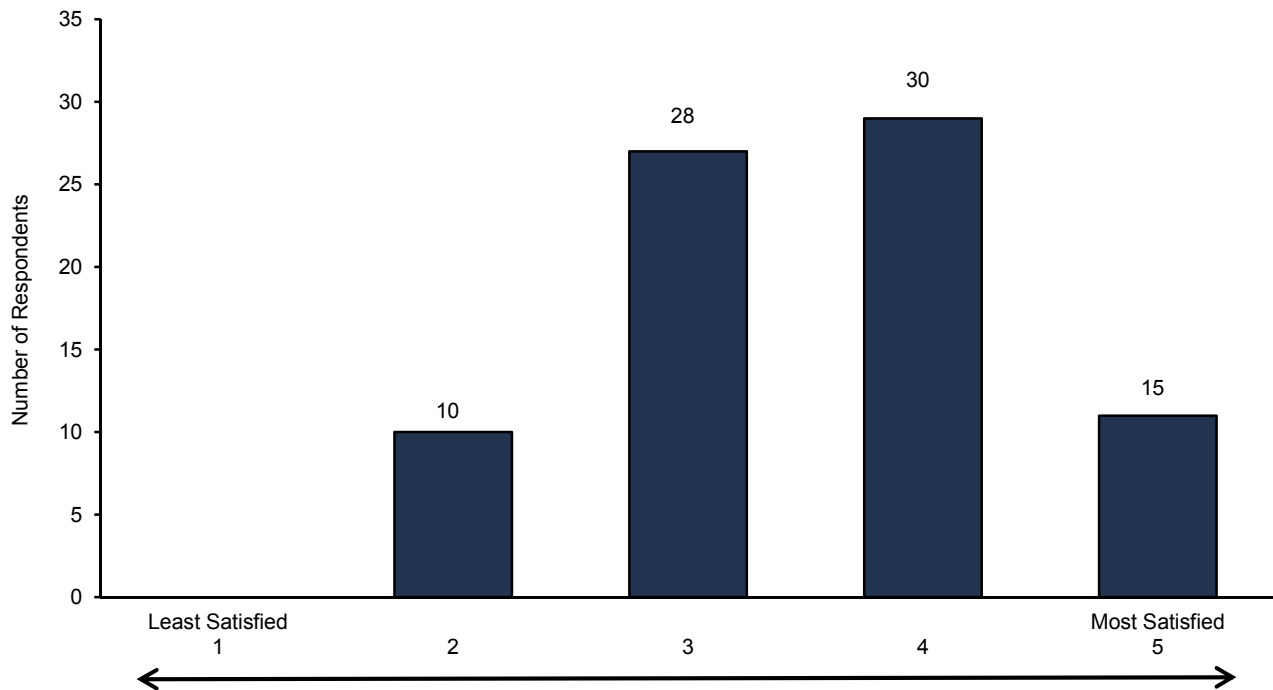
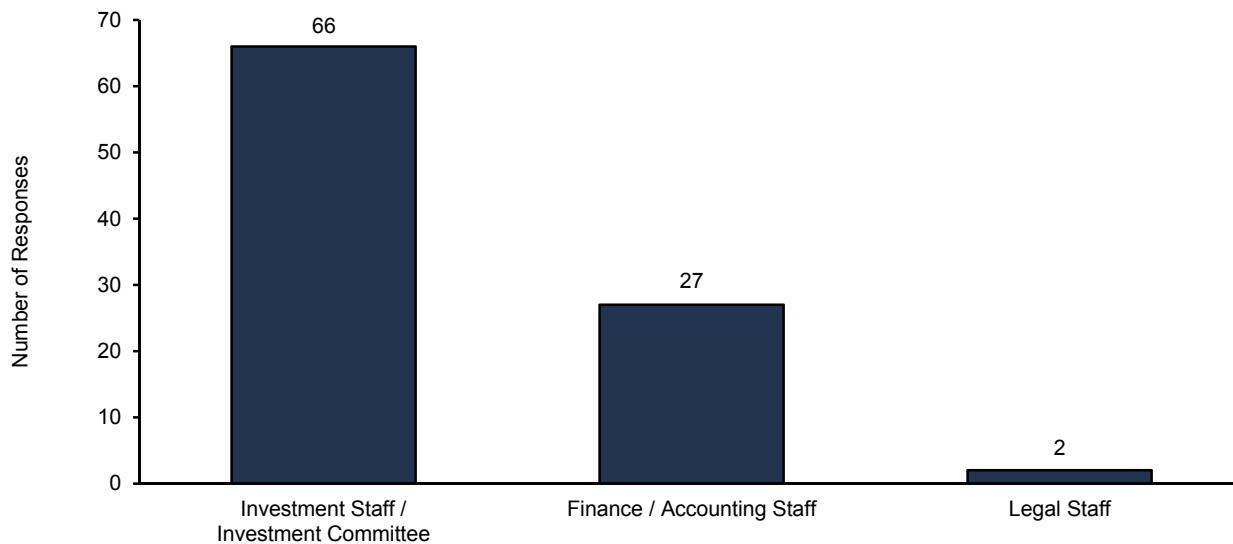
