

UNIVERSITY OF MARYLAND

2015 ENDOWMENT OVERVIEW

The University of Maryland endowment provides a permanent source of income to support the university's academic and research programs, to ensure access to qualified students and to maintain its status as a world-class institution.

MANAGING YOUR INVESTMENT

The University System of Maryland Foundation (USMF) manages endowment funds for the University System of Maryland and the University of Maryland College Park Foundation, as well as five Maryland community college foundations. The endowment pool is made up of several thousand individual endowment funds supporting scholarships, research, faculty, academic programs and various special initiatives.

Endowment portfolios are overseen by USMF's Investment Committee, made up of volunteers from a wide range of financial and investment backgrounds whose primary role is to establish investment objectives and set asset allocation.

The USM Foundation has instituted a streamlined investment process that allows the Investment Committee, investment staff and two strategic investment managers to work collaboratively to make investments between official committee meetings. This process, dubbed the "Maryland Model," has allowed our investment staff to leverage the committee's expertise as well as the resources of its strategic investment managers, while enhancing the ability to react quickly to market conditions.

**IN FY 2014, ENDOWED
FUNDS SUPPORTED
915 SCHOLARSHIPS,
98 FACULTY CHAIRS
AND 100 FELLOWSHIPS**

INVESTMENT STRATEGY

Invested for current needs as well as future growth, the endowment protects the equity of your generous gifts while being sensitive to the university's need for a predictable stream of income. Our portfolio positioning is premised on risk tolerances and return objectives of a traditional university endowment.

Central to this concept is the idea that the university does not need capital immediately, so a moderate part of the portfolio is invested in opportunities that materialize over longer time frames. By locking up capital, we aim to capture an extra risk premium, known as the liquidity premium, thereby enhancing the portfolio's return and reducing its longer-term risk profile. To balance the portfolio's needs for current income, however, we invest a material amount of capital in shorter-duration liquid investments. In fact, approximately 58 percent of our investments (up 12 percent from the prior fiscal year end) can be converted to cash within less than six months, with the greatest proportion of these assets being exchange-listed and -traded. This allows for investment in attractive opportunities, when presented.

Endowment funds are invested with a long-term perspective, and portfolio performance is assessed over varied market cycles, some of which can extend over several years. We intentionally design the portfolio for long-term diversification among different geographic regions, investment strategies, industry sectors and financial instruments. While equity risk is a large component of our asset allocation, the portfolio is not designed to match U.S. equity market performance. Rather, the portfolio is constructed to provide less volatile year-over-year returns, capturing upside market potential while protecting funds from downside losses.

The portfolio is divided into four broad asset classes: (1) public risk assets, (2) private risk assets, (3) safe assets and (4) portfolio overlay.

1. Public Risk Assets

Public risk assets define our liquid investments. These investments have one common theme—they are traded in liquid markets and exchanges. Within this section of the portfolio we seek a number of uncorrelated objectives, across equity and credit managers and instruments.

Orientations vary as they seek growth, value, momentum, inflation protection and/or catalyst driven events. Some of these investments will track closely to market indices, with a goal to earn or exceed the benchmark return; however, with less risk than the benchmark. Other investments will not closely follow a market benchmark, as they seek to offer broad diversification for the aggregate portfolio, while still earning high risk adjusted returns—all the while muting general equity market volatility when possible.

2. Private Risk Assets

Private risk assets are the illiquid portion of our portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the endowment's capital, we have the ability to enter into illiquid investments that may take years for profit realization. While we sacrifice the use of our capital during this timeframe, we hold these investments to higher hurdles of performance, as we expect to earn a significant return premium over public market equivalent investments.

Thus, similar to public risk assets, private risk asset investments will also have orientations towards growth, momentum, value, inflation protection, and/or catalyst driven events. Investments will vary in structure as well as duration, all adding up to a broadly diversified portfolio.

3. Safe Assets

Safe assets are defined as investments with little-to-no principal risk. The current environment aside, we consider these to be U.S. government securities, cash-enhanced investment products and cash.. This portion of the portfolio is in place to preserve capital and stabilize returns during periods of volatility as well as to facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress. Though small, this allocation is vitally important in the overall asset mix.

4. Portfolio Overlay

The portfolio overlay is another line of defense for our capital. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. While in most cases this is achieved by our investment managers, there are times when staff needs to act to protect the aggregate portfolio. Allocating capital to this asset class is on an as-needed, opportunistic basis. That is why its target allocation is set to zero percent.

ENDOWMENT FUND REVIEW

The endowment portfolio for the fiscal year ending June 30, 2015, returned 4 percent, outperforming the global equity and broad fixed income markets, which returned 0.7 percent and 1.9 percent respectively. In a volatile fiscal year characterized by dislocations such as those in the energy and Chinese equity markets, and geopolitical tumult like that which emanated from Greece, we are pleased to report that the portfolio protected capital and produced compelling risk-adjusted returns. Even more importantly, we are optimistic that the portfolio is well positioned for the investment climate that lies ahead.

Over the past five years, the endowment portfolio's annualized return is 8.2 percent versus the 7.8 percent return of the long-term objective benchmark rate. Funds under management totaled \$986 million.



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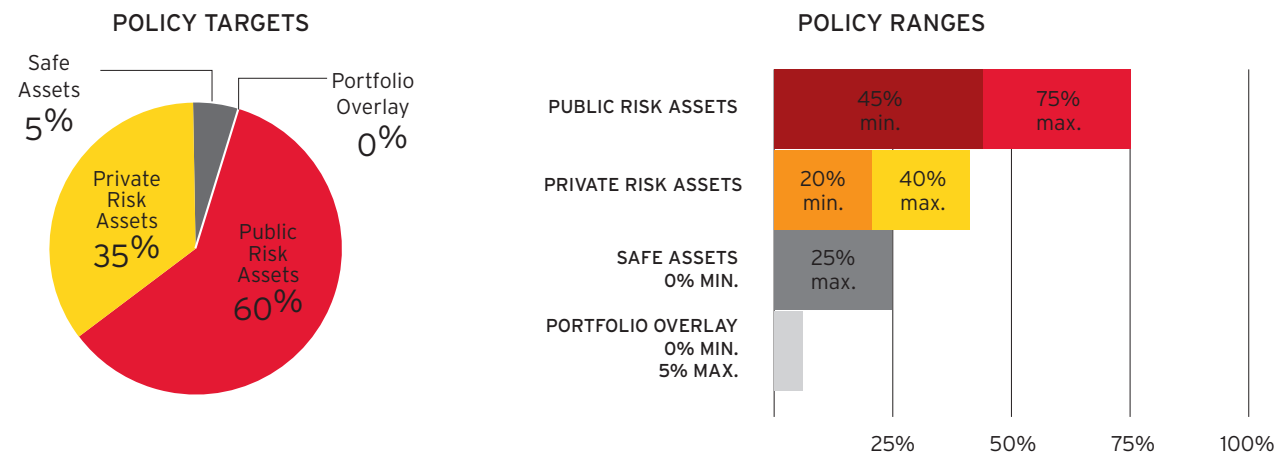
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