

Investment report



Miami University and Miami University Foundation
June 30, 2007

Fiscal Year 2007 Highlights

Miami University's endowment and Miami University Foundation's investment portfolios marked their fourth consecutive year of double digit returns for the fiscal year ended June 30, 2007. The endowment and foundation pools' returns exceeded 21 percent, while the more cash oriented non-endowment pool exceeded 10 percent. These strong returns improved upon a solid 2006, in which the portfolios earned returns in excess of 13 percent and 8 percent, respectively.

The combination of strong returns and generous donations over the past year lifted the total value of the investment pools by more than \$107 million. This unprecedented asset growth included an increase of almost \$89 million in the two endowment pools, which climbed to a combined total of \$404 million. Together, the endowment and foundation pools provided \$16 million in operating support for the university's 2007 fiscal year.

Investment Pools

As of June 30, 2007, investments held by Miami University and the Miami University Foundation exceeded \$616 million, up from \$509 million at the previous year end. These assets (listed below) are allocated among several investment pools.

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 endowment 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

One of the most important aspects of constructing an investment portfolio is determining the allocation of investments among a variety of asset classes. Miami employs an independent consultant to assist in this judgment. The consultant uses statistical techniques to model various combinations of asset classes under different economic scenarios. These models are evaluated by Miami's two investment committees and staff to determine a strategic asset allocation based on the investment objectives and risk tolerance of each pool. The consultant and Miami staff then identify and recommend investment managers to the investment committees. Subsequent to committee approval, all

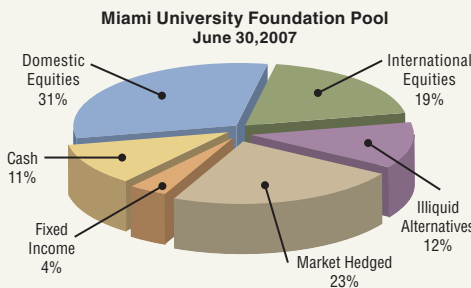
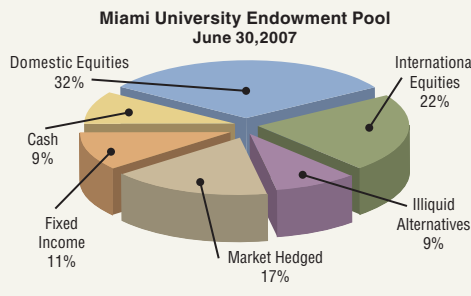
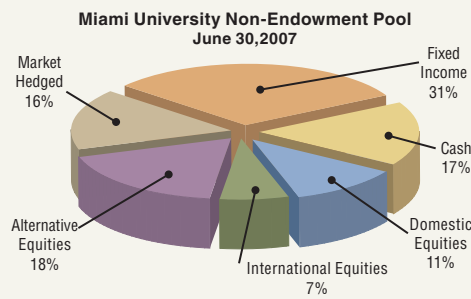
Pool	Type of Funds	Invested as of June 30, 2007
University non-endowment pool	Working capital and cash reserves to support operating activities	\$189,928,000
University endowment pool	Funds donated to the university to establish endowments in perpetuity	\$172,112,000
Foundation pool	Funds donated to the foundation; most are endowed in perpetuity	\$232,142,000
Trusts, annuities, and separately invested assets	Gifts managed independently of the pooled funds	\$ 22,628,000
Total Investments		\$616,810,000

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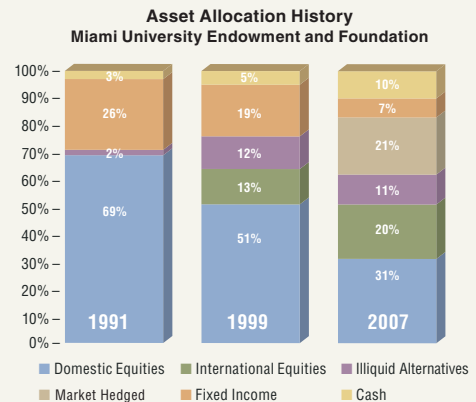
three parties monitor the activities and performance of these managers.