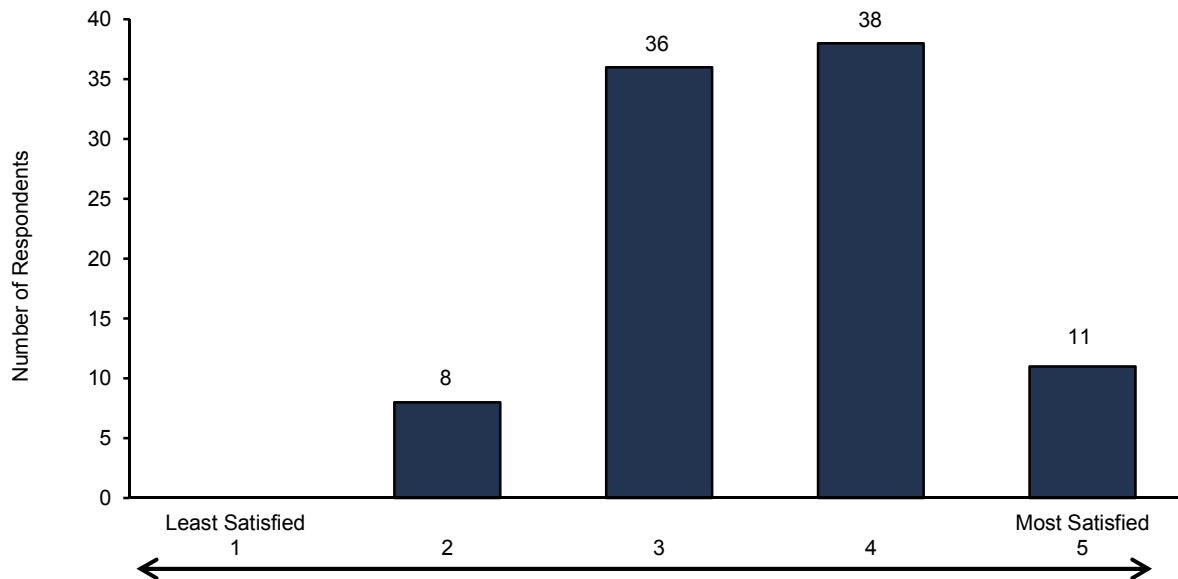


