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University of Cincinnati Endowment at a Glance (as of June 30, 2013)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Size</td>
<td>$1,046 million</td>
</tr>
<tr>
<td>NACUBO(^{1}) Rank (Public Institutions)</td>
<td>27(^{\text{th}})</td>
</tr>
</tbody>
</table>

Trailing Three-Year

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Gains</td>
<td>$283 million</td>
</tr>
<tr>
<td>Investment Portfolio Returns – Annualized(^{2})</td>
<td>+11.1%</td>
</tr>
<tr>
<td>Endowment Distributions to Support UC's Mission</td>
<td>$173 million</td>
</tr>
<tr>
<td>Endowment Distributions – Percentage of UC Budget(^{3})</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

\(^{1}\) The 2012 NACUBO-Commonfund Study of Endowments
\(^{2}\) For definitions and additional details, please see below
\(^{3}\) Period ending June 30, 2012
History of the University of Cincinnati

The University of Cincinnati was founded in 1819 when Daniel Drake convinced the Ohio state legislature to grant charters to Cincinnati College and the Medical College of Ohio, creating one of the nation’s earliest medical schools. In 1835, President William Holmes McGuffey broadened the scope of the institution by adding a College of Law and the world’s largest observatory at the time. The colleges were amalgamated in 1870 as the University of Cincinnati, becoming one of America’s first and largest municipal universities.

In the next 80 years, a stream of luminaries established world-changing careers at UC. In 1880, William Howard Taft received his law degree and then served as President of the United States from 1909–1913 and Chief Justice of the Supreme Court from 1921–1930 (the only person to serve in both roles). In 1905 Herman Schneider invented co-operative education, intermixing classroom and laboratory education with real-world work experience. In 1943, George Rieveschl invented Benadryl, relieving millions of sufferers of allergic reactions without the severe side effects of prior antihistamine drugs. In the 1950s, UC researcher, Albert Sabin, developed the oral polio vaccine. Ultimately, 100 million people would be vaccinated around the world by Dr. Sabin’s invention and he would win the Lasker Award, the National Medal of Science, and the Presidential Medal of Freedom.

In the early 1960s, in an effort to secure sustainable financial resources, UC and the state launched a series of events that culminated in UC becoming the twelfth university within the State University System of Ohio in 1977.

Today, the University of Cincinnati consists of fourteen colleges and boasts 43,000 students and 16,000 employees including almost 6,000 faculty members, making it one of America’s largest institutions of higher learning. UC is a research powerhouse with an annual budget of $1.1 billion and over $400 million per year in sponsored research. Facilities are spread across six campuses and UC’s health-care providers deliver patient care in a fully-integrated, $1.6 billion health system. The University boasts 11 programs that rank in the top ten in the U.S. and 34 programs in our nation’s top 50. UC remains one of the region’s largest employers and an economic engine for the state with an estimated annual impact of $3.5 billion per annum.

4 Source: uc.edu/about/ucfactsheet.html
The University of Cincinnati Endowment

History of the Endowment

One of the key events in the history of the University of Cincinnati was Charles McMicken’s 1858 donation of his estate, estimated at $1 million in value (worth over $25 million today), to the City of Cincinnati to establish an educational institution. McMicken’s bequest fulfilled his life’s ambition by helping UC establish its liberal arts programs. It also established the transformative power of the University’s Endowment and continues to represent a bedrock of the Endowment today, 165 years later.

Prior to joining the state university system of Ohio, the investment of the Endowment’s main pool of assets (created in 1934 and called “Fund A”) was outsourced to third parties. In 1976, the Endowment management was brought in-house under the Administrative Investments Committee led by UC Vice President of Finance, Sigmund Ginsburg; Controller, Gordon Penning; and economics professor, Tim Johnson. Joining the State University system also prompted UC to form the University of Cincinnati Foundation (the “Foundation”) to cultivate private donations.

During the late 1980s and 1990s, the University’s spending approach was modernized, from a policy of spending current income on the portfolio, to a policy of 6% of the trailing 3-year average value (and subsequently reduced to 5% of the 3-year average). During this period, the Administrative Investments Committee continually increased the diversification of the Endowment’s investment portfolio.

In 2001, UC and the UC Foundation agreed to commingle the two organizations’ assets into Fund A and unitize the fund (similar to a mutual fund structure). Commingling and unitization resulted in a coordinated investment structure, investment management fee savings, and administrative efficiencies.

In 2005, UC established an investment office and hired Thomas Croft as the University’s first Chief Investment Officer. Mr. Croft served until 2011 when he retired and was replaced by Karl Scheer. Mr. Scheer has continued Mr. Croft’s foundational work in strengthening the Investment Committee governance structure, establishing and refining the investment process, hiring experienced staff, further diversifying the holdings of Endowment Fund A, migrating the portfolio from funds of funds to direct investments in funds, and creating a thorough and specific investment policy statement to guide the program. In 2011, UC also made a significant investment in the operational components of the Endowment’s investment program, hiring Treasurer, Gary Hunt; establishing a new position, Assistant Treasurer in charge of Investment Operations, Reporting, and Compliance; and moving the Endowment’s and Temporary Investment Pool’s custody to a single master record keeper and custodian.

