

UNIVERSITY OF CINCINNATI ENDOWMENT

FISCAL 2012 ANNUAL LETTER

Fiscal 2012 Performance

For the fiscal year ended June 30, 2012, the University of Cincinnati's Endowment Fund A generated a gain of +1.2%. The Endowment finished the fiscal year at \$979 million, \$25 million smaller than the beginning of fiscal 2012, based on investment gains of \$27 million (net of investment manager fees) and gifts of \$12 million, offset by spending and fees of \$64 million. Fund A's returns in fiscal 2012 were primarily driven by gains in fixed income, private equity, and real estate investments, offset by losses in international developed market equities and emerging market equities.

Market and Portfolio Commentary: Fiscal 2012 was a challenging environment, characterized by volatility and substantial macro-economic uncertainty related to the sovereign debt crisis in Europe and political negotiations around the debt ceiling in the U.S. In such an environment, it is unsurprising that safe harbor fixed income investments generated among the largest gains in the Investment Portfolio, while equities generated weak gains or losses. Perhaps more surprisingly, the Investment Portfolio's private equity investments and real estate investments generated solid gains, contributing to the portfolio's overall gain. Fiscal 2012 was also a transition year for the UC Endowment Fund A. During 2012, the Investment Office implemented a new strategic asset allocation that included several material shifts. The combination of changing asset allocations and volatile financial markets can be extremely treacherous. The Investment Office implemented the new asset allocation targets in a staged, risk-controlled migration and we are particularly gratified that the Investment Portfolio generated gains given these added risks. Also during 2012, we continued to strengthen the investment program's foundations by overhauling Endowment Fund A's Investment Policy statement, redefining and clarifying the Endowment governance structure, and restructuring the investment team's compensation to improve alignment of interests.

Trailing Three-Year Performance at June 30, 2012

Over the three-year period ended June 30, 2012, the Investment Portfolio generated +11.1% annualized gains. During this period, the Endowment increased by \$146 million, based on net investment gains of \$297 million and gifts of \$45 million, while providing the University with support of \$196 million. The Investment Portfolio generated strong returns as financial markets staged a major recovery from the 2008 global financial crisis. Nearly every asset category contributed gains, led by U.S., Emerging Market, and Developed International equities. Private equity, public real estate, and fixed income also contributed strong gains.

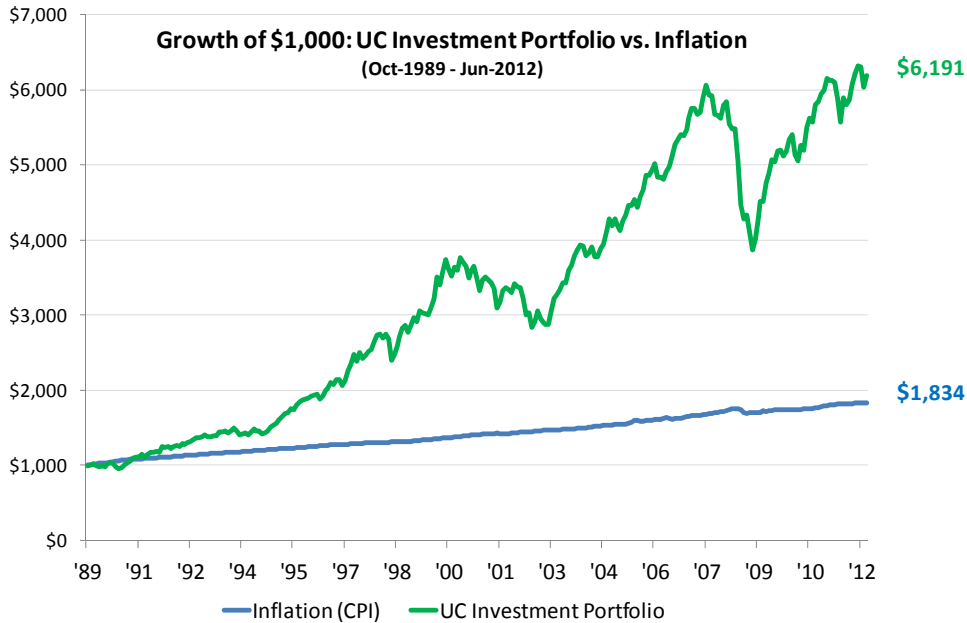
Trailing Five-Year Performance at June 30, 2012

Over the five-year period ending June 30, 2012, the Investment Portfolio generated +1.5% annualized gains. During this period, the Endowment decreased by \$207 million, based on net investment gains of \$26 million, gifts of \$101 million, and support to the University of \$333 million. This time horizon includes the 2008 global financial crisis, during which bonds were the only safe haven and most other assets experienced losses ranging from -15% to -50%. As a result, over the trailing five year, bonds generated +9.2% annualized gains. Many assets that experienced major drops have staged a strong recovery, bringing, for example, the five-year annualized returns for Fund A's Private Equity and Natural Resources portfolios to +5.2% and +7.0% respectively. Conversely, International equities (-5.8% annualized five-year returns) continue to be mired in a sovereign debt crisis and Private Real Estate

(-17% annualized five-year returns) experienced realized losses during the crisis and missed out on the recovery.

