

Performance

	<u>Qtr</u>	<u>FY 2011</u>	<u>3-Yr</u>	<u>5-Yr</u>
USMF Endowment ¹	3.5%	18.7%	-0.5%	3.6%
Composite Benchmark ²	1.1%	19.6%	-5.2%	0.8%
80%/20% Strategy ³	0.5%	25.1%	4.5%	4.0%

Market Review

Fiscal year 2011 had a bumpy start, but things took off in August with the announcement of a second round of Federal Reserve purchases of government and mortgage securities. Buoyed by earnings announcements that continually exceeded expectations, equity markets rose globally with the MSCI All Country World Index rising 30.1%.

Equity markets peaked at the end of April in response to March 31 quarter end earnings and then began to wane as focus turned to macroeconomic factors including the end of the Federal Reserve purchases in May. For the quarter ending June 30, the MSCI All Country World index gains slowed returning only 0.2%

Ten year Treasury bond yields hit a floor of 2.4% in October 2010 then rose along with the bullish market sentiment before tailing off slightly at fiscal year end. All in all the Barclay's Aggregate Index returned 3.9% in fiscal year 2011 with 2.3% of the increase coming in the last quarter. We view the desire to own bonds in such a bullish equity market as a warning sign of macroeconomic concern in the market.

Emerging markets experienced strong demand feeding inflationary concerns. These concerns caused many emerging market countries to adopt tighter monetary policy that lead to slower growth towards fiscal year end.

During the fiscal year, the Endowment returned 18.7% versus our benchmark of 19.6%. The conservative risk positioning at the portfolio level combined with conservative positioning at the manager level allowed us to capture most but not all of the market upside. As mentioned in our December letter, we aim to mitigate our exposure to the downside but still participate in a reasonable percentage of the upside.

Asset Allocation

	<u>MV \$millions</u>	<u>% of Total</u>	<u>Target Range</u>
Global Equities	\$332.2	41.5%	35% - 55%
Multi-Strategy & Opportunistic	\$165.6	20.7%	20% - 30%
Real Assets	\$223.5	27.9%	20% - 30%
<u>Bonds & Cash</u>	<u>\$78.6</u>	<u>9.8%</u>	5% - 15%
Total USMF Endowment Pool	\$799.9		

Account Information

Total USMF Endowment

<u>In \$000s</u>	<u>Qtr</u>	<u>FYTD</u>
Beginning MV ⁴	\$782,671	\$680,517
Additions	\$8,843	\$30,274
Withdrawals	(\$17,532)	(\$27,475)
USMF Mgmt Fee	-	(\$2,070)
Institutional Assessment	-	(\$1,920)
Custodial & Mgr Fees	(\$1,233)	(\$7,007)
Investment Gains/Loss	\$27,137	\$127,567
Ending MV ⁴	\$799,886	\$799,886

For the quarter ending June 30, the Endowment returned 3.5% versus the benchmark of 1.0%. Strong performance in our equity, absolute return, and real assets accounted for the favorable outcome.

At our May meeting, we realized that we are far below our peers in equity market beta and decided to increase our equity exposure slightly from 25% to 30%. Prior to June 30, we added 3% of the 5% addition when the market was trading towards the bottom of the recent technical range.

Looking ahead to 2012, we are prepared for high bouts of volatility and occasional sell-offs in equity markets around the globe. We continue our conservative approach allowing us to capture most of any market upside while mitigating our downside risk. We have

increased our flexibility by raising the liquid percentage of the portfolio and shying away from new private investments. Given our liquidity position, we will monitor private markets should a favorable opportunity present itself.

The next investment committee meeting will take place in early October. As always, please feel free to call with questions, comments, or advice. If you would like us to provide an update to your organization, please don't hesitate to ask and we'd be delighted to present either in person or via conference call. On behalf of our entire investment committee, board, and staff, thank you for your continued support.