As of June 30, 2007, the investment pools had the following asset allocations:



Within the non-endowment pool, two to six months of average cash needs are invested in short-term cash equivalents, an additional two to six months of average cash needs are invested in short-term and intermediate-term fixed income investments, and the remainder is invested in longer maturity bonds, absolute return hedged strategies, and equity investments. Because of the cash flow needs and the low risk tolerance of this pool, 59 percent of the pool at year end could be liquidated within one week.

As the endowment and foundation investment pools have grown and their earnings play a more prominent role in the university's operating budget, it has been necessary to evolve the composition of the portfolios. We have been fortunate to rely on the experience, guidance, and insight of the members of our two investment committees throughout this transition. The committees have placed greater emphasis on reducing the portfolios' volatility while still providing attractive rates of return. Under their direction, the portfolios have realized the benefits of diversification from low correlation asset classes. The thoughtful approach of the committees also drove a yearlong research project by Miami staff and the consultants. This work culminated in a strategic change that now employs managers with greater freedom to make the tactical decisions necessary to find opportunity and avoid unattractive sectors. These changes have yielded positive results, and we are grateful for the leadership and progressive judgment of our investment committee volunteers.



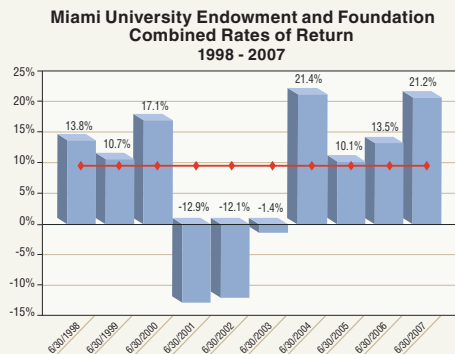
In total, the university and foundation employ 18 external managers, some with multiple assignments. During the year, we experienced a higher than usual rate of manager turnover as we began to implement our lower volatility strategies. New commitments were made to two public equity managers, two natural resources managers, one private equity manager, and one hedge fund manager. In addition, we terminated six public equity managers and one hedge fund manager. Finally, two managers were given broader mandates to invest in terms of geography and market

capitalization. These manager changes have created a more global portfolio and lowered the overall portfolio risk characteristics we monitor. The higher than usual year-end cash balance in both pools reflects the elimination of an overweight allocation to the domestic public equity markets and is expected to be redeployed early in the new fiscal year.

Investment Returns

The university non-endowment pool earned 10.94 percent for the fiscal year ended June 30, 2007, which is nearly one percentage point ahead of its blended benchmark return. Performance for the trailing three years was 8.29 percent. During most of the year, the yield curve was inverted, providing higher interest rates for the shortest maturities. As a result, we were able to boost returns by keeping the allocation to money market instruments at the top of the range and reducing the weight of longer maturity bonds. The fund's exposure to equity, real estate, and absolute return investments continued to provide strong returns.

The university endowment pool earned 21.27 percent for the fiscal year, while the foundation pool earned 21.09 percent. For the trailing five years, the annualized returns were 12.52 percent and 12.80 percent respectively. These returns exceeded the pools' policy return target of 9 percent over complete economic cycles and have now done so in each of the last four years. Results were strong within each asset class, while both public and private foreign equity returns were particularly robust. The following graph shows the combined annual returns for the two pools for the last 10 years in comparison to the 9 percent policy target (red line)



Another measure of investment performance is benchmarking against the performance of other institutions. Miami participates in two large surveys of educational institutions, the NACUBO (National Association of College and University Business Officers) Endowment Survey and the Commonfund Benchmarks Study. Both surveys encompass more than 700 institutions. NACUBO gathers data primarily on the details of investment performance and asset allocation, while Commonfund focuses more on endowment policies and practices. Miami University and Foundation ranked in the top quartile of the NACUBO universe for both the one-year and three-year periods in the most recent survey (for the year ended June 30, 2006) and first among the Ohio public universities that reported.

