Performance

	Qtr	FYTD	CYTD	3-Yr	5-Yr
USMF Endowment [1]	2.9%	9.3%	12.9%	-3.1%	3.3%
80%/20% Portfolio [2]	4.9%	18.7%	22.5%	-3.0%	1.6%
60%/40% Portfolio [2]	3.7%	15.0%	18.4%	-0.5%	2.6%
S&P 500 Index	6.0%	22.6%	26.5%	-5.6%	0.4%

Asset Allocation

	MV $millions	% of Total	Target Range
Global Equities	$243	36%	30% - 60%
Multi-Strategy & Opportunistic	$188	28%	20% - 40%
Real Assets	$178	26%	20% - 30%
Bonds & Cash	$69	10%	5% - 10%
Total USMF Endowment Pool	$678	100%	

Account Information

USMF Endowment

In $000s	Qtr	FYTD
Beginning MV [3]	$662,697	$615,627
Additions	$7,264	$17,460
Withdrawals	($14,115)	($17,273)
USMF Mgmt Fee	($1,785)	($1,785)
Institutional Assessment	($1,998)	($1,998)
Custodial & Mgr Fees	($1,201)	($2,204)
Investment Gains/Loss	$26,974	$68,008
Ending MV [3]	$677,836	$677,836

Market Review

In the first several weeks of 2010, capital markets have been pushed by various macro factors, i.e. the start of a tightening cycle in China and other emerging countries, further uncertainties over policy and regulatory issues, and concerns over rising sovereign debt. Investor sentiment remains skittish. The resulting risk aversion sent global equity markets into the first correction since the rally began last March. The world may have entered the Great Recession in synch, but the recovery process thus far seems less uniform. Some economies, especially in the developing world, have strong balance sheets and are well positioned for expansion. Asia is increasingly becoming the center of gravity for global growth and demand, followed closely by Brazil. China's sizable state-directed credit expansion for infrastructure investment pulled their GDP growth back into the double digits, bringing many of their neighbors along for the ride.

Meanwhile, a number of Western countries are lumbering ahead under the weight of increasing public sector debt. Many wonder if the problems of Greece and the other 'Club Med' countries are the canary in the coal-mine for the next wave of this recession. There is ongoing debate as to whether these sovereign issues will lead to a broader contagion effect that dampens the global recovery. Will the weight of rapidly rising public-sector debt bring crisis to the currency and bond markets? This recession has been defined by levels of indebtedness. Entities, be they individuals, banks, municipalities or governments, cannot spend more than they earn in perpetuity. Eventually their cost of borrowing rises too much to keep the scheme going and default occurs, or perhaps in the case of the U.S., currency debasement.

Despite the recent pullback, capital markets still appear slightly over-valued. Our managers steadily increased their market exposure in 2009 and into 2010. To keep our risk profile within a more defensive range, we trimmed our overall level of equity exposure in recent months via small manager redemptions. Our bonds and cash allocation is still at the maximum end of the policy range, providing the flexibility to move should we find more attractive opportunities in the future. We remain cautious about our risk profile.

Portfolio Review

For the quarter ending December 31, 2009, the USMF Endowment appreciated 2.9% vs. a 4.9% gain for the 80/20 stocks/bonds portfolio. On a preliminary estimate, the Endowment returned 12.9% for calendar year 2009. We are still waiting on the final valuations for the 32% of the portfolio in non-marketable investments, which have been assigned a 0% return in the fourth quarter calculations. We expect at least some level of write-ups for the non-marketable portfolio over the last quarter, which will boost our overall calendar year return.

In past letters we've described our portfolio as maintaining a lower risk profile compared to both the stock market and a passive 80/20 strategy. During down periods we hope to not lose as much. We hope to capture much of the upside during 'normal' markets but expect to lag during sudden sharp rallies, as was the case last year. Over a full cycle we aim to deliver a superior 'risk-adjusted return'. We've found this is difficult to explain at times, especially during periods like last year when we lag the stock markets by so much! One element of our strategy that is not obvious when looking at the short-term return is the level of risk incurred along the way. Setting aside the non-marketable portfolio for a moment, during the last twelve months the marketable assets portfolio had an average gross long market exposure (both equities and credit) of 80%, implying about 20% was in cash. After shorts were factored in, the average net exposure to equities was only around 35% and the average net exposure to credit securities was 15% (net exposure equals longs minus shorts). Compared to a traditional portfolio that was 80% net long equities and 20% net long bonds with no cash, our portfolio took only about half as much market risk. However, we captured almost 90% of the return; the marketable assets portfolio returned 19.7% for CY'09 vs. 22.5% for the 80/20 strategy. When you factor back in the non-marketable assets, the estimated total endowment return of 13%-15% still reflects conservative valuations from our managers who have been slow to mark back up despite the rally in the public markets. Even though our short-term return lagged the markets, we are pleased with both the absolute return and the risk-adjusted performance vs. traditional strategies.