Three decades of improvements to investment process and governance structure have been critical in providing UC’s endowment funds with the top tier stewardship that the University’s supportive community demands and deserves. Together, UC’s generous donors and strong internal stewardship have been instrumental in building the Endowment’s asset base from $70 million in 1977 to over $1 billion today.

The Endowment Today

Today, UC’s billion-dollar endowment provides uniquely independent, reliable support for UC’s mission by providing quarterly cash-flows to the University and UC Foundation that support a wide variety of scholarships, professorships, advancement efforts, and programs.

5 Source: artsci.uc.edu/collegemain/about/history.aspx
The Endowment’s Support of the University of Cincinnati

The Endowment exists to support the University of Cincinnati’s mission by providing the University with a reliable and growing stream of quarterly cash payments in perpetuity (herein called “spending policy distributions”). Permanent capital facilitates long-term planning and supports multi-decade commitments like tenured professorships by providing a reliable and predictable stream of cashflows that are not subject to the uncertainty, for example, of annual fundraising. The Endowment also enhances the University’s independence by providing annual support without added regulatory requirements or other strings attached. Lastly, Endowment support enables the University to attract superior students by providing additional resources without raising tuition.6

Endowment distributions to the University are directed to an array of specific uses.

On top of this programmatic support, the Endowment provides an additional layer of critical support for UC’s mission by funding 80% of the annual budget of the UC Foundation (the University’s advancement arm).

Over the past 35 years, the Endowment has provided the University and Foundation with over $1 billion in support.

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Spending Policy

For fiscal 2013, the University spending policy is 5.0% of the trailing twelve-quarter average, which provides funding for approximately 5% of UC’s annual budget. Support for the UC Foundation is provided via a fundraising fee that is calculated as 2.0% of the trailing twelve-quarter average value.7

Endowment Structure

UC’s Endowment is comprised of 1,839 individual endowments that were created by private donations. Fund A is 71% of the Endowment’s assets. The remaining 29% of Endowment capital is divided among three pools that are restricted from commingling with Fund A. Endowment assets categorized as “Other Trustees” are restricted from commingling with Fund A by donor direction and therefore managed by third parties in diversified investment portfolios comprised almost entirely of public equities and fixed income. Endowment assets categorized as “Separately Invested” are invested in a combination of strategically important assets and concentrated stock positions that are maintained by donor direction. Endowment Fund B was created by the Board of Directors in 1934 at the same time as Fund A to house legacy real estate holdings.

Endowment Performance

Fiscal 2013

For the fiscal year ended June 30, 2013, the University of Cincinnati’s Endowment Investment Portfolio generated a gain of +12.0%.8 The Endowment finished the fiscal year at $1,046 million, $67 million larger than the beginning of fiscal 2013, based on net investment gains of $108 million (net of investment manager fees) and gifts of $15 million, offset by support for UC of $56 million (comprised of UC spending policy distributions, UC Foundation fees, and, to a much lesser degree, investment office costs). All of Fund A’s asset categories generated gains in fiscal 2013, led by U.S. equity, international developed market equity, private equity, and absolute return investments.

Throughout the course of fiscal 2013, global macro risks subtly but meaningfully waned. Global macro risk fell throughout the second half of calendar 2012 as European Central Bank President Mario Draghi vowed to do “whatever it takes” to keep the Euro currency area from breaking up, uncertainty was further reduced following the U.S. Presidential election, and the so-called “fiscal cliff” of tax hikes and spending cuts was resolved (more or less) on New Year’s Day 2013. In this climate, equities and other risk assets rallied and interest rates rose.

Trailing Three-Year Performance

Over the three-year period ended June 30, 2013, the Investment Portfolio generated +11.1% annualized gains. During this period, the Endowment increased by $159 million, based on net investment gains of $283 million and gifts of $49 million, while providing the University with support of $173 million. The Investment Portfolio generated strong returns in a volatile and messy period marked by slow recovery in the U.S., major uncertainty regarding the future of Europe, slowing growth in Emerging Market

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7 Given these funding streams and even modest inflation, the Endowment must generate double-digit investment returns in order to maintain its buying power. Ten percent-plus returns are a challenge in any environment and a particularly high hurdle in the current low interest rate climate.

* Audited Financials exclude Other Trustees; will reflect $792 million. Source: UC Office of Treasurer

8 The Investment Portfolio is comprised of $743 million of Fund A assets less $71 million of Strategic Investments (primarily local real estate-related investments).
countries, and unprecedented interventions by the world’s central bankers. Every asset category in UC’s Investment Portfolio contributed gains, led by U.S. public equities, real assets (primarily real estate, natural resources producers), and private equity.

**Trailing Five-Year Performance**

Over the five-year period ending June 30, 2013, the Investment Portfolio generated +4.6% annualized gains. Note that this is a 25.2% cumulative gain during a period that included the worst months of the 2008 global financial crisis. Despite this positive investment performance, the Endowment decreased by $54 million, based on net investment gains of $170 million, gifts of $80 million, and support to the University of $304 million. During this period, most of UC’s investment categories generated positive returns, led by fixed income followed closely by U.S. public equities and private equity.

**Longer-Term Performance**

Strong recent gains are consistent with satisfying longer-term performance that has far exceeded inflation. Long-term returns have been led by emerging market equities, private equity, and U.S. equities.

