UNIVERSITY OF MARYLAND

2016 **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 institutions and foundations affiliated with the University System of Maryland (USM), including the University of Maryland College Park Foundation as well as five Maryland community college foundations. Its objective is to generate returns to meet spending requirements while preserving the purchasing power of the endowment over time. The endowment pool is made up of several thousand individual endowment funds that support scholarships, research, faculty, academic programs and various special initiatives.

The Investment Committee establishes investment objectives and sets asset allocations. It is made up of volunteers from a wide range of financial and investment backgrounds and oversees endowment and operating portfolios. Committee members meet quarterly and frequently communicate with the staff and each other between meetings.

The foundation uses a streamlined investment process that allows the Investment Committee, investment staff and two strategic investment managers (SIMs) to collaboratively make investments between official committees meetings. This process, dubbed the "Maryland Model," allows investment staff to leverage the committee's expertise as well as the extensive resources of the SIMs, while increasing the flexibility for staff to react quickly to market conditions.

INVESTMENT STRATEGY

Our portfolio positioning is based on risk tolerances and return objectives of a traditional university endowment. A central concept is the idea that capital is not immediately needed, and thus some of our portfolio is invested in opportunities that materialize over longer time frames. By locking up our capital, we capture an extra risk premium, known as the liquidity premium. This premium enhances the portfolio's return, while reducing its longer-term risk.

To balance the portfolio's need for current income, we invest a material amount of capital in shorter liquid investments. In fact, about 67 percent of our investments can be converted to cash within less than one year, with some of these assets being exchange-listed and traded. Thus, staff can invest in attractive opportunities when they arise.

Endowment funds are invested for the long term, and portfolio performance is assessed over varied market cycles. These cycles can persist over several years, regardless of when the calendar or fiscal year ends. We intentionally diversify our portfolio long-term among factors such as geographic, strategy, sector, liquidity and instrument or investment vehicle type. While equity risk is a large part 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 can be divided into four broad asset classes: (1) public risk assets, (2) private risk assets, (3) safe assets and (4) portfolio overlay. In the pie graph below, these are detailed by policy target, with liquid asset classes in red and gray, and illiquid in yellow.

1. Public Risk Assets

These liquid investments are generally 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 catalyst-driven events. Some investments will track closely to market indices, with a goal to earn or exceed the benchmark return, but with less risk than the benchmark. Others seek to offer broad diversification for the aggregate portfolio, while still earning high risk-adjusted returns and muting general equity market volatility when possible.

2. Private Risk Assets

This illiquid portion of our portfolio varies in structure and duration and serves as the primary return enhancement over broad public equity markets. Because of endowment capital's long-term nature, we can enter into illiquid investments that may take years to realize profit. We sacrifice the use of our capital and hold these investments to higher performance hurdles, expecting to earn a significant return premium over public market equivalent investments. Like public risk assets, private risk asset investments will also have orientations toward growth, momentum, value, inflation protection and/or catalyst-driven events.

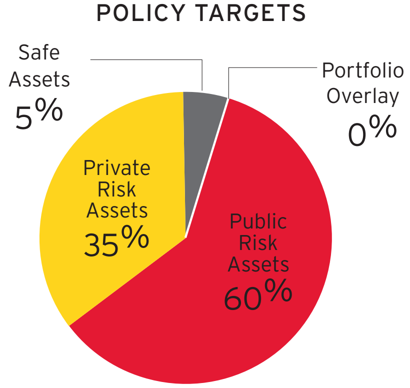
3. Safe Assets

These investments bear little to no principal risk. The current environment aside, we consider these to be U.S. government securities, cash-enhanced investment products and cash. Safe assets preserve capital and stabilize returns during volatile periods and help with spending and capital call requirements. They minimize the risk of becoming forced sellers during market stress.

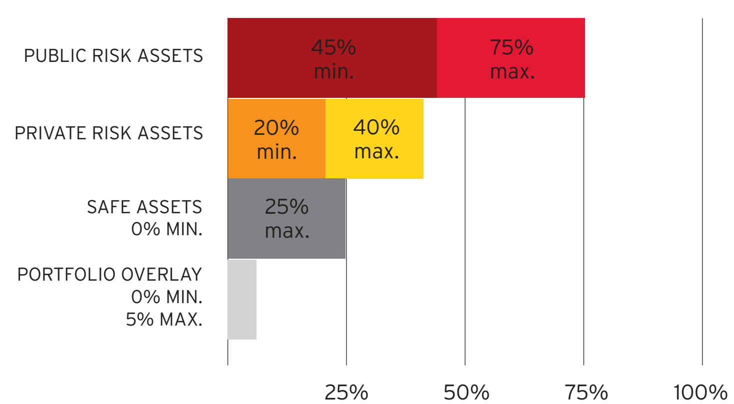
4. Portfolio Overlay

Another line of defense for our capital, this asset class protects the entire portfolio from unwanted risks and market shocks. While our investment managers usually protect the aggregate portfolio, sometimes staff needs to act as opportunities arise. We allocate assets to this class infrequently and as needed, which is why its target allocation is set to zero percent.

