**Fiscal Year 2011 Highlights**

Miami’s investment portfolios produced a second consecutive year of strong positive returns for the fiscal year ended June 30, 2011. The combined return for the endowment and foundation managed pools was 19.6 percent, a notable increase from the previous year’s average increase of 13.48 percent. Meanwhile, the operating pool earned 2.79 percent after earning 4.93 percent in the previous year. We appreciate the thoughtful guidance of our investment committees and the enduring generosity of our donors as we continue to navigate the extraordinary volatility experienced throughout the global capital markets.

**Investment Pools**

As of June 30, 2011, investments held by Miami University and the Miami University Foundation exceeded $657 million, up from $531 million at the previous year end. The increase represented a combination of strong investment returns, continued giving levels, and improved university operating cash flow. These assets (listed below) are allocated among several investment pools:

<table>
<thead>
<tr>
<th>Pool</th>
<th>Type of Funds</th>
<th>Invested as of June 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>University non-endowment pool</td>
<td>Working capital and cash reserves to support operating activities</td>
<td>$232,706,000</td>
</tr>
<tr>
<td>University endowment pool</td>
<td>Funds donated to the university to establish endowments in perpetuity</td>
<td>$167,200,000</td>
</tr>
<tr>
<td>Foundation pool</td>
<td>Funds donated to the foundation; most are endowed in perpetuity</td>
<td>$235,870,000</td>
</tr>
<tr>
<td>Trusts, annuities, and separately invested assets</td>
<td>Gifts managed independently of the pooled funds</td>
<td>$21,933,000</td>
</tr>
</tbody>
</table>

**Total Investments**

$657,709,000

The university non-endowment pool holds the working capital and cash reserves that fund the university’s operating activities. Its balance fluctuates during the course of a year based on the university’s cash flow cycle of receipts and expenditures.

The university endowment and foundation pools invest endowed gifts from donors. Both pools operate under the same overall investment philosophy: as endowed funds they are invested in perpetuity to provide benefits to today’s students as well as to the many generations of Miami students yet to come. Miami invests the funds with the confidence that economic cycles will rise and fall but that a diversified portfolio will provide the long-term growth necessary to preserve the value of the endowments across the generations. The investment policies governing these two pools recognize that the portfolios can tolerate year-to-year fluctuations in return because of their infinite time horizon, and they look beyond short-term fluctuations toward an investment philosophy that provides the best total return over very long time periods.

The university and foundation also hold assets given by donors in the form of trusts, annuities, insurance policies, and similar assets. These funds are separately managed in accordance with the donors’ instructions.
Asset Allocation

The non-endowment pool has three components. Operating cash represents the university’s working capital and is invested in short-term cash equivalents, with a target balance of two to six months of average cash needs. Core cash represents short-term reserves and is invested in short-term and intermediate-term fixed income investments, also with the target balance of two to six months of average cash needs. Long-term capital consists of longer-term reserves and represents the remainder of the pool. It is invested in a mix of longer maturity bonds and absolute return hedged strategies. During the year, cash flow generation was very strong, partly due to much improved budgetary trends. These positive developments presented a challenge, however, as short-term interest rates persisted near zero. Actions were taken during the year to reduce cash balances in order to increase earnings potential. The result was two new managers, one that specializes in agency mortgage securities and one that manages global bonds.

During the year, actions taken by both the investment committee and our managers continued to make the portfolio more globally oriented and less reliant on North America and Western Europe. These actions represent both the difficulty the developed economies have had in resuming sustained economic growth as well as the identification of stronger growth opportunities elsewhere, especially in less developed markets. Our geographic diversification is monitored in terms of where revenue and earnings are originated, where securities trade, and where underlying companies are domiciled. As global economic dynamics continue to evolve, we expect our portfolio to benefit from these trends.