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### University of Cincinnati Investment Portfolio
(As of June 30, 2013)

<table>
<thead>
<tr>
<th>Market Value</th>
<th>1-Yr (Annualized)</th>
<th>3-Yr (Annualized)</th>
<th>5-Yr (Annualized)</th>
<th>10-Yr (Annualized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (mil)</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td><strong>Cash &amp; Fixed Income</strong></td>
<td>102.3</td>
<td>15.3</td>
<td>0.6</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Absolute Return</strong></td>
<td>121.1</td>
<td>18.1</td>
<td>11.3</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>U.S. Equities</strong></td>
<td>160.2</td>
<td>23.9</td>
<td>20.6</td>
<td>18.3</td>
</tr>
<tr>
<td><strong>Int’l Developed Equities</strong></td>
<td>90.1</td>
<td>13.4</td>
<td>23.0</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Emerging Market Equities</strong></td>
<td>58.0</td>
<td>8.7</td>
<td>4.0</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Private Equity</strong></td>
<td>83.4</td>
<td>12.4</td>
<td>11.7</td>
<td>12.7</td>
</tr>
<tr>
<td><strong>Private Real Estate</strong></td>
<td>6.2</td>
<td>0.9</td>
<td>14.4</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>Natural Resources</strong></td>
<td>24.8</td>
<td>3.7</td>
<td>6.9</td>
<td>15.3</td>
</tr>
<tr>
<td><strong>Public Real Assets</strong></td>
<td>7.0</td>
<td>1.0</td>
<td>3.1</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>Emerging Market Debt</strong></td>
<td>13.5</td>
<td>2.0</td>
<td>0.6</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other (Long/Short Equity)</strong></td>
<td>3.5</td>
<td>0.5</td>
<td>14.3</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Total Investment Portfolio</strong></td>
<td>670.1</td>
<td>100.0</td>
<td>12.0</td>
<td>11.1</td>
</tr>
</tbody>
</table>

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**Annualized Returns**
(As of June 30, 2013)

** Performance excludes Cash
Asset Allocation

The Investment Office has sought to create an asset allocation that maximizes 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 April 2013, UC's Investment Committee approved new asset allocation targets as follows.9

![Asset Allocation Diagram]

Asset Categories: Investment Theses, Risks, and Implementation

U.S. Equities

Domestic equity investments are considered a core component of the UC Endowment. U.S. Equity investments benefit from a variety of positive factors, including i) a highly flexible economy that can adapt quickly to changes in economic conditions; ii) strong rule of law including protections of minority shareholders; iii) a culture of focusing on maximizing corporate profits; iv) many of the world's most valuable brand names; v) and mature, efficient, and deep capital markets. These factors have helped propel U.S. equity returns to among the best long-term asset categories over the long term (+10.0% annualized since 1926). U.S. equity investments are currently facing some troublesome long-term headwinds including i) aging demographics; ii) historically high...

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9 Chart presents snapshots of strategic asset allocation targets at five-year intervals. Each year’s percentages may not add to 100% due to rounding. Other category includes Emerging Market Debt and Public Real Assets.
corporate profit margins that could shrink towards more normal levels; iii) high federal and municipal debt levels, and unfundable entitlement liabilities; iv) a dysfunctional political climate; v) high structural unemployment. We expect these headwinds to result in economic growth that is more muted, fragile, and volatile than historically leading to volatile equity returns that are vulnerable to distortion by monetary policy.

The U.S. Equity portfolio is currently structured with a combination of eight active and passive managers focused on style/capitalization sleeves (e.g. large cap value, mid-cap growth). Given our philosophical belief that outperforming efficient markets is difficult, we expect over time to increase the Investment Portfolio’s allocation to passive management and decrease the allocation to style-focused managers. We expect to move toward a combination of fundamental index, capitalization-weighted index, and high active share funds for our 20% allocation to U.S. Equities in 2014.

We are modeling 10-year annualized return expectations of +6.2% for U.S. Equities.

**International Equities**

Non-U.S. developed market equities (from Western European countries, Australia, Japan etc., together "International Equities") are, similar to U.S. equities, considered a core component of UC’s Investment Portfolio. International Equity markets are also characterized by similar positives and negatives as the U.S. though i) the opportunities for active management are greater due to less efficient equity markets and ii) the risks are greater due to even worse demographics and debt dynamics. Given the similarities between International and U.S. equity risk and opportunities, we do not invest in International Equities to provide diversification from the standpoint of lower correlations leading to a portfolio with a better volatility-adjusted return. Rather, we subscribe to the idea that we cannot know the future and therefore believe that International Equities provide diversification in a more fundamental sense. From a portfolio structuring standpoint, we would typically expect to combine active and passive managers with an emphasis on active management in our 12% allocation to International Equities.
We are modeling 10-year annualized return expectations of +8.5% for International Equities.

