Annual Report

Letter from the Presidents & Chair | 1
Enhancing the Student Experience | 3
Supporting Innovative Thinkers | 7
Expanding UA’s Reach | 11

Endowment Report

Endowment Market Value | 20
Investment Approach, Committee & Goal | 21
Investment Performance | 23
Portfolio | 25
Implementation & Current Positioning | 27
Top Performing Allocations | 29
Significant Actions in FY 2015 | 31
Holdings by Asset Class | 33
Leadership | 35
ANOTHER RECORD-BREAKING YEAR, THANK YOU!

Our deepest appreciation goes out to the nearly 100,000 donors from six continents, 46 countries and all 50 states who have invested in the priorities of Arizona NOW, the Campaign for the University of Arizona. Your gifts and commitments this fiscal year totaled more than $293 million and raised our endowment to $673 million, another record year for the UA and higher education institutions in Arizona for both dollars raised and total endowment. Because of you, we are improving the lives of the people of Arizona and the world through education, research, creative expression, and community and business partnerships.

As of October 2015, we are well ahead of pace having raised $1.16 billion of our $1.5 billion Arizona NOW fundraising campaign goal by June 30, 2018. Together, we are providing scholarships to support and enable our best and brightest students to excel. We are equipping our thinkers, leaders and innovators with what they need to seek fresh approaches and create new solutions. We are expanding our reach by developing healthy communities and encouraging lifelong learning to bring us closer to the world we know is possible.

From a recent graduate’s contribution of $500 to honor the memory of a fallen classmate and friend, to Agnese Nelms Hauty’s estate commitment of approximately $50 million, gifts of all sizes bring us closer to our campaign goal and more importantly, ensure the ambitions of our students, faculty and campus partners become reality.

In this report, we’ve highlighted the impact of just a few of the many gifts received in fiscal year 2015. You also will find our endowment report with figures and information about the UA Foundation’s investment strategies and goals. We hope this information will be helpful as you consider your philanthropic priorities in the years ahead.

Please accept our sincerest gratitude for your investment in the UA.
I was 3 years old when my family emigrated from Peru to the United States in 1990. Settling in Tucson, my mother worked as a housekeeper for 10 years and my stepfather, who put aside his goal of attending college to support my family, made a living in maintenance. They both worked hard every day to provide my brother and me with a better life. They taught me the value of determination and perseverance, and their support encouraged my enthusiasm for education. I graduated with honors in 2009 and am currently working on my master’s degree in public health.

I came into medical school wanting to do primary care but the rising debt from the first few years had me reconsidering my priorities. That changed after I received the Drs. Felix and Elisa Hurtado Scholarship for Pediatric Medicine. I felt relieved, honored and humbled to have been selected for the scholarship, especially from the Hurtados, whose experiences as immigrants seeking a better life resonate with me.

Drs. Felix and Elisa Hurtado were pediatricians dedicated to caring for children of poor families in Cuba. But in 1961, they had to leave the nation they loved in fear of persecution. In America, they worked for the U.S. Indian Health Service, which eventually brought them here to Tucson. Elisa Hurtado Kinder honored her parents’ courage and dedication to medicine with a scholarship in their name.

Much like the Hurtados, I knew I wanted to be the type of physician that could provide medical care for the underserved and impoverished communities in Tucson. I never thought I would be the recipient of such a generous gift. It has made such an incredible difference in my life that I plan to give back just like the Hurtados and grant the same opportunity I was given to another student.”
My dream job is in the entertainment industry. It’s a highly competitive field but I am more than optimistic about my prospects for success because the Professional Development Center (PDC) has been an integral part of my Eller Experience.

Last year, the PDC helped me craft a strong resume and taught me how to apply my skills in an interview to be a competitive candidate. Everyone in the PDC also worked very hard to find connections for me to talk to in the industry. I knew NBCUniversal was my top choice and I applied for a summer 2015 internship.

Every year the PDC holds the Eller Career Showcase and through Eller Student Council I was in charge of it. More than 85 companies came out but I did not hand out a single resume – my heart was set on working in entertainment. Instead of questioning my decision, my career coaches supported me and my dream. There was always someone there every step of the way to help me with interview advice, resume help and networking with alumni in the industry.

I was working on graduation day for Eller when I received a phone call and an offer to work for the summer at NBCUniversal in New York City. I was crying on the phone and could not think of a better place to receive my offer. Everyone who supported me the entire year was there and they were so excited to see my dream come true.

