

USMF FOUNDATION

SERVING THE UNIVERSITY SYSTEM OF MARYLAND

Quarterly Investment Report Period Ending June 30, 2009

Performance:	Second Quarter 2009	Calendar Year to Date 6-30-2009	Fiscal Year 2009	3 year Annualized Return	5 year Annualized Return
USMF Endowment	5.8%	3.2%	-24.4%	-2.9%	3.5%
S&P 500 Index	15.9%	3.2%	-26.2%	-8.2%	-2.2%
MSCI EAFE Index	25.4%	7.9%	-31.4%	-8.0%	2.3%
80/20 Stocks/Bonds Portfolio	13.1%	3.2%	-19.8%	-5.1%	-0.6%
HFR Equity Hedge Index	12.4%	12.1%	-14.6%	-1.3%	3.4%

Capital markets around the globe staged a tremendous rally off the March lows, capping off the most volatile 12 month period in generations. In this age of 24/7 media, the first drafts of the history books have already been written as everyone struggles to answer the question, “what just happened”? With a little bit of distance and hindsight clarity, we can now see that the “Great Moderation” period of decreased macroeconomic volatility and low inflation set the stage for the largest credit bubble in history. As this crisis got started, the global economy was characterized by massive excess liquidity, deterioration of underwriting standards, a lack of comprehensive system-wide financial regulation, and very high investor risk appetite. The bursting of this bubble has destroyed trillions of dollars of wealth and permanently scarred the global economic landscape, creating what the early historians are calling the “Great Recession”.

During this period, all long-term investment portfolio strategies experienced negative performance and our strategy was no exception. The endowment fell by a quarter during the past fiscal year, but it is important to remember that a good portion of this decline is unrealized and heavily influenced by the recent change in mark-to-market accounting rules. A large number of our investments in private companies, real estate, and private energy deals were written down substantially due to an almost complete absence of buyers in the marketplace and conservative marks by our managers. When acquiring assets our managers intend to hold these investments for several years, far beyond the short-term dislocations of today. True to their conservative nature, virtually all of our managers resisted the urge to write up their holdings for the recent quarter while the public markets soared, thereby dampening our overall return. Nearly 40% of our fiscal year decline can be attributed to mostly paper write-downs in our non-marketable partnerships, which at the beginning of the year only accounted for a quarter of our assets. In the short-run, the new mark-to-market rules add a higher degree of volatility to our portfolio. What matters most will be the long-term cash-on-cash returns from these investments upon realization.

During the second quarter of calendar year 2009, the total endowment gained 5.8% compared to a low-mid teens returns for traditional investment strategies and domestic equity markets. The defensive positioning that helped our endowment avoid the downdraft in the first quarter of calendar year 2009 resulted in more muted returns relative to the raging stock market in the most recent quarter. Our marketable fund managers now account for 70% of the portfolio and generated a return of 8.0% for the past quarter and -22.1% for the trailing 12 months. Our equity and multi-strategy managers remain at the lower end of their net exposure range and continue to hold higher levels of cash. At 9.3% we are just under the maximum upper end of our range for fixed income and cash in order to remain cautious, flexible, and guaranteed to meet funding obligations over the next 12 months. We are disappointed with the results of the last twelve months, and to some extent the most recent quarter. Our investment strategy is not designed to follow stock markets in lock-step and it is significant that our longer-term results still compare favorably to passive institutional investment strategies.

The road ahead remains challenging. Government actions around the world, most notably in the U.S. and in China, have had the desired effect of arresting the crisis. Capital markets are beginning to function again and in some areas have come back to life with a vengeance, notably in emerging markets. Economists offer an alphabet soup to describe the potential path forward, whether it be a V- or U-shaped recovery (unlikely in our opinion), a W-shaped recovery (our best guess), or an L-shaped recovery in which growth is anemic for a long period. In the short term, deflation remains our largest concern and our portfolio is still positioned defensively, meaning we have low equity market exposure and high (for our strategy) cash and bond balances. Popular opinion today views the unprecedented fiscal and monetary stimulus as a near-term catalyst for higher inflation. We do not believe this is a serious threat for the immediate future but are mindful of the impact of such an environment should it emerge in a few years’ time. We have a meaningful portion of the endowment invested into strategies

that should perform well in such an environment. As we've all painfully learned during the recent crash, it is extremely difficult to predict the timing and magnitude of macroeconomic conditions. We are positioning our portfolio defensively so as to protect against both 'wing' events of higher inflation or another serious downturn. At the same time, we still have nearly two-thirds of our portfolio positioned for long-term growth in the form of equities and multi-strategy and opportunistic managers.

Members of the investment staff continue to closely monitor existing investments and liquidity. We have approximately \$150 million in unfunded commitments to non-marketable energy, real estate, and buyout funds, or about 24% of the endowment. With this much dry powder for our skilled and mostly specialized managers, we are not presently looking for new locked-up investments. We have ample liquidity in our equity and multi-strategy portfolios, providing us the flexibility to shift the portfolio when we find attractive opportunities. Our investment committee continues a higher frequency of meetings this year, with members having met on seven separate occasions since January. The next investment committee meeting is scheduled for September 25th and will include meetings with three of our top investment managers followed by a thorough evaluation of our current portfolio. As always, please feel free to contact the investment office if you have questions, comments, or advice.

The University System of Maryland Foundation, Inc.