Over the last decade, we have taken many actions toward a goal of reducing portfolio volatility. The result of these actions can be seen in the chart tracking the standard deviation for the Foundation portfolio versus the Russell 3000, a proxy for the broad U.S. public equity market. During much of this period, both the general domestic equity market and the portfolio experienced a period of relative tranquility, as demonstrated by the decline in their respective standard deviations. When volatility spiked during the financial calamities of 2008, both standard deviations increased, but the portfolio volatility rose to a much lower extent than the market index. Since 2008, public equity volatility has continued to climb, while the portfolio has leveled out. We attribute this relative calm to the success of the implementation of these volatility mitigating strategies.
Miami treats each investment manager relationship like a partnership and, along with its external advisors, expends considerable effort on the due diligence process. The consultants focus on manager research, including back office due diligence, and conduct regular statistical reviews to examine the role each manager is playing in the portfolio. Staff has regular quarterly conversations with each manager to understand their strategic thinking and to monitor their business activity. Ongoing oversight activities include making manager site visits, attending investor conferences, reading trade publications, tracking government filings, and monitoring the managers’ service providers.

In total, the university and foundation employ 20 external managers, some with multiple assignments. During the year, the committees focused on the global economic recovery and made few modifications to the portfolios, depending instead on the tactical decisions of each manager. New commitments were made to a global bond manager and an emerging markets public equity manager. No managers were terminated.

**Investment Returns**

The university’s non-endowment pool earned 2.79 percent for the fiscal year ended June 30, 2011. Annualized performance for the trailing nine years was 3.79 percent, providing annualized added return versus the 90-day Treasury bill over that period of 1.83 percentage points. These results were achieved in spite of continued near zero short-term interest rates that significantly limited the earnings potential of the majority of this pool.

The endowment pools earned 19.6 percent for the fiscal year, the second consecutive year of positive double digit returns. Public equity managers led the way during the year. Combined they were up in excess of 31 percent. Twenty-one funds were up by double digits during the year. For the trailing five years, the combined annualized returns were approximately 4.6 percent. The following graph shows the combined annual returns for the two pools for the last 10 years.

Another measure of investment performance is benchmarking against the performance of other institutions. Miami participates in the annual NCSE (National Association of College and University Business Officers-Commonfund Study of Endowments) along with 849 other higher education
institutions. Miami University and Foundation ranked in the top third of the NCSE universe for both the one and five-year periods in the most recent survey (for the year ended June 30, 2010) and first among the Ohio public universities and Mid-American Conference Schools that reported for the same five-year period. Miami’s results equaled or exceeded the national averages in eight of the nine designated asset categories.

**Program Support**

Endowments provide a lasting legacy for Miami because their principal is invested in perpetuity, and an annual distribution is made to support a variety of activities of the university. The spending policies of the university and foundation are intended to achieve a balance between the need to preserve the purchasing power of the endowment principal in perpetuity and the need to maximize current distribution of endowment earnings. Fulfilling these dual objectives is often referred to as achieving “intergenerational equity,” in which no generation of college students is advantaged or disadvantaged in relation to other generations.

The formula under which spending distributions are calculated is a blend of two elements: an inflation component (70 percent of the formula) that increases the prior year’s distribution by the rate of inflation, and a market factor (30 percent of the formula) that ties the distribution to the market value of the investments. This formula was adopted in fiscal year 2004 and is intended to reduce volatility caused by various market conditions, while maintaining intergenerational equity and preserving the purchasing power of the endowed principal.

Significant progress has been made in bringing the current value of individual endowed funds back above the gift value. For the third year, the University and Foundation boards decided to continue the practice of making full distributions only from those funds that have accumulated earnings in excess of the gift value. Partial distributions, representing dividends and interest, were distributed from the last few funds that otherwise would not have made a distribution.

The following chart shows the types of programs supported by the 2011 distributions. The combined distribution was more than $16.4 million. Over the last ten years, the cumulative distributions have totaled over $133 million and have provided an important source of funding to help offset the recent tuition freezes and reductions in state support.

The fund-raising campaign, For Love and Honor, continues to play a major role in shaping Miami’s future. Through the generous support of our faithful alumni and friends, as of September 2011 the campaign had raised over $414 million, with a significant portion pledged to the endowment. Scholarships are among the top fund raising priorities. Improved financial aid resources are expected to enhance student recruitment success, reduce dependence on raising tuition rates, and help alleviate the impact of dramatically lower state subsidies. Your sustained support is appreciated and will continue to be vital to Miami’s future.

Miami University and the Miami University Foundation entered into a pooled investment agreement at the end of the fiscal year. Effective with the start of our new fiscal year on July 1, 2011, the Foundation investment committee will provide governance oversight to one unified endowment investment pool. This combination will allow the staff to realize operating efficiencies, assist in managing cash flow, and maximize the resources of our talented and dedicated board members.