Exhibit 25
Due Diligence
 As of 2011

Who Is Responsible for Due Diligence?
 (Excluding Outsourced Providers)



Satisfaction With Operational Due Diligence Procedures
 (Including Outsourced Providers)

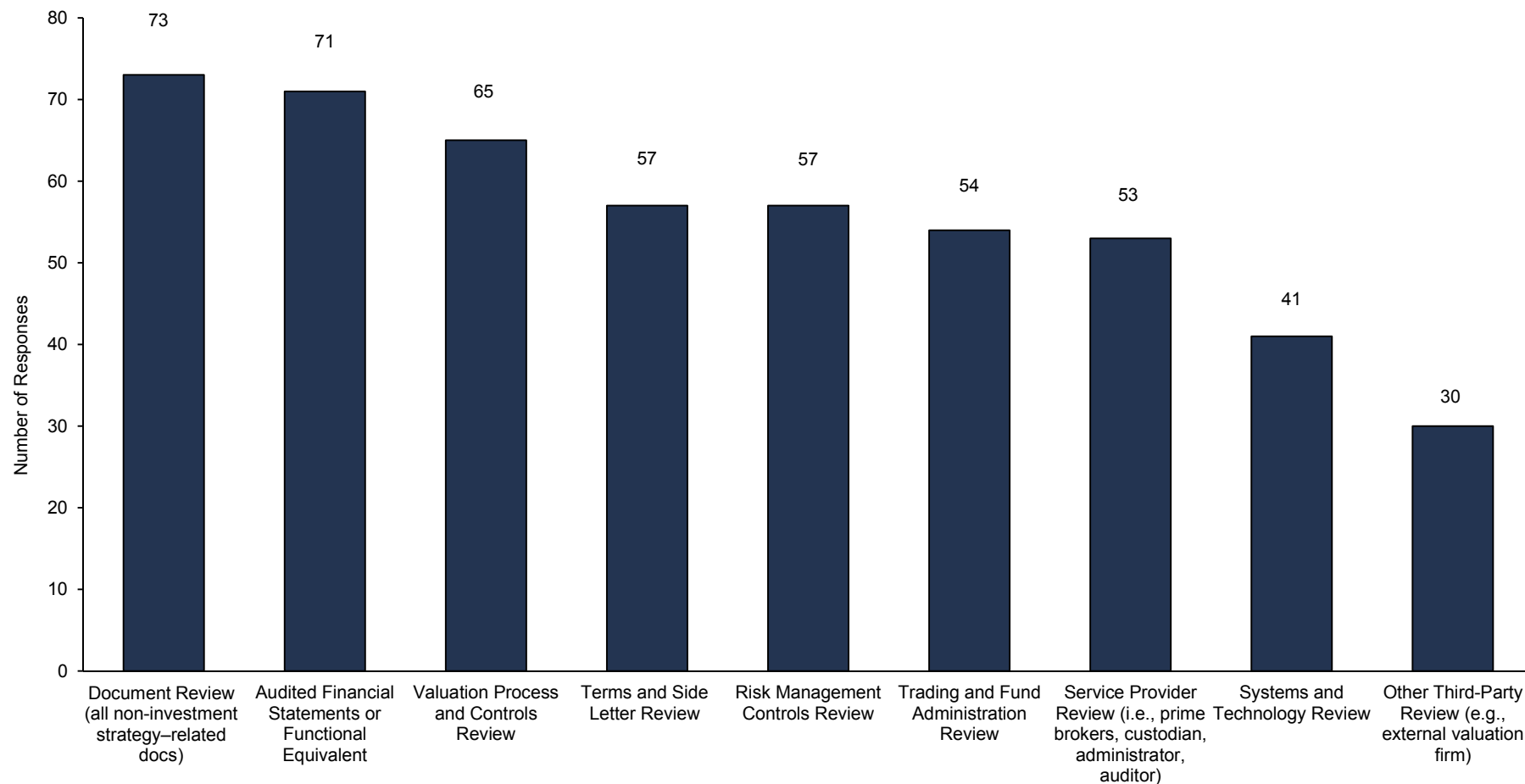


Notes: Data for top chart reflect responses from 68 institutions. Respondents could select multiple options.

Exhibit 26 Operational Due Diligence

As of 2011

What Does Your Operational Due Diligence Include?



Notes: Data reflect responses from 79 institutions. Respondents could select multiple options.