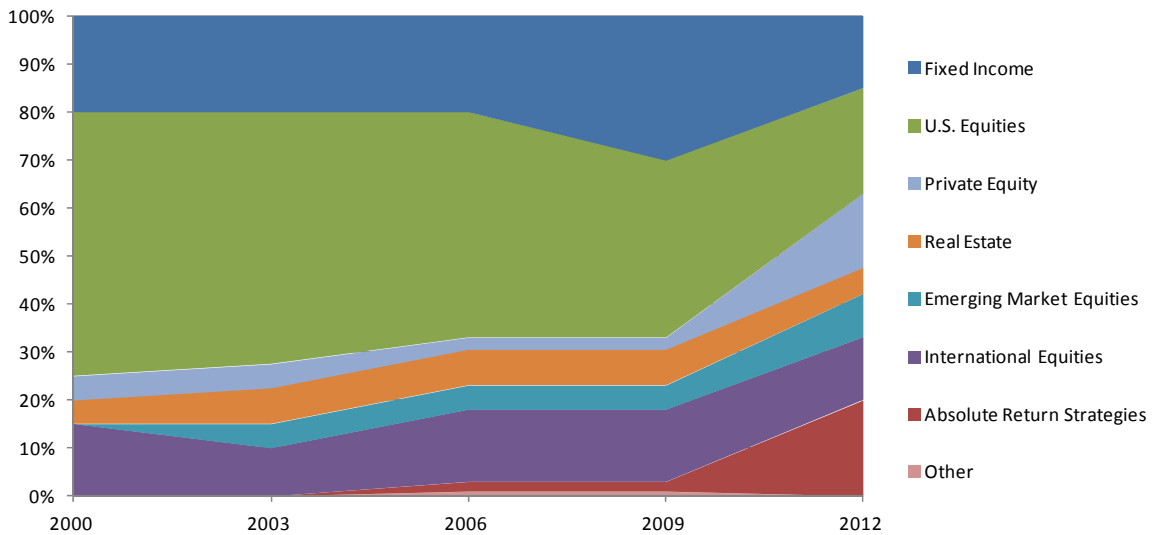
Longer-Term Performance

Over 10-year and longer time horizons, the Investment Portfolio has generated satisfying investment returns, far in excess of inflation:



Asset Allocation

The Investment Office has sought to create an asset allocation that can maximize the odds that Fund A will achieve the Primary Objective, while remaining within the University’s risk tolerance, by taking the most profitable risks in reasonable amounts in a highly diversified portfolio. In October 2011, UC’s Investment Committee approved new asset allocation targets as follows¹. The Investment Committee and Investment Office agreed to implement the new allocations gradually over a twelve-month period to reduce the risk of being “whipsawed” by volatile markets.



¹ Chart presents snapshots of strategic asset allocation targets at three-year intervals.

Endowment Performance – Annual Report at June 30, 2012

Summary Performance Data

University of Cincinnati - Fund A Report For Periods Ending June 30, 2012	Market Value		PERFORMANCE (Annualized)			
	\$	%	1-Year	3-Year	5-Year	10-Year
Cash & Fixed Income	104,025,731	16.5%	8.8%	9.2%	9.2%	7.1%
Absolute Return	94,063,331	14.9%	0.1%	-	-	-
U.S. Equities	142,286,205	22.5%	2.8%	16.1%	0.5%	5.9%
Int'l Developed Equities	78,049,136	12.4%	-14.9%	6.3%	-5.8%	4.9%
Emerging Markets	60,378,421	9.6%	-15.4%	9.3%	-0.5%	13.4%
Private Equity	79,997,532	12.7%	6.1%	13.3%	5.2%	7.8%
Private Real Estate	8,277,025	1.3%	7.6%	-13.3%	-17.3%	-4.2%
Natural Resources	18,895,780	3.0%	3.9%	18.1%	7.0%	-
Public Real Assets	41,036,600	6.5%	7.7%	30.8%	1.7%	10.9%
Other (Long/Short Equity)	4,333,943	0.7%	-4.0%	3.9%	0.6%	-
Total Investments Portfolio	631,343,704	100.0%	1.1%	11.1%	1.5%	6.8%