Annual Performance Report

UF Foundation – Endowment Pool
Fiscal Year-ended June 30, 2015
Since the founding of the University of Florida (UF) in 1853, generous alumni, corporations, foundations, parents and friends have contributed financial resources to assist UF in achieving its long-term mission of providing a superb education for undergraduates while maintaining excellent graduate programs and professional schools. As a result, UF’s total endowment market value is among the largest public university endowments in the United States.

The UF endowment assets reside with the University of Florida Foundation (UF Foundation). The UF Foundation is a private, not-for-profit, 501(c)(3) direct support organization of the University that raises and manages all gift money for the benefit of the University of Florida. The management of the Endowment Pool is designed to accomplish two goals:

- Provide a total return from assets invested that will preserve or increase the purchasing power of the endowment capital, and;
- Generate the maximum current spendable income stream to support activities of funds held for colleges and units of the University.

Endowments are an irreplaceable source of quality, stability, productivity and creativity for the University of Florida. The thoughtful individuals and organizations who create endowments provide security and confidence for our students and faculty, now and in the future. As such, the UF Foundation invests gift assets to protect the ability of the endowment to provide, in perpetuity, an income stream sufficient to support the University activity designated by the donor, and to ensure the proceeds thereof are used in accordance with their designation.

For the fiscal year-ended June 30, 2015, the Endowment Pool started with a balance of $1.51 billion. During the fiscal year, $45 million in new endowments were added to the Pool thanks to the generous support of the donors. Endowment investments generated another $67 million in investment income, net of all investment management fees and expenses. This all helped to fund the $66 million that the Endowment Pool paid out during the fiscal year in support of the University of Florida and its faculty, students and programs. The fiscal year ended with an Endowment Pool balance of $1.56 billion.
Since the inception of the University of Florida Investment Corporation (UFICO) in June 2004, the investment of the Endowment Pool has been managed by UFICO. Through UFICO’s management of the Endowment Pool, the UF Foundation seeks to achieve an annualized real rate of return of at least 5% net of fees to preserve and enhance the purchasing power of the endowment. Returns are measured over the long-term as the Endowment Pool is able to tolerate variability in the short and intermediate-term given its long investment horizon.

To measure performance results, investment returns are compared against the following benchmarks:

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<tr>
<th>Benchmark</th>
<th>Purpose</th>
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<tr>
<td>CPI + 5%</td>
<td>The consumer price index plus the average gross spending rate for the endowment. This is a long-term growth benchmark that seeks to measure the purchasing power of the endowment over time.</td>
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<td>60/40</td>
<td>Comprised of 60% - MSCI All Country World Index and 40% - Barclays Global Aggregate Bond Index, this benchmark represents the investible alternative for the endowment.</td>
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UFICO manages the Endowment Pool based on the objectives for the endowed assets as established by the Finance Committee of the UF Foundation Board of Directors. UFICO has constructed a long-term strategic asset allocation for the endowment portfolio based on the prioritization of these requirements including:

- **Positive Real Returns** – Intergenerational equity and maintaining the real purchasing power of the assets
- **Liquidity** – Retaining the ability to fund endowment obligations in all market conditions
- **Good Stewardship** – Maximizing risk adjusted returns
- **Growth** – Increasing the endowment’s ability to support the University
For the fiscal year ended June 30, 2015, a strengthening US dollar and a collapse in oil prices dominated global markets and stressed returns for risk assets. Despite the energy sector losses and an uptick in volatility, US equities managed a gain for the fiscal year with the S&P 500 Index finishing up 7.4%. Developed international markets did not fare as well. The MSCI EAFE Index was down 4.2% for the fiscal year, driven to a large extent by the strong US dollar. Emerging markets struggled for the fiscal year with the MSCI Emerging Markets Index dropping 5.1%. The fixed income markets delivered mixed results for the fiscal year. The US Barclays Aggregate Bond Index was up 1.8%, while the Barclays Global Aggregate dropped 7.1% over the fiscal year.

For the fiscal year ended June 30, the Endowment Pool gained 4.5% net of all investment management fees and expenses, outperforming its 60/40 benchmark return which dropped 2.4% for the period. With the exception of Fixed Income and Natural Resources, all asset classes contributed to the outperformance of the Endowment Pool during the fiscal year. The Public Equity portfolio, lead by active management in the global equity and emerging market strategies, returned 2.5% for the year, ahead of its respective benchmark return of 0.7%. The Hedged Strategies portfolio returned 4.2% for the year. While accretive to the total portfolio, it did trail its asset class benchmark return of 5.8% for the same period. The Fixed Income portfolio dropped 2.9% for the year versus a positive 0.2% for its respective benchmark. The weak relative performance for Fixed Income was primarily due to the portfolio’s shorter duration stance for most of the year and an allocation to global bonds.

The Private Equity and Real Estate portfolios, with fiscal year returns of 17.4% and 14.4%, respectively, both outperformed their respective benchmark returns of 8.6% and 11.8%. The venture growth equity strategy was a strong contributor for Private Equity and the opportunistic strategy lead for Real Estate. While the Natural Resources portfolio did outperform its benchmark by 100 basis points during the fiscal year, it did suffer write-downs in the energy sector due to the collapse in oil prices resulting in a loss of 5.0% for the fiscal year.

For the trailing three-, five-, and ten-year periods, the Endowment Pool was up 9.1%, 8.8%, and 6.7%, respectively, outperforming the 60/40 benchmark returns of 7.4%, 8.1%, and 5.6% over the same periods. For the trailing three- and five-year periods, the Endowment Pool is ahead of the CPI+5% benchmark, but trails it by 50 basis points over the trailing ten-year period. It is important to note that for the ten-year period, the Endowment Pool has outperformed the 60/40 investible alternative by 110 basis points and done so with 36% less of the risk of a 60/40 benchmark portfolio.