POLICY TARGETS

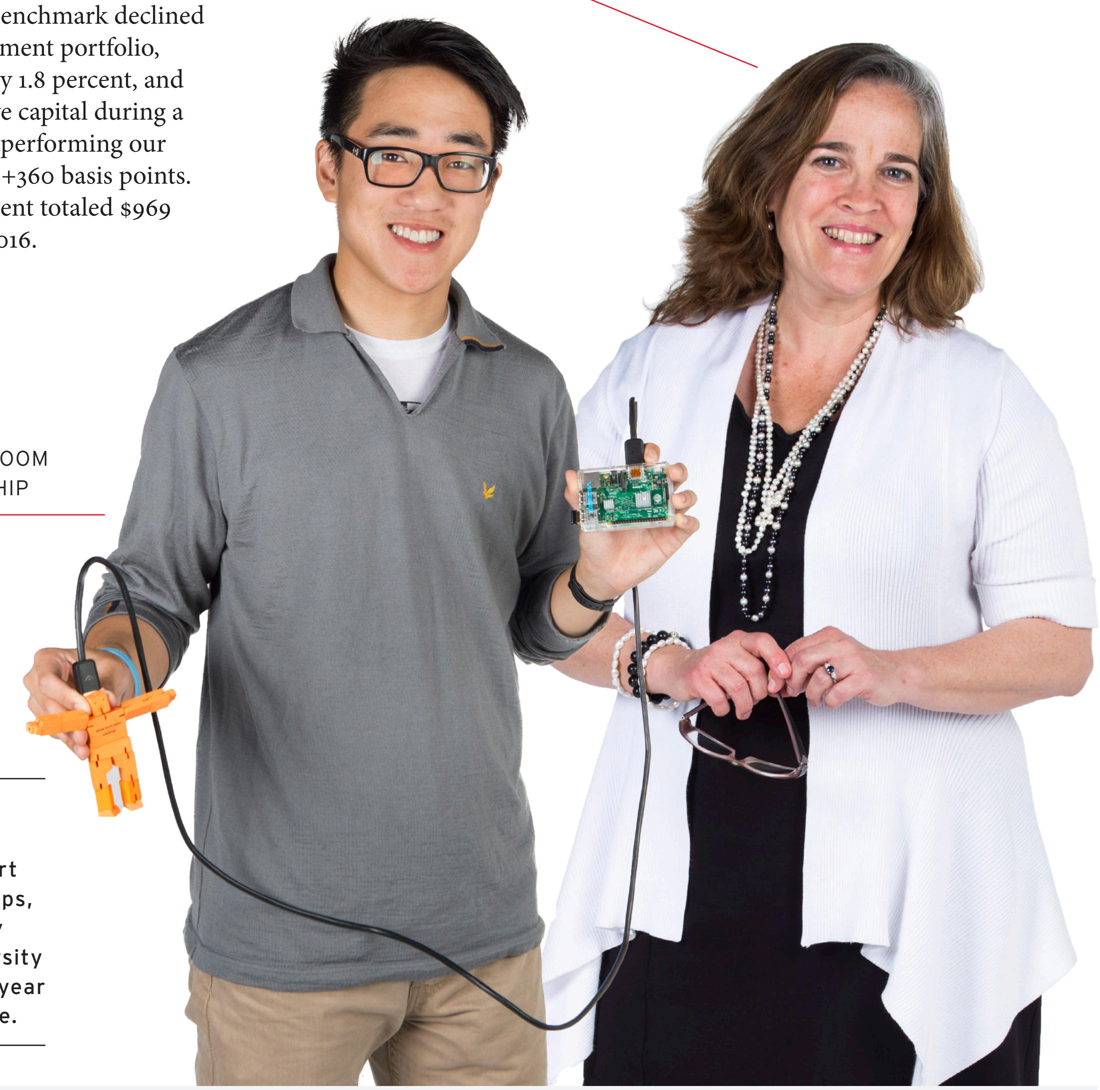


POLICY RANGES



ENDOWMENT FUND REVIEW

In the fiscal year ending June 30, 2016, the endowment portfolio benchmark declined 5.4 percent. The endowment portfolio, however, decreased only 1.8 percent, and we were able to preserve capital during a challenging period, outperforming our benchmark by roughly +360 basis points. Funds under management totaled $969 million as of June 30, 2016.



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ENDOWED ASSOCIATE PROFESSOR / GLOBAL PHILANTHROPY AND NONPROFIT LEADERSHIP

PETER SHEU '19
RECIPIENT / EDA T. BLOOM MEMORIAL SCHOLARSHIP

THANK YOU for your commitment. Endowed funds like yours support hundreds of scholarships, fellowships and faculty positions at the University of Maryland, this past year and long into the future.

To provide you with instant access to more timely and comprehensive information about your endowed fund, we are offering you a secure, Internet-based portal. Accessible at **go.umd.edu/endow**, your personal endowment portal can show you:

- quarterly market value,
- annual spendable income,
- fund performance over time,
- fund donors,
- and even scholarship recipients.

Please note: **THIS IS THE FINAL YEAR PRINTED REPORTS WILL BE MAILED TO ALL ENDOWMENT DONORS.** If you wish to continue receiving a printed report, you can:

1. Email **donorrelations@umd.edu**
2. Call **301-405-7752**
3. Or visit the endowment portal and opt in.

We hope you enjoy the enhanced reporting, security and convenience of your personal endowment portal!

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