**Emerging Market Equities**

Emerging or developing market countries include China, India, Brazil, Russia, Mexico, Indonesia, South Africa, and other countries that, typically due to political turmoil, were delayed in their industrialization but are now well into an accelerated process of catching up to modernized countries (note that those countries that are earlier in the process of catching up are by convention called, “Frontier Markets”). Emerging Market countries are characterized by a vastly different, and more varied, set of risks and opportunities versus U.S. and International markets. Opportunities include less efficient equity markets offering better opportunities for active management and stronger long-term economic growth due to i) large populations with superior demographics; ii) superior debt dynamics; and iii) a lower GDP starting point. The risks in Emerging Market equity investing include i) poor business cultures regarding focus on corporate profitability and respecting minority shareholder rights; ii) immature, shallow, fragile capital markets; iii) market volatility due to foreign capital flows; and iv) potential for destabilizing inflation, particularly from foodstuffs. The major risk in investing in Emerging Markets is capital flows; in times of stress or uncertainty, foreigners typically withdraw capital from Emerging Market countries. Local capital is insufficient to replace foreign capital causing these countries’ markets and economies to suffer. We continually search for better ways to access the favorable dynamics in Emerging Markets while protecting ourselves from adverse capital flow-driven issues in our 9.0% allocation to Emerging Market equities.

We are modeling 10-year annualized return expectations of +10.0% for Emerging Market Equities.

**“Absolute Return” Funds**

UC’s Absolute Return portfolio is comprised of low-leverage, conservatively-managed hedge funds that allocate dynamically across a range of arbitrage strategies, out-of-favor and mis-priced assets, and cash (to manage overall portfolio-level risk). The range of opportunities that these funds target includes merger arbitrage, convertible bond arbitrage, capital structure arbitrage, event-driven investing, and distressed company investing. Our investment thesis is that these underlying investment strategies i) require specialized skills, fund structures, and relationships; ii) vary in attractiveness over time;
and iii) have seen diminished competitive pressures as banks have reduced proprietary trading activities and leveraged hedge funds failed in 2008-2009. There are relatively few investment firms that possess the resources to assess the relative attractiveness of each of these strategies, nimbly reallocate their capital based on this assessment, and then successfully execute the strategies. These special firms have historically been able to generate relatively steady, solid returns with excellent downside protection. We expect our Absolute Return portfolio to generate performance that is more predictable than, and potentially on par with, equity returns with volatility that is closer to fixed income investments’ volatility.

In addition to attractive risk-adjusted returns, we invest in these funds for the potential to gain i) diversification benefits of investments that face different risks and return drivers than our fixed income and equity investments; ii) exposure to “alternative beta” (that is, access to market-based returns in niche markets), and iii) exposure to alpha (returns based on manager skill).

Our Absolute Return portfolio construction is driven by two factors. First, position sizes are governed by the riskiness of each fund (less risky funds receive larger position sizes). Second we seek to balance the risk reduction benefits of investing in a larger number of funds against the practical realities of i) investing in a small enough number of funds that the UC Investment Office can conduct the intensive research and monitoring needed to successfully invest in these funds and ii) identifying the small number of compelling funds that exist among a very large number of superficially similar funds that are not compelling. We expect to invest in eight to twelve Absolute Return funds representing less than our 20.0% cap on this asset category.

10 Chart presents back-tested returns for the current absolute return portfolio weights and actual manager returns for the entire historical period for which monthly returns are available for all managers.
We are modeling 10-year annualized return expectations of +7.0% for Absolute Return funds.

**High Quality Fixed Income**

UC invests in fixed income to i) protect liquidity and produce investment gains during market crises and other flights to quality; and ii) hedge against persistent deflation. Only high quality U.S. dollar-denominated fixed income investments provide these attributes. Below-investment grade corporate bonds, mortgage securities based on pools of lower quality mortgages, and foreign currency-denominated fixed income investments typically behave like equities, losing liquidity and value at the same time as most other assets during market crises and deflationary environments. As such, the Investment Portfolio’s fixed income investments are focused on high quality securities.

Fixed income has historically produced lower returns than equity-oriented investments over long periods of time. Fixed income’s lower returns create large opportunity costs for a permanent pool of capital like UC’s Endowment for holding fixed income versus equity-oriented investments. Moreover, during the past three decades, interest rates have fallen from mid-teens to under 3%, creating a very different set of risks and opportunities looking forward than investors in fixed income have faced in the past. As such, we seek to strike a balance between fixed income’s unique short-term protective attributes and its poor return potential. During fiscal 2012, the Endowment Investment Portfolio target allocation was reduced from 30.0% to 15.0%. This move immediately paid off as bond returns were near zero in 2013, while Absolute Return funds, which were on the receiving end of this re-allocation, generated gains of over 11%.

We are modeling 10-year annualized return expectations of +2.0% for High Quality Fixed Income.

**Private Equity**

The highest investment returns of any asset category have been available over the past few decades in private equity investments, consistent with economic theory that suggests investors should demand higher returns for accepting decade-plus illiquidity. There are no passive options for private equity and median manager returns consistently fail to compensate investors for the illiquidity and risk of private equity. Private equity managers show some of the highest dispersion between the performance of the best and worst funds of any asset class and investors must earn the higher return potential of private equity through successful fund selection.

The Investment Portfolio has invested in over three dozen private equity funds in the past two decades, of which approximately half are active relationships. When adding new private equity commitments, we are searching for strategies and managers that can maximize the advantages of private fund structures. As one example, since the 2008 global financial crisis, banks and non-regulated financial institutions have ceased to pursue a number of investment strategies and have begun selling non-core, legacy assets

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11 Please refer, for example, to nber.org/papers/w17874
from strategies they no longer pursue. These “orphan” strategies and assets can offer premium risk-adjusted returns and are well-suited for private equity fund structures. The Investment Portfolio has a cap of 13% on Private Equity investments.

