

Investment report



Miami University and Miami University Foundation June 30, 2008

Fiscal Year 2008 Highlights

Tumultuous global investment markets brought the end of a streak of four consecutive years of positive double-digit returns for Miami University's investment portfolios. For the fiscal year ended June 30, 2008, average returns for the endowment and foundation managed pools were -1.8 percent, down from the previous year's average increase of more than 21 percent. These returns, while disappointing in an absolute return context, were significantly better than the negative double-digit returns reported by the major US and global equity indices. Meanwhile, the operating pool lost 2.7 percent after earning more than 10 percent in the previous year.

With the thoughtful guidance of our investment committees, we have taken numerous actions in the portfolios over the last few years in an attempt to temper volatility. While we experienced negative returns, we believe that these changes significantly moderated the impact. In spite of these returns, the endowment and foundation provided more than \$18 million in operating support for the university.

Investment Pools

As of June 30, 2008, investments held by Miami University and the Miami University Foundation exceeded \$589 million, down from \$616 million at the previous year end. These assets (listed below) are allocated among several investment pools.

Pool	Type of Funds	Invested as of June 30, 2008
University non-endowment pool	Working capital and cash reserves to support operating activities	\$ 168,974,000
University endowment pool	Funds donated to the university to establish endowments in perpetuity	\$ 166,488,000
Foundation pool	Funds donated to the foundation; most are endowed in perpetuity	\$ 234,643,000
Trusts, annuities, and separately invested assets	Gifts managed independently of the pooled funds	\$ 19,258,000
Total Investments		\$ 589,363,000

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.

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Miami University and Miami University Foundation - June 30, 2008

Asset Allocation

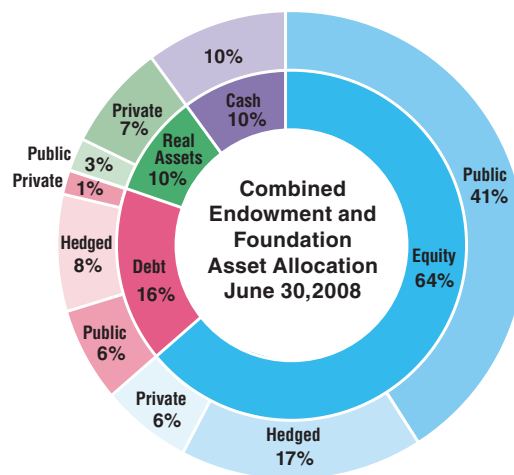
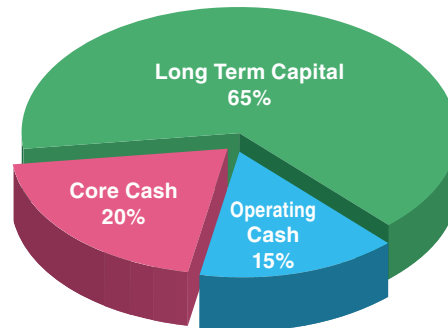
Within the non-endowment pool, two to six months of average cash needs are invested in short-term cash equivalents, an additional two to six months of average cash needs are invested in short-term and intermediate-term fixed income investments, and the remainder is invested in a mix of longer maturity bonds, absolute return hedged strategies, and equity investments.

Over time, Miami's endowment and foundation portfolios have become more diversified, more global, and less traditional. In order to better understand the nature of our exposure, and after more than a year of research and modeling with our consultants, the investment committees approved a plan to redefine our asset allocation policies in the endowment and foundation pools. The new approach uses three asset categories: equity, debt, and real assets. Within each category, we can deploy three strategies: long-only public, hedged, or private. Since we have moved toward embracing managers that have broad, unconstrained mandates, some managers are now classified in more than one category or strategy.

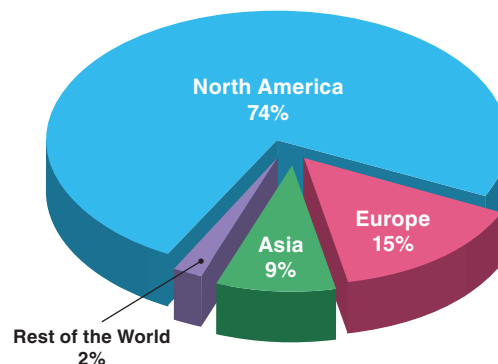
We monitor our geographic exposure separately, focusing on the four broad regions of North America, Europe, Asia, and the rest of the world (Latin America, Middle East, and Africa). Finally, we have added a liquidity component so that we can properly monitor the restrictions involved with accessing our funds. Broad strategic ranges have been assigned to all elements of the policy, allowing the underlying managers to make tactical allocation changes, while the committees, staff, and consultant focus on long-term strategic allocations and manager selection.