Performance by Asset Class

	<u>Quarter</u>	<u>Fiscal Year 2011</u>	<u>3-Year</u>	<u>5-Year</u>
Global Equities ¹	4.5%	24.2%	(0.4%)	3.1%
<i>MSCI All Country World Index</i>	0.2%	30.1%	0.9%	3.2%
Multi-Strategy & Opportunistic	1.2%	10.2%	2.5%	5.6%
<i>HFR Fund of Funds Index</i>	(1.1%)	6.7%	(1.8%)	1.5%
Real Assets ¹	5.0%	25.5%	(2.3%)	5.2%
<i>Goldman Sachs Commodity Index</i>	(7.9%)	26.1%	(21.7%)	(6.2%)
<i>NCREIF Value-Add Index</i>	—	14.2%	(17.8%)	(6.4%)
Bonds & Cash	1.1%	2.5%	4.4%	4.9%
<i>Barclays Aggregate Index</i>	2.3%	3.9%	6.5%	6.5%
<i>ML 3-Month T-Bills Index</i>	0.0%	0.2%	0.4%	2.0%
Total Endowment ¹	3.5%	18.7%	(0.5%)	3.6%
<i>Composite Benchmark ²</i>	1.0%	19.6%	(5.2%)	0.8%
<i>80%/20% Strategy ³</i>	0.5%	25.1%	4.5%	4.0%

Exposures by Security Type ⁵

	<u>% of Endowment</u>			
	<u>Long</u>	<u>Short</u>	<u>Gross</u>	<u>Net</u>
Public Equity	36.4%	(10.0%)	46.4%	26.4%
<i>U.S. & Canada</i>	18.1%	(5.9%)	24.0%	12.2%
<i>Europe</i>	4.8%	(1.4%)	6.2%	3.4%
<i>Asia</i>	8.6%	(2.0%)	10.6%	6.6%
<i>Other Markets</i>	4.9%	(0.7%)	5.6%	4.2%
Private Equity	17.7%	—	17.7%	17.7%
<i>Buyouts & Turnarounds</i>	10.7%	—	10.7%	10.7%
<i>Venture & Growth Equity</i>	2.7%	—	2.7%	2.7%
<i>Short-term Private Investments</i>	4.3%	—	4.3%	4.3%
Real Assets	22.5%	(0.3%)	17.5%	17.5%
<i>Commodities-related - Private</i>	8.5%	—	8.5%	8.5%
<i>Commodities-related - Public</i>	1.3%	(0.3%)	—	—
<i>Energy Infrastructure - Private</i>	3.7%	—	—	—
<i>Real Estate - Public & Private</i>	9.0%	—	9.0%	9.0%
Fixed Income	20.5%	(1.3%)	21.8%	19.2%
<i>Government & Agencies</i>	7.9%	—	7.9%	7.9%
<i>Investment Grade Corporates</i>	2.9%	—	2.9%	2.9%
<i>Distressed Debt & High Yield</i>	3.2%	(0.9%)	4.1%	2.3%
<i>Structured Products</i>	6.5%	(0.4%)	6.9%	6.1%
Unencumbered Cash ⁶	2.9%	—	2.9%	2.9%
Total Exposure	100.0%	(11.6%)	106.3%	83.7%

Endnotes

- 1: Private investment market values are as of 6/30/2011 plus contributions and less distributions.
- 2: The Tactical Benchmark is dynamic and uses the Endowment's actual asset class weights at the beginning of each month and their designated passive benchmarks. This benchmark is intended to show how tactical allocation decisions performed relative to a neutral policy allocation.
- 3: The 80/20 Strategy consists of 80% S&P 500 Index and 20% Barclays Aggregate Bond Index and is rebalanced quarterly.
- 4: 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.
- 5: Exposures by Security Type contains aggregated data from all managers in the portfolio on a look-through basis.
- 6: Unencumbered Cash represents cash held directly by the Endowment
- 7: Cash Held by Managers represents uninvested cash with individual managers.