We are modeling 10-year annualized return expectations of +11.0% for Private Equity.

**Private Real Estate**

UC has a 3.0% allocation to private real estate partnerships that can invest in office buildings, multi-family housing, retail, industrial, and other buildings. It is difficult to make generalizations about real estate due to the wide array of different asset types, investment strategies, and local market conditions. In today’s environment, we are seeking real estate investments that offer positive inflation dynamics, limited and well-structured leverage, and limited interest rate sensitivity.

**Natural Resources**

We think of investment opportunities in the Natural Resources category broadly, but are currently focused on private energy and power investments due to what we view as inflated asset values in other areas including farmland and timber. Our investment thesis for private energy and power investing is that volatility in energy prices, the capital intensity of energy and power assets, and the changing dynamics of where energy commodities are produced and consumed drives consistent and large turnover in assets that dwarfs the amount of capital available to take advantage of the opportunities. This is particularly true in the smaller end of the market.

The Investment Portfolio has a cap of 4.0% on Natural Resources investments. We are modeling 10-year annualized return expectations of +10.5% for Natural Resources.

**Public Real Assets**

During our strategic asset allocation study in early 2013, UC switched from a concentrated allocation to domestic Real Estate Investment Trusts (“REITs”) to a diversified allocation to global public real assets including REITs, commodity futures, equities of natural resource producers, Treasury Inflation Protected Securities (TIPS), international inflation-linked bonds, equities of infrastructure owners, etc. Endowments are long-duration pools with inflation-sensitive liabilities and are therefore vulnerable to unexpected inflation. We are currently seeking ways to build positive inflation dynamics into Investment Portfolio without unduly sacrificing return potential. We view our current 2.0% allocation to public real assets (and our 4.0% cap on Natural Resources) as first steps in building these dynamics.

We are modeling 10-year annualized return expectations of +5.0% for Public Real Assets.

**Emerging Market Debt**

Our thesis for local currency-denominated sovereign fixed income securities issued in emerging market countries is two-fold. First, some emerging market countries have vastly improved their fiscal management and currently hold high reserves, while bonds issued by these countries and their top companies offer attractive yields and opportunities for capital appreciation. Second, extraordinary simulative monetary policies in Developed Markets (especially the U.S., Europe, the UK, and Japan) threaten to increase inflation and devalue these regions’ currencies. Emerging market currencies are positioned to gain from such a devaluation. Note that the currency thesis articulated above has been weakened by the ongoing discussions of tapering of the U.S. Federal Reserve’s monetary stimulus. As a result, we are currently underweight our 2.0% target allocation to Emerging Market Debt.

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12 REITs are publicly-traded vehicles that receive tax advantages in exchange for distributing 90% of income to investors.
We are modeling 10-year annualized return expectations of +4.0% for Emerging Market Debt.

**Other Hedge Funds**

Currently UC is not actively investing in long/short equity, global discretionary macro, CTAs, or other hedge fund strategies. UC’s Investment Office has avoided these strategies for one of two primary reasons: i) Investment Portfolio can gain exposure to the underlying assets or strategies in traditional investment structures without the illiquidity or fees associated with hedge funds, or ii) the strategies have not demonstrated an adequate probability of producing reliably compelling risk-adjusted returns under changing market conditions.

**Return Expectations**

The UC Investment Office works with our consultants to conduct a formal strategic asset allocation study each year, including performance of a Mean-Variance Optimization (“MVO”). Our MVO analysis on the Investment Portfolio’s current strategic asset allocation generates ten-year expected annualized returns of 8.2% with an expected standard deviation of 14.5%. MVO results are highly sensitive to input assumptions and therefore should be interpreted with caution.

If we take a step back from the math and look at the world today, we start with a risk-free rate under 3%, which depresses the return expectations for the entire complex of financial assets for the next five years. With this starting point, a 60%/40% mix of stocks and bonds should be expected to generate somewhere between 4% and 6% annualized returns over this period. We expect the Investment Portfolio to outperform a 60/40 portfolio with lower risk via greater diversification, superior asset allocation, active manager selection, and the ability to employ alternative investments. Nevertheless, the expected return for the Investment Portfolio is likewise depressed relative to a more normal interest rate environment.

**Endowment Governance and Investment Resources**

The UC Investment Office manages Endowment Fund A, which represents 71% of the Endowment, and oversees all Endowment assets outside of Fund A, which are managed by third parties on behalf of the University due to restrictions on commingling in Fund A. The Investment Office is overseen by the Investment Committee of the UC Board of Trustees and supported by University offices including the offices of the Treasurer and Community Development.

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**A Word on Risk**

The Endowment exists to provide a steady and growing stream of cashflows to support the University’s mission. There is no way for the Investment Portfolio to avoid risk, so the questions are which risks and in what amounts. Without adequate market risk, the real (after-inflation) value of the Endowment will be eroded by spending, inflation, and fees, causing the Endowment’s support for the University mission to dwindle (so-called “mission risk”). With excessive market risk, investment losses could cause disruptive volatility to the Endowment’s support or even permanently reduce the Endowment’s capacity to support the University’s mission.

