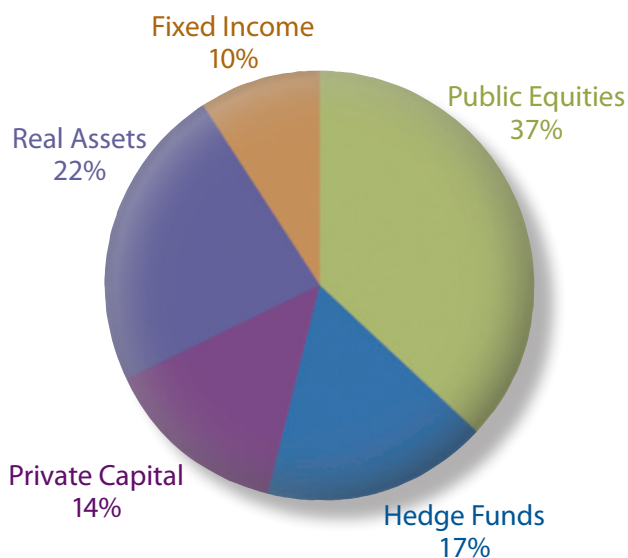


## POOLED ENDOWMENT FUNDS 2008 INVESTMENT REPORT

### ASSET ALLOCATION POLICY



The Office of Investments diligently stewards your contributions to provide the greatest impact for future generations. The university's endowed assets are managed by the Office of Investments staff of five investment professionals reporting to the chief financial officer and overseen by the Investment Committee of the Board of Trustees.

Distributions from pooled endowments to support donors' purposes are reviewed and may be reset annually, guided by the spending policy that the Investment Committee establishes. The goal of the spending policy is to provide a consistent annual stream of distributions that keeps pace with inflation.

In addition to the pooled endowment, Case Western Reserve University benefits from other significant endowed assets, mostly trusts and deferred gifts that brought the total endowment market value to \$1.4 billion on December 31, 2008. The total endowment today represents the combined support of nearly 2,300 individual gifts that are directed, usually by specific donor request, to scholarships, professorships, research, facilities, and other essential activities across the university.

The closing months of calendar year 2008 marked the nation's most difficult investment period in decades. Case Western Reserve University's pooled endowment (the "pool") was not exempt from this turmoil, but limited its losses through a long-term strategy of combining diversification with active risk management.

The pool's market value as of December 31, 2008, was approximately \$1.12 billion. This value equated to an investment return of -21.2 percent for calendar year 2008, and an annualized rate of return of +5.7 percent over the past five years.

This past year's decline, while significant, was far smaller than the 37 percent drop suffered by the S&P 500® during the same period. In addition, the pool's performance bettered that of its two official benchmarks: 1) a neutral "policy portfolio" that is a weighted blend of nine market indices; and 2) a peer group of endowments from other major universities, as reported by Cambridge Associates LLC.

As of year-end, the pool's performance topped the policy portfolio by 500 basis points in 2008, and by nearly 300 basis points over the past five years. The pool's return also was ranked among the "top quartile" of investment results reported by peer universities for the last one-, three-, five- and ten-year reporting periods.

The pooled endowment maintains a broadly diversified and global investment allocation mix. It includes public equities, private capital, hedge funds, fixed income holdings, and real assets, among them real estate and natural resources (see chart). Coupled with active risk management, this highly diversified strategy seeks to provide positive and stable returns commensurate with risk through all market and economic conditions.

The speed of the collapse in world economies and the global financial system through the last six months of 2008, however, defied the logic of any diversification strategy. As equities, commodities, real estate and corporate credit instruments all rushed into highly correlated declines, access to liquidity became an instant priority.

Nevertheless, several of the endowment's hedge fund holdings did their job well and provided positive returns that buffered the falling values of other assets. We also have actively adjusted liquidity to ensure support for the endowment's regular distributions to the university's operating budget. Finally, we are continuously seeking—and finding—opportunistic investments arising from the extreme market dislocations. The pool's perpetual investment horizon remains its most valuable asset.

Sally J. Staley  
Chief Investment Officer