Endowment Portfolio Review - As of June 30, 2009

Total Performance - as of 6/30/2009						
	2Q 2009	CYTD 2009	FY 2009	3 Yr AACR	5 Yr AACR	10 Yr AACR
Total USMF Endowment Pool	5.8%	3.2%	-24.4%	-2.9%	3.5%	2.5%
<i>S&P 500 Index</i>	15.9%	3.2%	-26.2%	-8.2%	-2.2%	-2.2%
<i>80/20 Stocks/Bonds Strategy</i>	13.1%	3.2%	-19.8%	-5.1%	-0.6%	-0.3%

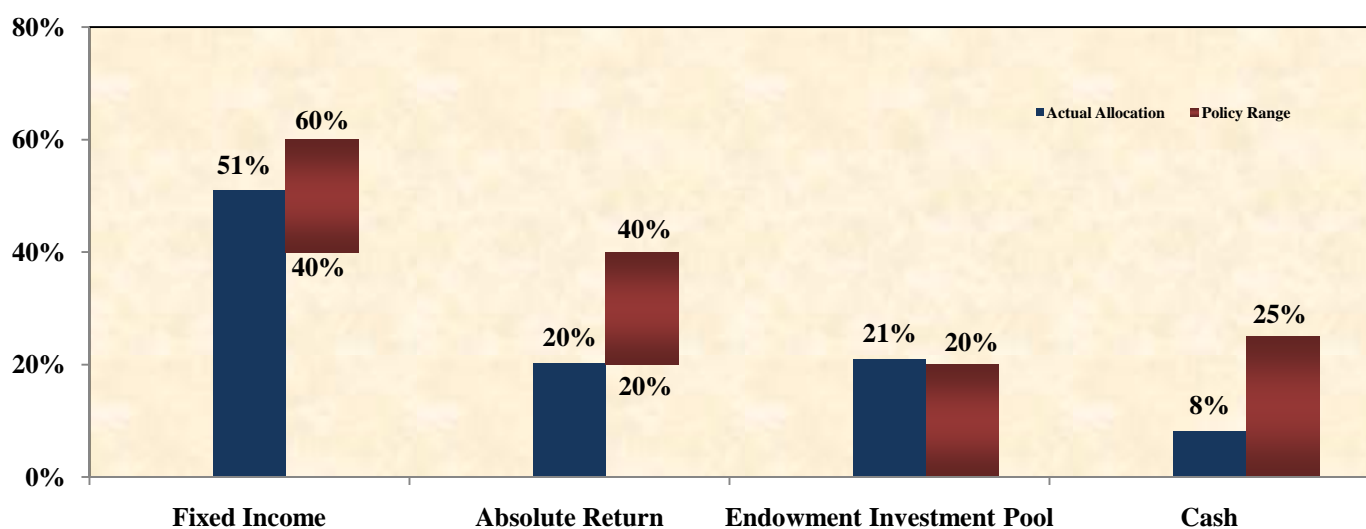
Asset Allocation & Performance - as of 6/30/2009							
	2Q 2009	CYTD 2009	FY 2009	3 Yr AACR	5 Yr AACR	Market Value (\$m)	% of Total
Global Equities	7.6%	1.6%	-27.9%	-5.2%	1.2%	\$243.8	39.3%
Public Equities	6.6%	0.4%	-25.0%	-5.1%	2.2%	\$172.7	27.9%
Private Equities	9.9%	4.9%	-32.1%	-6.4%	-1.9%	\$71.1	11.5%
<i>S&P 500 Index</i>	15.9%	3.2%	-26.2%	-8.2%	-2.2%		
<i>MSCI World Index</i>	20.8%	6.4%	-29.5%	-8.0%	0.03%		
Multi-Strategy & Opportunistic	9.6%	11.2%	-13.8%	1.7%	4.7%	\$161.7	26.1%
<i>HFR Hedge Fund Index</i>	4.8%	5.2%	-15.3%	-1.1%	2.6%		
Real Assets	1.1%	-1.9%	-35.2%	-3.6%	12.9%	\$156.8	25.3%
Public Energy & Resources	20.8%	28.9%	-48.5%	-8.1%	7.2%	\$40.3	6.5%
Private Energy & Resources	-0.1%	-0.6%	-11.7%	3.5%	34.1%	\$63.3	10.2%
<i>GSCI Commodities Index</i>	19.2%	6.6%	-59.7%	-15.2%	-3.4%		
Real Estate	-8.9%	-18.8%	-40.8%	-5.8%	0.7%	\$53.2	8.6%
<i>NCREIF Index</i>	-5.2%	-12.2%	-19.6%	1.0%	7.6%		
Bonds & Cash	0.8%	1.8%	2.5%	4.5%	3.7%	\$57.4	9.3%
<i>Barclays Aggregate Bond Index</i>	1.8%	1.9%	6.1%	6.4%	5.0%		
Total Endowment	5.8%	3.2%	-24.4%	-2.9%	3.5%	\$619.7	

Operating Fund Performance - as of 6/30/09

<i>Preliminary</i>	FY 2009	FY 2008	FY 2007	FY 2006
Fixed Income	2.4%	6.4%	5.5%	2.6%
<i>Barclays Int.Gvt-Credit Index</i>	5.3%	7.4%	5.8%	-0.2%
Absolute Return	-5.4%	0.4%	14.8%	8.7%
<i>HFR Hedge Fund Index</i>	-15.3%	-0.2%	14.3%	10.9%
Endowment Investment¹	-24.4%	-0.7%	22.0%	14.0%
<i>S&P 500 Index</i>	-26.2%	-13.1%	20.6%	8.6%
<i>80/20 Stocks/Bonds Strategy</i>	-19.8%	-9.3%	17.6%	6.7%
Cash	0.9%	3.6%	5.0%	4.0%
Total Operating Portfolio	-9.2%	2.4%	12.6%	7.0%
<i>90-day T-bills</i>	1.0%	3.6%	5.2%	4.0%

(1) Private partnerships are marked as of 3/31/09.

Operating Fund Actual vs. Target Allocation - as of 6/30/09



Total Operating Assets Under Management = \$110.1 million