Most observers over-emphasize market risk and under-appreciate mission risk. If an endowment investment program were to focus exclusively on avoiding market risk without regard to mission risk, it would invest exclusively in an asset like short-term US Treasuries, which carry near-zero market risk. Short-term US Treasuries also currently offer nominal returns near zero. Zero nominal returns minus inflation minus annual spending and fees would erode half the Endowment’s buying power in around a decade, clearly reducing the Endowment’s capacity to support the University’s mission. As such, one can see how the choice is not whether to take risk, but how to balance competing risks.

The UC Investment Office’s approach to portfolio positioning is to take the appropriate amount of risk (that is, commensurate with the institution’s risk tolerance) and to take the most profitable risks available in the marketplace at any given time. In some short time horizons, we expect to be poorly compensated for taking risk and have low odds of maintaining the real value of the Endowment within the University’s risk profile. During these stingy periods, we will maintain an appropriate level of risk to protect the Endowment’s corpus so that it will be in a position to make up for the shortfall when a more profitable investment climate returns. Restated, we will not reach for return in low return environments and take the chance of permanently impairing the endowment’s capital base. Conversely, during high return periods, we will generally maintain a risk profile at the high end of the institution’s risk tolerance to build up reserves of real gains in defense against later stingy periods. It is imperative we maintain focus on UC’s decades-long investment horizon. Investment cycles will come and go but the endowment is being managed in perpetuity.
Investment Office

Karl Scheer, Chief Investment Officer: Mr. Scheer joined the University of Cincinnati in 2011 from Summer Hill, a Mason Ohio-based family office. Mr. Scheer joined in 2005 and at which he co-managed a $1B investment endowment-style investment program. Prior to joining Summer Hill, Mr. Scheer worked with Frank Russell in their Tacoma office before moving to San Francisco to join Russell’s dedicated private equity group, Pantheon Ventures, where Mr. Scheer focused on manager selection and portfolio construction using private equity funds. Prior to joining Russell, Mr. Scheer spent five years financing start-up companies in Seattle as part of venture capital firm, Frazier & Company, and merchant bank, Compass Capital. Mr. Scheer earned a B.A. from Harvard University, where he was captain of the intercollegiate varsity swimming team and an NCAA Division I All-American. Karl is a native of Cincinnati, a trustee of the Cincinnati Nature Center, and a member of the investment committee of the Cincinnati Symphony Orchestra.

Sam Ekis, Investment Officer: Mr. Ekis recently joined University of Cincinnati after spending eight years in the investment office at the University of Pittsburgh, where Mr. Ekis was an integral part of a team that managed a $2.9 billion endowment. Mr. Ekis led the sourcing and analytical efforts in the University’s expansion into private strategies including private equity, venture capital, real estate, energy, and timber. Mr. Ekis earned a B.A. in Economics from Penn State University’s Smeal College of Business. Mr. Ekis received his CFA charter in 2007 and is a member of the CFA Institute.

Brian Clark, Investment Analyst: Mr. Clark joined University of Cincinnati in December 2013 from Paragon Advisors, a Shaker Heights, Ohio-based registered investment advisor, where Mr. Clark spent four years assisting with day-to-day operations of 25 private alternative investment funds-of-funds. Mr. Clark’s responsibilities included measuring performance; researching managers and capital market trends; and preparing audit reports and tax returns. Mr. Clark earned a B.A. in Finance from Miami University. Mr. Clark is currently a level 3 candidate in the CFA program, a level 2 candidate of the CAIA program, and a CFA Institute Member.

Investment Committee

The Investment Committee of the UC Board of Trustees is comprised of eight members: two UC Trustees, three non-Trustee appointees of the UC Board of Trustees, and three appointees of the University of Cincinnati Foundation:

Thomas D. Cassady, Chairman: Mr. Cassady is Regional President and CEO of USI Insurance of the Midwest region, which includes Cincinnati, Chicago, St. Louis, Cleveland, Louis ville, and Columbus. He entered the insurance field shortly after graduating from the University of Cincinnati. Mr. Cassady has earned professional designations as Chartered Property and Casualty Underwriter (CPCU); Chartered Life Underwriter (CLU); and Chartered Financial Consultant (ChFC). He was a trustee of the Independent Insurance Agents of Ohio, and a member and past president of the Cincinnati Insurance Board. He founded Queen City Insurance, which he sold to USI in 1999. Mr. Cassady serves on the Board of Directors for Beech Acres Parenting Center (where he was President 2007-09), the Board of Advisors for UC’s McMicken College of Arts and Sciences and Beta Theta Pi International Fraternity as Vice President and General Secretary (1988-1992), Mount Notre Dame High School’s Board of Trustees as President, and The Milford Spiritual Center. Mr. Cassady, his wife, sons, father, and sisters all graduated from UC.

John C. Baker: Mr. Baker is co-founder of Baker Capital, a New York-based private equity firm focused on investments in digital communications managing two funds with aggregate committed capital of $1.5 billion. Mr. Baker serves on the supervisory board of QSC AG and is Chairman of the Supervisory Board for Intexion. Prior to the forming
of Baker Capital in 1995, Mr. Baker joined Apax in 1981 where he became a partner and led investments in the technology, telecommunication, and financial services industries including FORE Systems, Intermedia/Digex, Cadence, Resource Bancshares, and Symbolics. Mr. Baker serves on the National Advisory Board of Youth, INC., a non-profit organization that seeks to improve the operations and develop the capacity of non-profits serving youth. Mr. Baker’s father, Dr. Henry Baker, was a professor at the University of Cincinnati for over 20 years. Ten of Mr. Baker’s eleven brothers and sisters and both parents are graduates of UC. John is a graduate of Harvard College and Harvard Business School.

