

Performance

	<u>FY</u> <u>2012</u>	<u>CY</u> <u>2011</u>	<u>3-Yr</u>	<u>5-Yr</u>
USMF Endowment ¹	-5.1%	0.9%	2.2%	2.1%
Composite Benchmark ²	-9.3%	-3.9%	-3.1%	-1.4%
80%/20% Strategy ³	-10.3%	-5.5%	3.2%	0.7%

Asset Allocation

	<u>MV</u> <u>\$millions</u>	<u>% of Total</u>	<u>Target Range</u>
Global Equities	\$309.8	41.0%	35% - 55%
Multi-Strategy & Opportunistic	\$151.1	20.0%	20% - 30%
Real Assets	\$213.3	28.2%	20% - 30%
<u>Bonds & Cash</u>	<u>\$81.7</u>	<u>10.8%</u>	5% - 15%
Total USMF Endowment Pool	\$755.9		

Account Information

Total USMF Endowment

<u>In \$000s</u>	<u>Qtr</u>	<u>FYTD</u>
Beginning MV ⁴	\$799,886	\$799,886
Additions	\$5,103	\$5,103
Withdrawals	(\$3,591)	(\$3,591)
USMF Mgmt Fee	(\$2,383)	(\$2,383)
Institutional Assessment	(\$1,744,717)	(\$1,744,717)
Custodial & Mgr Fees	(\$ 970)	(\$ 970)
Investment Gains/Loss	(\$40,408)	(\$40,408)
Ending MV ⁴	\$755,891	\$755,891

Market Review

Fiscal Year 2012 got off to a bumpy start, with equity indices trading downward each of the first three months. The European sovereign debt crisis was top-of-mind for investors throughout all markets, and uncertainty around any sort of resolution in Greece and Italy pushed markets downward globally. To add to the situation, Standard & Poors downgraded United States' Treasury debt after the White House and Congress could not agree to a debt ceiling resolution. In a somewhat ironic turn of events, investors fled to Treasury Bonds in a 'flight to quality' surrounding heightened uncertainty. The 10-Year Treasury yield dropped to an abnormally low level, reaching 1.7% at its trough.

Moreover, mediocre U.S. economic data did not help matters, indicating the economic recovery in the U.S. has slowed. The Federal Reserve, determined to use any means necessary to keep the U.S. economy moving along, initiated the cleverly named "Operation: Twist." The most recent iteration of quantitative easing sells short-dated Treasury bonds and buys longer-dated issues. The end goal is to push long-term rates lower while not further expanding the balance sheet of the Fed.

Throughout the first quarter, equities all traded down throughout the quarter and conditions in the market only became more and more bleak. The broadest measure of the opportunity set, the MSCI All Country World Index, returned -17% during the last three months. U.S. equities, measured by the S&P 500 Index, were off -14%. European shares were off -22% as the summer came to a close. Emerging Markets equities, primarily impacted by slowing growth and inflation concerns in China, were off -23%. Bonds were the only place to hide throughout the quarter, with the Barclays

Aggregate returning nearly 4%. Investors displayed a 'risk-off' mentality and fled into less risky assets.

With that backdrop, the Endowment returned -5% for the quarter ending September 30, a favorable result versus our Composite Benchmark which returned -9%. While we are never happy to report negative results, the portfolio held up well in a highly volatile and uncertain marketplace. Our conservative positioning helped us relative to capital markets. We are toward the lower end of our range to Global Equities, holding around 41% of the portfolio in both public and private shares. This lower weighting helped us avoid some of the downside during the quarter. In October, equity indices rebounded sharply. While we will not participate in all of the upside, results will be positive for the month.

Looking ahead, we executed a few minor rebalancing actions as calendar year-end approaches to make room for investments in markets that have sold off significantly. Staff has been pursuing opportunities in credit markets, seeking senior credit issuances where yields have traded toward attractive levels.

Additionally, we have been opportunistically investigating a number of private markets transactions in private equity and natural resources partnerships, which have provided meaningful returns to the Endowment historically. While we are mindful of the illiquidity of these investments, our liquidity position is as such where opportunistic investments in the space may be warranted.

Our next Investment Committee meeting is in mid-December. These are challenging times for investors, and we are mindful of that uncertainty. If you would like more context around the portfolio, its performance, or positioning, please feel free to reach out to the Investment Office directly. We appreciate your support and welcome any questions, comments, or advice.

Performance by Asset Class

	FYTD 2012	CYTD 2011	3-Year	5-Year
Global Equities ¹	(8.5%)	(0.7%)	1.5%	0.8%
<i>MSCI All Country World Index</i>	(17.4%)	(13.6%)	0.6%	(1.6%)
Multi-Strategy & Opportunistic	(5.1%)	(2.7%)	5.1%	4.0%
<i>HFR Fund of Funds Index</i>	(5.0%)	(5.3%)	0.1%	0.4%
Real Assets ¹	(2.4%)	5.9%	2.8%	4.6%
<i>Goldman Sachs Commodity Index</i>	(11.2%)	(8.8%)	(15.8%)	(5.2%)
<i>NCREIF Value-Add Index</i>	—	8.8%	(15.7%)	(6.0%)
Bonds & Cash	2.3%	3.9%	5.6%	4.8%
<i>Barclays Aggregate Index</i>	3.8%	6.7%	8.0%	6.5%
<i>ML 3-Month T-Bills Index</i>	0.0%	0.1%	0.2%	1.7%
Total Endowment ¹	(5.1%)	0.9%	2.2%	2.1%
<i>Composite Benchmark ²</i>	(9.3%)	(3.9%)	(3.1%)	(1.4%)
<i>80%/20% Strategy ³</i>	(10.3%)	(5.5%)	3.2%	0.7%

Exposures by Security Type ⁵

	% of Endowment			
	Long	Short	Gross	Net
Public Equity	36.1%	(8.0%)	44.1%	28.1%
<i>U.S. & Canada</i>	18.4%	(5.3%)	23.7%	13.1%
<i>Europe</i>	5.7%	(0.9%)	6.6%	4.8%
<i>Asia</i>	7.2%	(1.5%)	8.7%	5.7%
<i>Other Markets</i>	4.8%	(0.3%)	5.1%	4.5%
Private Equity	18.4%	—	18.4%	18.4%
<i>Buyouts & Turnarounds</i>	10.1%	—	10.1%	10.1%
<i>Venture & Growth Equity</i>	3.6%	—	3.6%	3.6%
<i>Other Private Investments</i>	4.7%	—	4.7%	4.7%
Real Assets	25.1%	(0.2%)	25.3%	24.9%
<i>Commodities-related - Public</i>	0.6%	(0.2%)	0.8%	0.4%
<i>Energy Infrastructure - Private</i>	13.4%	—	13.4%	13.4%
<i>Real Estate - Public & Private</i>	11.1%	—	11.1%	11.1%
Fixed Income & Manager Cash	17.2%	(2.0%)	19.2%	15.2%
<i>Government & Agencies</i>	2.6%	—	2.6%	2.6%
<i>Investment Grade Corporates</i>	1.8%	(0.1%)	1.9%	1.7%
<i>Distressed Debt & High Yield</i>	3.3%	(0.2%)	3.5%	3.1%
<i>Mortgages & Structured Products</i>	5.7%	(1.7%)	7.4%	4.0%
<i>Manager-held Cash</i>	3.8%	—	3.8%	3.8%
Unencumbered Cash ⁶	3.2%	—	3.2%	3.2%
Total Exposure	100.0%	(10.2%)	110.2%	89.8%

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.