My hope for when I return as an alumna in five or 10 years is to see more students taking advantage of the PDC and landing dream jobs. The PDC is an amazing resource and its expansion will help clear the path from college to career for many more students.”
With the vision of the UA becoming one of the best schools of music in the nation, Alan and Daveen Fox donated $20 million to the School of Music in honor of Alan’s 101-year-old father, master teacher and legendary horn performer, Fred Fox.

Newly established endowed faculty are working together to achieve that goal.

Daniel Katzen, a professor of horn at the UA since 2007 and Fred Fox Endowed Chair for French Horn Studies, is one of three endowed chairs established as part of the overall $20 million gift. A former student and good friend of Fred Fox, Katzen performed with the Boston Symphony for 30 years.

Endowment funds solidify Katzen’s position at the UA and open up greater opportunities for providing his students with unique learning experiences.

“My hope is to put the UA horn studio on the map with not only an eager group of students in one of the most beautiful parts of the country, but as part of a larger and prestigious school of music,” Katzen said.

For his horn studio students, Katzen is purchasing replicas of 200-year-old instruments. He says having the knowledge and expertise with modern and much older horns will give his students a significant advantage in their professional careers.

Katzen also plans to take a group of horn studio students to Germany so they can meet with his horn teachers, participate in master classes with the horn section of the Berlin Philharmonic and attend concerts. He expects the trip to take place in spring 2017.

“The Fox family cares so much about music education and this gift demonstrates their commitment and belief in our program to do great things for our students,” Katzen said.
Creative Field Work

Agnese Nelms Haury estate facilitates socially just solutions to environmental problems

Each summer, UA English Professor Alison Deming visits Grand Manan Island, Canada. Over the years, Deming witnessed the island’s economy boom when fishing was a way of life and fade as fisheries shuttered because of declining fish populations caused by climate change. Today, much of the local culture for its 2,500 residents is deeply tied to the sustainability of marine life.

When Deming was named one of the Agnese Nelms Haury Chairs in Environment and Social Justice, she took the opportunity to bring three graduate students from the Creative Writing Program to visit the island for two weeks. While on the island, they interviewed local fishermen and immersed themselves in the lives of its people to create documentary-style projects that explore how climate change has affected the local population.

“One of the reasons I brought creative writing students is so we can document the impact of climate change on people’s lives and how we can work together and address these issues,” Deming said.

During her life, Agnese Nelms Haury supported a wide range of people, organizations and causes in the environment, social justice and the Southwest. Thanks to her $50 million estate commitment to the UA, her legacy lives on through the Agnese Nelms Haury Program in Environment and Social Justice.

The graduate students also mentored local youth on the island to help tell their coming of age stories. Without a mall or movie theater, teenagers on the island spend their free time fishing for squid, digging for clams or working on lobster boats.

Graduate student Jan Bindas-Tenney said working closely with the local high school students was one of the most memorable experiences.

“They asked so many compelling questions and it was such a joy to help them record stories about what it’s like to live on the island,” she said.

Deming said she expects to have the projects from the graduate and high school students compiled and posted online to serve as an oral and visual history page about the island.
Bonnie Buntain knows how high the level of interest is for the UA’s new Doctor of Veterinary Medicine degree program. All she has to do is open her email inbox filled with dozens of messages from curious students interested in learning more about the program.

Supported by a gift of $9 million from the Kemper and Ethel Marley Foundation in 2014 and a donation of land valued at nearly $3 million from the Steele Foundation last summer, the new College of Agriculture and Life Sciences program has picked up steam. Recently, the veterinary program found its new home in Oro Valley with a campus that will provide a dedicated facility for clinical veterinary training in 2017.

Bonnie Buntain, coordinator of the program and a doctor of veterinary medicine, said the University anticipates the first stage of accreditation from the American Veterinary Medical Association Council on Education will be received spring 2016. Following accreditation, the program can begin accepting applications for next fall.

With the innovative design of the program, students can graduate in less time and enter the work force sooner to help meet the national shortage of veterinarians. Also, Arizona students and families can save up to a quarter of a million dollars in tuition compared to other programs.

A key aspect of the program is the focus on One Health, a worldwide effort to improve the health of humans and other animals by addressing disease threats to both populations simultaneously. Veterinary medicine students will benefit from the integration of UA’s expertise in veterinary and human medicine, public health, social sciences, ecological and environmental sciences, and be better equipped to address today’s complex health challenges.