In total, the university and foundation employ 22 external managers, some with multiple assignments. While the change in asset allocation policy did not significantly alter the weightings to the various asset classes and strategies, it did require turnover in managers. During the year, new commitments were made to three public equity managers, one natural resources manager, one private equity manager, one hedge fund manager, one real estate manager, and one distressed opportunities manager. In addition, we terminated two public equity managers & one public fixed income manager. These manager changes have created a more global portfolio and improved the overall portfolio risk characteristics we monitor. The year-end allocation to cash and North America is temporarily high resulting from the transition to a new global equity manager that occurred on July 1st. After this change, the portfolio asset allocation is less than half in traditional public equity and the geographic allocation is about one third outside of North America.

Miami University Non-Endowment Asset Allocation June 30, 2008



Combined Endowment and Foundation Geographic Allocation June 30, 2008



Investment Returns

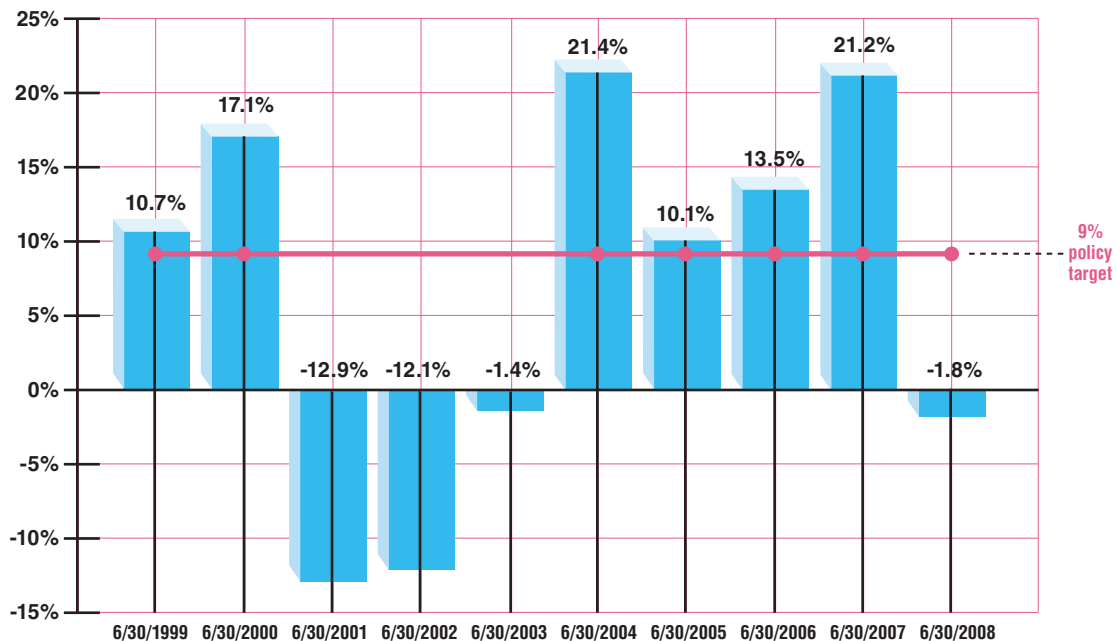
The university non-endowment pool lost 2.70 percent for the fiscal year ended June 30, 2008, and trailed its blended benchmark return. Annualized performance for the trailing five years was 5.59 percent, providing added return versus the 90-day Treasury bill over that period of 3.05 percent. During the year, monetary policy changes by the Federal Reserve led to a rapid and sharp decline in short-term interest rates. These lower yields moderated the earnings potential of a significant portion of this pool. In addition, the struggling global equity markets led to negative returns in the long-term portion of the pool.

The foundation pool lost 1.12 percent, while the university endowment pool lost 2.66 percent for the fiscal year, breaking a string of four consecutive years of positive double-digit returns. While the returns were negative, these results compare strongly to the negative double-digit returns reported by the major US and global equity indices. For the trailing five years, the annualized returns were 12.82 percent and 12.24 percent, respectively. These long-term returns exceeded the pools' policy return target of 9 percent over complete economic cycles. 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).

The strategic portfolio changes implemented over the last few years appear to have assisted the portfolio in navigating the troubled market place. Asset allocation decisions helped the portfolio, as natural resources and absolute return strategies posted solid positive results. Furthermore, we have been gradually lowering our public equity exposure, the worst performing asset class last year. Individual manager results were mixed within each asset class.