**Phil Collins:** Mr. Collins is Co-Founder and Managing Director of Orchard Holdings Group. Previously, Mr. Collins was Founder and CEO of Bayridge Partners, a private investment firm that invests on behalf of a select group of private investors. Prior to founding Bayridge, Mr. Collins was a Managing Director of McCown DeLeuw & Co., a $1.2 billion middle-market private equity investment firm. Previously, Mr. Collins worked for private investment pioneer Carl H. Lindner, Jr., then Chairman, CEO and Founder of American Financial Corporation, a $20 billion diversified financial services and investment company, and as a consultant at McKinsey & Co. Mr. Collins is a graduate of the University of Cincinnati and received an M.B.A. with distinction from Harvard Business School. He is a Director of several privately-held companies and serves on the Board of Trustees of the University of Cincinnati Foundation, the University of Cincinnati Business Advisory Committee, and the Board of Directors of the Harvard Business School Club of Cincinnati.

**Valerie L. Newell:** Ms. Newell is a Managing Director and Senior Portfolio Manager for RiverPoint Capital Management, an investment management firm managing over $900 million. Prior to joining RiverPoint in 2002, Ms. Newell was Managing Director of Scudder, Stevens & Clark. Prior to joining Scudder, Stevens in 1991, Ms. Newell was Vice President and Portfolio Manager of Haberer Investment Advisors. Ms. Newell started her career as a Senior Manager in the Auditing Division with Arthur Andersen where she specialized in M&A in the Banking and Finance industry. Ms. Newell is active in the community and serves as Chairman of the Board of Trustees of the Cincinnati Art Museum (first woman in the history of the Museum to serve as President & Chairman), Past Chairman and a Trustee Emeritus of the Museum Center, a Trustee of the University of Cincinnati Foundation, Cincinnati Parks Foundation, Mercantile Library, Beechacres Foundation, and Summit Country Day School. Ms. Newell recently completed an 11-year gubernatorial appointment to the Board of Trustees of Bowling Green State University, retiring as Chairman of the Board in 2004. Ms. Newell holds a Bachelor of Business Administration and Accounting (Magna Cum Laude) from Bowling Green State University. She is a Certified Public Accountant (CPA) and a Member of the American Institute of Certified Public Accountants (AICPA), the Ohio Society of CPAs, and the Cincinnati Estate Planning Council.

**H.C. Buck Niehoff:** Mr. Niehoff is Of Counsel at the law firm of Peck, Shaffer & Williams LLC. He joined the firm in 1973, where he specialized in public finance law. Mr. Niehoff became a partner in 1979, was managing partner from 1990 to 1994, and in 1998 he became Of Counsel. Mr. Niehoff is has been a delegate or alternate delegate to three national Republican conventions, was Chairman of the Hamilton County Republican Party and of the Finance Committee of the Party. He has served on the Ohio Parks and Recreation Advisory Council, the Ohio Bicentennial Commission, and the Ohio Elected Officials Compensation Commission. Mr. Niehoff is a member of the boards of the following: The Corporation for Findlay Market, Cincinnati Country Day School, Ohio Cancer Research Associates, Ohio Humanities Council, Architectural Foundation of Greater Cincinnati, the Foundation of the Hamilton County Public Library, the Mercantile Library, and the Cincinnati Museum Center, where he is Chair. Mr. Niehoff is a 1972 graduate of the College of Law, a 20-year member of the Board of Visitors of the
College, a 20-year volunteer for the University of Cincinnati Foundation, and a member of its Executive Committee in 1997. He was Chair of the Steering Committee for the Cincinnati Area for the $325 million Campaign for the University of Cincinnati. In 2002 he was elected Emeritus Trustee of the Foundation. He serves as co-chair for UC’s landmark billion-dollar “Proudly Cincinnati” fund-raising campaign. In 2009, he served as chairman of the Presidential Search Committee.

William C. “Wym” Portman III: Mr. Portman is Director, Renewable Energy for Pon North America, a Dutch family company. Mr. Portman is former President of Pon North America, a $400M business, and, for over 20 years, CEO of Portman Equipment Company. Mr. Portman is a Board member of Lebanon House, Inc., and a former Board member of Xtek, Inc., the James N. Gray Company, Advanced Handling Systems, Scallan Supply Company, and Portman Equipment Company. Mr. Portman has been associated with the University of Cincinnati as a member of the Advisory Boards of the Neuroscience Institute and the Department of Surgery. Mr. Portman’s community involvement includes serving as Trustee of the University of Cincinnati, the Ohio River Way, Inc., and the Montana Nature Conservancy, and as President of the Commonwealth Club, and Vice President of the Portfolio Club. He is a former Board Chair of The Greater Cincinnati Foundation (GCF), Vice Chair of Cincinnati Museum Center, President of Joy Outdoor Education Center, Vice Chair of The Seven Hills School, Vice President of the Board of Big Brothers/Big Sisters of Greater Cincinnati, Keep Cincinnati Beautiful, Inc., board member of the Children’s Home, and Chairman of the Chamber's Introducing Greater Cincinnati Program. Mr. Portman is a 1977 graduate of Kenyon College and received his M.B.A. from the Amos Tuck School of Business at Dartmouth (1981).