Many market observers and participants are once again embracing a bull-market, take-risk mindset. Given that most stock markets returned 25%-35% last year, we're not surprised some are questioning why most institutional portfolios 'only' generated returns between 15%-20%, an otherwise strong absolute return. In order for a diversified portfolio to have achieved a return in the twenties last year, you either made a brilliant market call, or you hung on for the roller coaster ride that saw stocks down by almost 30% at the March lows followed by a 60% rebound. It is possible to imagine a scenario back in the spring where equity markets trended further into the red, taking traditional strategies down with them, had governments around the world *not* taken such drastic measures. Our portfolio suffered during the dislocated markets of Sept.-Oct. of 2008. By early 2009 the strategy was working once again and the defensive positioning paid off. The portfolio was only down about 3% during the first quarter, compared with declines of 20%-30% for equities at their lows. Our lower risk profile back in early 2009 provided a good deal of protection from the 'what-if' doomsday scenario that never materialized. We stuck with our strategy and were able to capture a lot of the upside during the rally. With a longer-term view, over the last five years the Endowment delivered a cumulative return of 18% vs. 8% for the 80/20 strategy and 2% for the S&P 500.

The Investment Committee met twice in December (one regular meeting and one conference call related to an investment idea). The committee will meet three additional times this fiscal year, two regular meetings and the annual asset allocation meeting. We continue searching for interesting opportunities but are patient to put the capital to work. Thank you for your support and as always, please feel free to contact the investment office if you have questions, comments, or advice.

Performance by Asset Class

	Qtr	FYTD	CY	3-Year	5-Year
Global Equities	3.8%	14.4%	16.2%	(4.1%)	2.0%
MSCI World Index	*4.1%*	*22.2%*	*30.0%*	*(5.6%)*	*2.0%*
Multi-Strategy & Opportunistic	3.0%	9.6%	21.8%	2.1%	5.2%
HFR Fund of Funds Index	*1.2%*	*5.7%*	*11.2%*	*(1.2%)*	*2.7%*
Real Assets	10.6%	13.3%	11.4%	(2.7%)	11.5%
GSCI Commodities Index	*8.4%*	*6.5%*	*13.5%*	*(7.0%)*	*(3.0%)*
Bonds & Cash	0.1%	0.9%	2.7%	3.6%	3.5%
Barclays Aggregate Index	*0.2%*	*4.0%*	*6.0%*	*6.0%*	*5.0%*
Total Endowment	2.9%	9.3%	12.9%	(3.1%)	3.3%
80%/20% Portfolio	*4.9%*	*18.7%*	*22.5%*	*(3.0%)*	*1.6%*

Exposures by Security Type

	% of Endowment			
	Long	Short	Gross	Net
Public Equity	40.7%	(13.4%)	54.1%	27.3%
U.S. & Canada	*22.8%*	*(8.2%)*	*31.0%*	*14.6%*
Europe	*6.7%*	*(2.8%)*	*9.5%*	*3.9%*
Japan	*1.0%*	*(0.4%)*	*1.4%*	*0.6%*
Asia Ex Japan	*6.1%*	*(1.2%)*	*7.3%*	*4.9%*
Other Markets	*4.1%*	*(0.8%)*	*4.9%*	*3.3%*
Private Equity	16.2%	---	16.2%	16.2%
Buyouts & Turnarounds	*9.0%*	---	*9.0%*	*9.0%*
Venture & Growth Equity	*2.5%*	---	*2.5%*	*2.5%*
Mezzanine	*1.1%*	---	*1.1%*	*1.1%*
Hedge Fund Side Pockets	*3.6%*	---	*3.6%*	*3.6%*
Private Real Assets	19.5%	---	19.5%	19.5%
Resources & Infrastructure	*11.0%*	---	*11.0%*	*11.0%*
Real Estate	*8.5%*	---	*8.5%*	*8.5%*
Fixed Income	13.6%	(2.5%)	16.1%	11.1%
Government & Agencies	*1.1%*	---	*1.1%*	*1.1%*
Investment Grade Corporates	*0.9%*	---	*0.9%*	*0.9%*
High Yield	*0.1%*	---	*0.1%*	*0.1%*
Distressed	*5.0%*	*(0.4%)*	*5.4%*	*4.6%*
Structured Products	*4.5%*	---	*4.5%*	*4.5%*
Other	*2.0%*	*(2.1%)*	*4.1%*	*(0.1%)*
Other	0.1%	(0.4%)	0.5%	(0.3%)
Total Endowment	90.1%	(16.3%)	106.4%	73.8%
Net Cash	9.9%	---	---	---

Endnotes

1: Private investments market values are as of 9/30/2009 plus contributions and less distributions through 12/31/2009.

2: Benchmark consists of the S&P 500 Index and the 20% Barclays Aggregate Bond, weighted as defined.

3: Accounting values do not match investment performance due to the nature of when the custodian 'closes' records for a period. This typically occurs before all market values have been received.