Another measure of investment performance is benchmarking against the performance of other institutions. Miami participates in the annual NACUBO (National Association of College and University Business Officers) Endowment Survey along with over 750 other higher education institutions. Miami University and Foundation ranked in the top decile of the NACUBO universe for the one-year period, and in the top quartile for the three- and five-year periods in the most recent survey (for the year ended June 30, 2007) and first among the Ohio public universities and Mid-America Conference schools that reported.

**Miami University Endowment and Foundation
Combined Rates of Return
1999 - 2008**



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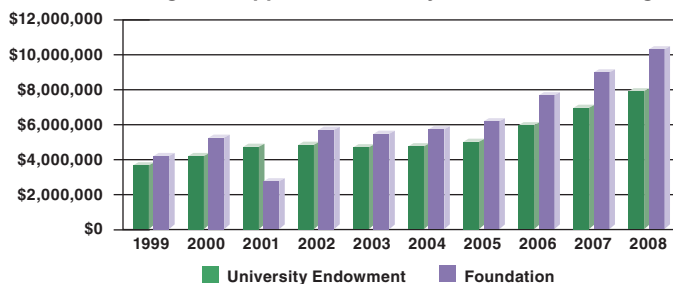
Program Support

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.

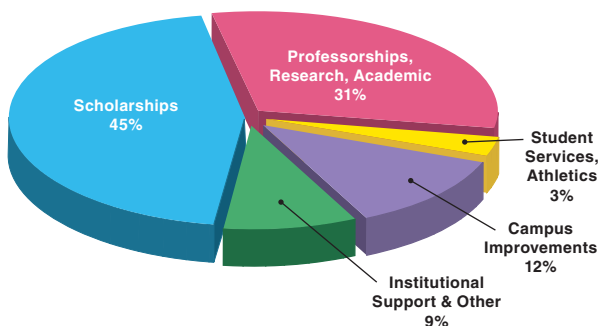
The formula under which spending distributions are calculated is a blend of two elements: an inflation component (70 percent of the formula) that increases the prior year’s distribution by the rate of inflation, and a market factor (30 percent of the formula) that ties the distribution to the market 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 and the types of programs supported by the 2008 distribution. The combined distribution for 2008 was more than \$18 million. So far this century, the cumulative distributions have totaled more than \$108 million and have provided an important source of funding to help offset the decline in state assistance.

Program Support Provided by Endowment Earnings



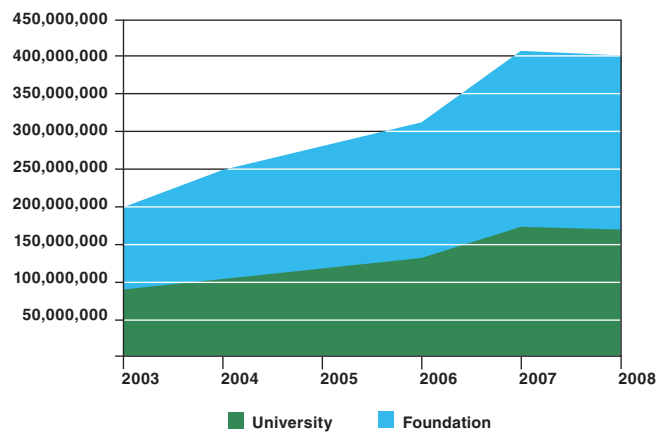
Miami University and Foundation Programs Supported by Endowments Fiscal Year 2008



Growth in Endowments

As Miami prepares to celebrate its bicentennial in 2009, the fund-raising campaign *For Love and Honor* has played a major role in shaping Miami’s future. Through the generous support of our faithful alumni and friends, as of September 2008 the campaign had raised more than \$338 million toward the \$500 million goal, with a significant portion pledged to the endowment. Since 2003, the combined values of the endowment and foundation have doubled.

Endowment and Foundation Investment Growth



Miami has experienced and survived many financial challenges over the last two centuries. While the present state of global capital markets continues to present significant challenges, the triumvirate of Miami’s investment committees, staff, and consultants remain confident in the investment strategies we have deployed. The world is full of opportunities, and the asset managers we have engaged are determined to find them.

As we celebrate 200 years of achievement as an institution, we thank our donors and volunteers for their generosity and appreciate their passion for Miami University. This resource base has provided current and future generations of Miami students and faculty with wonderful opportunities and experiences. “This is an exciting time for Miami,” President David Hodge said in his most recent annual address. “No university is better positioned — with the history, tradition, and talent — to raise our sights for student success.” ■