

## **Important Announcement Regarding Commonfund Short Term Fund September 30, 2008**

Commonfund and Participants in The Common Fund for Short Term Investments (the “Short Term Fund” or “STF”) received notice on Monday, September 29<sup>th</sup> from the Trustee of the Short Term Fund, Wachovia Bank, N.A. of Wachovia’s decision to initiate the termination of the Short Term Fund, to establish procedures for an orderly liquidation and distribution of the fund’s assets and to resign their role as Trustee of the Short Term Fund. As Trustee, Wachovia has the sole discretion to take this action.

### **The Wachovia Action**

The action by Wachovia was to restrict immediately liquidity in the fund to 10 percent of each participant’s account value as of the close of business on Friday, September 26<sup>th</sup>. This liquidity represented the value of maturing securities in the fund on Monday, September 29<sup>th</sup>. The remaining 90 percent of the fund will be available to investors over the coming weeks and months as securities in the portfolio mature and as the fund’s advisers are able to sell underlying securities when markets return to normalcy. And, as of October 1<sup>st</sup> we expect that at least 26 percent of the fund will be available. Nearly 60 percent of the fund is scheduled to mature by December 31, 2008 and thus will be available to investors. This amount will be supplemented to the extent we are able to sell other securities before maturity. To date, no securities in the STF portfolio have defaulted and all continue to pay timely principal and interest. Wachovia’s actions were not taken in response to any losses in the fund and were not a response to an increase in redemptions.

### **About the Short Term Fund**

The Short Term Fund has existed as a liquidity vehicle offered solely by Commonfund to colleges, universities and private secondary schools since 1974. As of the close of business on Friday, September 26<sup>th</sup>, the STF managed assets of approximately \$9.3 billion on behalf of about 1000 clients. The fund is structured as a bank common trust with Wachovia Bank, N.A. as Trustee, and is designed to yield at least the average yield on the 3-month Treasury bill – something it has done without interruption since the fund inception. A unique feature of the fund is a reserve account that is designed to smooth returns by accumulating when returns exceed the Treasury bill rate and contributing to maintain payments at the Treasury bill rate when returns lag the Treasury rate. Another unique feature of the fund has been intraday liquidity which provides significant flexibility to investors in the fund. The fund’s investment guidelines, which are set by the Trustee in consultation with the Board of Trustees of Commonfund, restrict the fund’s advisers to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage- and asset-backed securities, and commercial and bank paper. The Short Term Fund has never been permitted to hold any derivatives and never invested in SIVs or CDOs.

## **Recent Market Activity**

The Short Term Fund has been exposed to significant price volatility since last spring as the credit crisis continued to unfold. However, the reserve account operated as designed to absorb this volatility in order for the fund to return the average yield on the 3-month Treasury bill. In April, Commonfund also pledged \$50 million of its corporate reserves to support the fund.

The price volatility in the fund over the last six months was largely concentrated in roughly 15-20 percent of the securities, largely mortgage- and other asset-backed securities. However, in recent days and weeks the credit markets have frozen in the wake of the failure of Lehman Brothers and Washington Mutual Bank, the nationalization of American International Group and the failures of Congress to pass legislation. Yesterday virtually none of the non-government securities held in the fund could be sold at par – including the highest rated commercial paper with maturities of less than two weeks.

## **Next Steps**

Commonfund's priorities are to help investors in the Short Term fund gain access to their funds as quickly as possible and to put in place a replacement liquidity vehicle to the Short Term Fund. More specifically we are doing the following:

- We are exploring all possible avenues to help participants who need more liquidity for immediate needs such as payroll by working with banks and other financial institutions to implement a credit facility or other vehicle.
- We are moving quickly to establish a new government securities fund that can accept client funds to help manage their transaction flow.
- We have begun the process to identify a successor Trustee if possible for the continued operation of the STF in largely the same form.

### *Priority #1*

The greatest concern we have is for STF clients that do not have sufficient liquidity to meet critical and immediate operating needs. As mentioned our managers have been able to sell some government and discount note positions which will bring fund liquidity to 26 percent, and based solely on maturities alone, 57 percent of the fund will be liquid by December 31, 2008 assuming no asset sales. Should credit markets improve at all and make it possible to sell high quality assets this percentage will increase.

However, for those institutions with immediate credit needs, we are looking at a variety of options and have reached out to a number of banks to determine if they can extend credit to such institutions. We have had fruitful discussions with three different banks, but have no solution in place at the moment. As soon as we have what we view is an appropriate solution we will notify our clients.

*Priority #2*

We also realize that in the absence of the STF, many clients do not have an acceptable liquidity vehicle for transactional cash needs. We have been authorized by the Commonfund Board to establish such a fund for educational institutions that will invest in U.S. government securities. The assets will be custodied at State Street. We expect that this fund will be open to investment by Wednesday or Thursday and as soon as it is we will notify clients and make all account opening documents available immediately. We will also work with Wachovia to explore avenues to transfer funds from the liquid portion of your STF account to this new government securities fund

In the meantime we will work with clients to help them in any way we can to set up new standing instructions for wire transfers for funds that previously had flowed into and out of the STF.

*Priority #3*

As noted in Wachovia's announcement, we have a 60-day period in which to designate a successor Trustee. We have had preliminary discussions with four trust banks and are committed to finding a solution that works for the education community.