

INVESTING FOR THE FUTURE

The past 12 months were the most difficult in memory for global economies, financial markets, and, by extension, the University of Miami's endowment. Fiscal 2009 saw the bursting of three important bubbles simultaneously: U.S. residential property prices, U.S. mortgage creation and securitization, and the negative impact on the global "shadow" (non-FDIC-insured) banking system.

Confidence—and, with it, liquidity—disappeared overnight, leading to severe asset price deflation. Those investors with liquidity required a much higher expected return to invest in risky assets; those in need of liquidity drove prices precipitously lower, and many assets were sold at fire-sale prices. Risk throughout the global financial system was re-priced rapidly, and only sovereign debt performed well in 2008.

As we begin to sort through the damage and understand better what happened, one event stands out: The global economy and most of its markets suffered what economists call a "sudden stop" after the disorderly failure of Lehman Brothers investment bank in mid-September. As in a cardiac arrest, the sole focus thereafter has been to resuscitate and stabilize the "patient" and keep him alive.

In the midst of the economic meltdown, the financial world learned of the largest and perhaps longest-running Ponzi scheme in history. This led to an additional loss of confidence in the financial system and its regulatory oversight. Fortunately, the University has had in place a strong process of due diligence that has thus far allowed it to avoid such scams and investment frauds.



Thanks in large part to the massive amount of coordinated global fiscal and monetary stimulus, we appear to have skirted a depression. At this writing, however, “the Great Recession” of 2008 is not officially over, nor will it be quickly forgotten. Now the real work begins.

The first chart illustrates the Growth Pool returns versus key indices over a variety of time horizons. The total fund return of -24.7 percent exceeded its benchmark by 2 percent during the latest fiscal year and fared better than the general market return of -32.6 percent as measured by the S&P 500. In particular, long/short equity hedge funds saw significant outperformance during the year. All major asset classes, including international equities, small and mid-capitalization stocks, and emerging market equities did better than their respective benchmarks.

Despite the poor absolute return, the University of Miami’s performance as of June 2009 was better than many of the preliminary estimates released thus far from other universities. This is due to several factors: the large allocation to marketable alternatives, such as hedge funds, that did well; the smaller-than-average

amount of capital invested in illiquid or non-marketable alternatives such as private equity and real estate; and the fixed-income allocation that contributed positively to overall performance. As the chart indicates, the endowment has consistently outperformed its benchmark.

The second chart details the Growth Pool’s asset allocation as of May 31, 2009. The policy targets are reviewed annually by the Board of Trustees’ Investments Committee. The committee also reviews the pool’s performance against both a custom benchmark and peer institutions. Individual manager performance is also reviewed on a regular basis.

Many endowments and foundations were negatively affected by the events of the past 18 months. Certain large and prestigious institutions were especially hurt as a result of their increasing reliance on annual endowment distributions. Historical returns had been helped tremendously by illiquid investments; leverage was also a factor in these higher historical returns. In retrospect, it is easy to see that this type of institutional behavior mirrored that of individuals and investors who assumed, for example, that home prices could only move in one direction and that borrowing could only help to increase the return.

All that changed in 2008 as the dangers of having too great an operational dependence on endowment—subject to big swings in market value, leverage, and illiquid asset classes—became clear. At the University of Miami, the endowment is not a significant income source for operations (it represents only 1.6 percent of the institution’s total annual budget), and there are a number of other revenue sources that provided stability during this crisis. Furthermore, the endowment does not use leverage, nor is there any significant use at the investment manager level. The third chart shows the endowment’s annual spending distribution and growth of corpus over the last 15 years.

Clearly, the lower exposure to illiquid asset classes, broad diversification including hedge funds and international equities, and the lack of dependence on endowment distributions distinguished the University of Miami and its endowment from many others last year. While no one can be sure what the global markets will bring, our portfolio continues to be well positioned to deal with whatever conditions lie ahead.

Diane M. Cook
Vice President and Treasurer

GROWTH POOL VS. KEY INDICES					
Time Period	Growth Pool Returns	Benchmark Returns			
		Total Portfolio	S&P 500	Barclay's Aggregate Bond Index	CPI Increase Rate
10 Year	2.7%	1.7%	-1.7%	5.9%	2.7%
5 Year	1.5%	0.7%	-1.9%	5.0%	2.6%
3 Year	-4.0%	-5.0%	-8.2%	6.3%	1.9%
1 Year	-24.7%	-26.7%	-32.6%	5.4%	-0.9%

GROWTH POOL STRATEGIC ASSET ALLOCATION		
Asset Class	Allocation (%)	
	Policy Target	May 2009
U.S. Large/Mid Cap Equity	17.5	17.0
U.S. Small Cap Equity	5.0	3.7
International Equity	20.0	17.8
Emerging Markets Equity	2.5	3.1
Global Fixed Income	12.0	16.1
Hedge Funds	30.0	29.4
Private Equity	5.0	6.1
Real Assets (including real estate)	8.0	6.8

ENDOWMENT GROWTH - AT MARKET (in millions)				
	One Year	Five Years	Ten Years	Fifteen Years
Beginning Balance	\$ 736.2	\$ 474.6	\$ 428.6	\$ 239.7
Return, including unrealized appreciation	(183.8)	23.7	104.6	330.6
Distributions to operations, etc.*	(34.7)	(141.2)	(247.8)	(317.2)
Gifts and other net additions	20.9	181.5	253.2	285.5
Ending Balance	\$ 538.6	\$ 538.6	\$ 538.6	\$ 538.6

*This is pursuant to University policy, which is to distribute 5 percent of the three-year moving average of the corpus of most endowment accounts.