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.

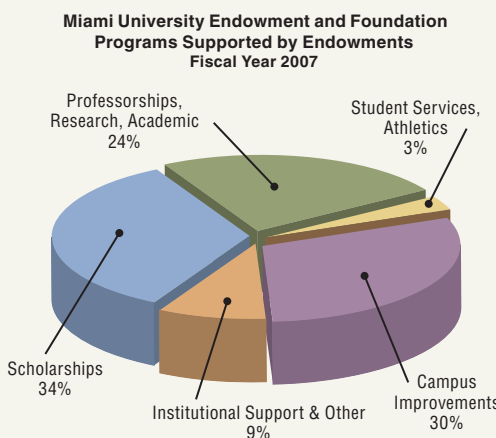
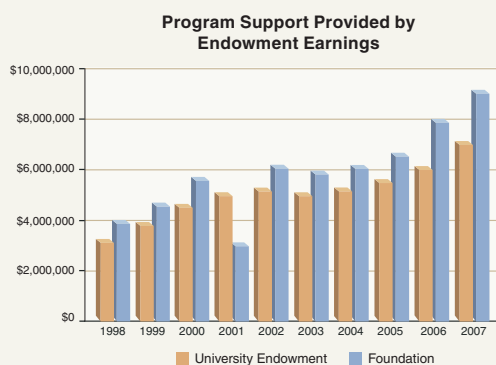
The formula under which spending distributions are calculated is a blend of two elements: an inflation element (70 percent of the formula) that increases the prior year's distribution by the rate of inflation, and a market element (30 percent of the formula) that ties the distribution to the market value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

The accompanying two charts show how dramatically the spending distributions have grown over the years

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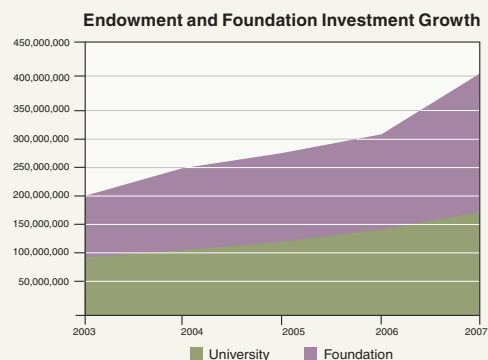
and the types of programs supported by the 2007 distribution. The combined distribution for 2007 was more than \$16 million. In the past decade, the cumulative distributions have totaled more than \$100 million and have provided an important source of funding to help offset the decline in state assistance.



During the year, President David Hodge announced plans to further increase faculty support through a goal of endowing 100 professorships, which would triple the current number. “For Miami to be among the very best universities in the nation, it must continuously improve faculty support in order to retain its best teacher/scholars and to recruit a new generation of professors,” said Hodge. “Endowed professorships are used by faculty for student assistants in research, for travel and other professional expenses, for salary sup-

port, and other needs that help our best faculty do what they do best. In addition, named professorships bestow a special honor on the holder of the professorship.”

Growth in Endowments



The combined value of the endowment and foundation pools has doubled since 2003, the product of both investment returns and fund-raising success. In 2005 Miami kicked off its fund-raising campaign *For Love and Honor*. The campaign goal was raised to \$500 million last year, and the duration was extended to coincide with our bicentennial celebration in 2009. As of August 2007, the campaign had raised more than \$280 million, with a significant portion pledged to the endowment.

The last four years have been a remarkable period for Miami’s investment portfolios. We thank our donors for their generosity and appreciate their passion for Miami University. This fund-raising success, coupled with the strong investment returns, has provided current and future generations of Miami students and faculty with wonderful opportunities and experiences. Together, we continue to prepare for the vital role our endowments will play in the years ahead.

We also express gratitude and best wishes to Richard Norman, Miami’s senior vice president for finance and business services and treasurer. Richard announced his retirement effective Dec. 31, 2007, after nearly nine years of service to Miami and a 34-year career in higher education. His leadership and support have been vital in reaching our milestones. His colleagues will miss him.