J. Patrick Rogers: Mr. Rogers is President of private equity firm, Seacht Capital. Prior to founding Seacht in 2013, Mr. Rogers was the CEO, President, portfolio manager, and board member for Gateway Investment Advisers, which he joined in 1989. Gateway, which manages $7.6 billion in assets, is best known for a risk-adjusted investment approach that seeks to capture the majority of the returns associated with equity market investments while exposing investors to less risk and volatility than other equity investments. Mr. Rogers served as sole portfolio manager of the Gateway Fund from 1997 to December 2006, and as co-portfolio manager from 1994-1997. He is also co-portfolio manager for four closed-end funds and one offshore fund. Mr. Rogers currently serves on the Advisory Council for the College of Arts and Letters at the University of Notre Dame; on the Executive Advisors Board of Williams College of Business, Department of Finance, Xavier University, Cincinnati, Ohio; and is on the board of trustees for the Seven Hills School in Cincinnati, Ohio. Mr. Rogers earned a degree in Finance from the University of Notre Dame, and earned his M.B.A. at Xavier University. In addition, Mr. Rogers is a CFA charterholder.

Richard E. Thornburgh: Mr. Thornburgh is Vice Chairman of Corsair Capital and serves as a member of the Investment Committees of the Corsair II and Corsair III funds. Prior to joining Corsair Capital in 2006, Mr. Thornburgh spent three decades with Credit Suisse First Boston (now Credit Suisse), including the following roles: Executive Vice Chairman, Chief Financial and Administrative Officer of CSFB, Chief Financial Officer of Credit Suisse Group, Vice Chairman of the Executive Board of CSFB, and Chief Risk Officer of Credit Suisse Group. Mr. Thornburgh spearheaded CSFB's mandate to advise on the privatization of the Mexican banking industry and the recapitalization of the California thrift industry, and served as advisor to the governments of Sweden, New Zealand, South Australia, Mexico and Australia. Mr. Thornburgh was the first global head of the financial institutions group for CSFB and an advisor on many of the landmark M&A transactions that took place during the consolidation of the U.S. regional banking industry in the 1980s and early 1990s. Mr. Thornburgh is a former member of the Financial Services Roundtable, the International Institute of Finance,
and the Executive Committee of the Securities Industry Association (“SIA”) for six years, where he was Chairman in 2004. Mr. Thornburgh is currently a member of the Board of Directors and the Risk Committee of Credit Suisse Group, chairs the Risk Committee and serves on the Board of NewStar Financial, Inc., and SPARTA Insurance. He serves on the Executive Committee of the University of Cincinnati Foundation, and the Investment Committee of the Convent of the Sacred Heart, New York City. Mr. Thornburgh received a B.B.A, cum laude from the University of Cincinnati and a M.B.A from the Harvard Business School.

Other Resources

Office of the Treasurer

Treasury Investment Operations, Reporting & Compliance (IORC): Treasury Investment Operations, Reporting & Compliance (IORC) was established to provide an independent perspective on the performance measurement of the Endowment as well as compliance with guidelines established by the University’s Board of Trustees and related committees for all of the University’s investments. Additionally the IORC office provides operational support related to the Endowment’s investments and the University’s temporary investment pool portfolio, and liaises with the Controller’s Office on financial statement preparation and reporting requirements of the University.

Gary Hunt, Treasurer: Mr. Hunt joined the University of Cincinnati in August 2011 as its Treasurer. He has over 25 years experience in treasury and financial management, and served as the Treasurer at Boise State University before joining UC. Prior to joining Boise State in 2009, Mr. Hunt worked at several public and private corporations, most recently as Vice President and Treasurer at Interactive Communications, Inc. He has held a variety of positions in treasury of increasing responsibility during his career. Mr. Hunt’s responsibilities at the University include oversight of the Investment Operations Reporting and Compliance area, as well as the Tax and Treasury functions. Mr. Hunt is a graduate of Miami University with a B.S. in Business. He received his M.B.A. with a concentration in finance from DePaul University.

Dana Ewing, Assistant Treasurer: Mr. Ewing joined the University of Cincinnati in July 2011 from Weatherly Consulting in Minneapolis. Mr. Ewing has over 15 years of financial services industry experience with expertise and specialization in performance measurement, GIPS compliance, investment operations, and process engineering. Mr. Ewing is a graduate of the University of Akron where he received his B.A. in Economics and M.B.A. in Finance.

Sean Duffy, Senior Treasury Analyst: Mr. Duffy joined the University of Cincinnati in April 2013 after spending over 10 years in the private sector of the financial services industry, most recently with J P Morgan. Mr. Duffy specialized in financial reporting, analysis, accounting, and shareholder services for Mutual Funds, Hedge Funds, Private Equity and other Alternative Investment Funds. Mr. Duffy earned a B.A. in Business with a concentration in Information Systems from DeVry University and most recently earned his M.B.A. from Xavier University.

Investment Consultants

UC currently works with two investment consultants: Fund Evaluation Group and Cliffwater. UC engages these groups to expand the fund sourcing, fund due diligence, and analytical resources of UC’s Investment Office; to provide IC members with an outside perspective on the investment program’s performance; to provide additional perspective on industry best practices; and to calculate performance.