The recent Ebola crisis required multi-disciplinary coordination among a wide array of international organizations and communities. UA veterinary medicine students will be trained to work effectively with diverse groups to help prevent and control emerging infectious and non-communicable diseases.

“We intend to develop veterinary professionals who can think beyond traditional, hands-on clinical work and collaborate with scientists, health care professionals, ecologists and many other disciplines to promote optimal health for all humans and animals,” Buntain said.
Under 24-hour monitoring, a glass ring that will become the core of the world’s most powerful telescope is cooling gradually and precisely in the Richard F. Caris Mirror Lab on the UA campus. This center mirror is the fourth Giant Magellan Telescope (GMT) primary mirror to be cast at the lab, recently renamed in honor of Caris’ $20 million contribution supporting continued partnership in the GMT consortium.

GMT will use 100 times the light-gathering power of the Hubble Space Telescope to direct images of the universe’s farthest reaches from the seven primary mirrors to secondary mirrors, also under construction at UA. The smaller mirrors will correct distortions and send the images to cameras and other instruments housed within the center mirror.

Deeper, sharper views into space will improve understanding of what the universe contains. Everything humans have touched or seen accounts for only 5 percent of the cosmos. All else is unknown, a combination of dark matter and dark energy.

“We’re 95 percent ignorant about what the universe is. We’d like to know,” said Dennis Zaritsky, astronomy professor and Steward Observatory deputy director.

Finding out requires breakthrough equipment, and GMT’s mirrors are the most challenging optics ever produced. The UA’s lab is the only facility with the capability to manufacture them from start to finish, according to Richard F. Caris Mirror Lab Director Roger Angel, who developed the technology to reduce the mirrors’ weight and shape their curves to a millionth of an inch accuracy.

As ground breaks in Chile for GMT’s housing, Angel and many additional UA astronomy and optical sciences faculty and students are actively involved with building the mirrors and planning how to use GMT when it’s completed in 2024.

“These students are learning to do what’s never been done before. They’re gaining the confidence to keep doing amazing things,” said Buell Jannuzi, head of the astronomy department and director of the Steward Observatory.
YOUR GENEROSITY MAKES IT ALL POSSIBLE

THANK YOU.

TOGETHER WE HELP:

EMPOWER STUDENTS TO LIVE FULL AND MEANINGFUL LIVES

MAKE NEW DISCOVERIES AND FURTHER KNOWLEDGE

CHANGE LIVES AND MAKE DREAMS COME TRUE
CONTRIBUTIONS

$293,505,878  FY 2015  Total Raised

New Gifts & Commitments (in gray) reflects all fundraising including cash, cash equivalents, pledges, grants, life income gifts and bequests.

Cash & Cash Equivalent Gifts (in red) reflects gifts received during fiscal year in accordance with the Voluntary Support of Education survey administered by the Council for Aid to Education (CAE).

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td>New Gifts &amp; Commitments</td>
<td>$211,666,056</td>
<td>$211,666,056</td>
<td>$211,666,056</td>
<td>$211,666,056</td>
<td>$211,666,056</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalent Gifts</td>
<td>$179,715,624</td>
<td>$179,715,624</td>
<td>$179,715,624</td>
<td>$179,715,624</td>
<td>$179,715,624</td>
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Spring 2014 Commencement
Photo: Gregor Orbino
GIFT PURPOSE | FY 2015 Cash & Cash Equivalents

Research (22%) $42,976,944
Other Restricted Purpose (17%) $32,976,494
Endowments (14%) $26,416,876
Capital Improvements (13%) $23,681,625
Academic Divisions (12%) $22,811,478
Public Service & Extension (8%) $14,995,047
Athletics (5%) $9,200,787
Student Financial Aid (4%) $8,027,436
Faculty & Staff Compensation (4%) $7,666,886
Library (1%) $1,117,174
Unrestricted (>1%) $657,267

GIFT SOURCE | FY 2015 Cash & Cash Equivalents

Parents (1%) $1,101,504
Alumni (10%) $18,950,494
Other Individuals (26%) $50,138,581
Corporations (16%) $30,128,934
Foundations (22%) $42,720,728
Other Organizations (25%) $47,143,506

Total $190,183,747

ENDOWMENT REPORT

UNIVERSITY OF ARIZONA ENDOWMENT MARKET VALUE

2011 $532,961,836
2012 $527,654,091
2013 $575,005,169
2014 $655,399,504
2015 $673,312,944
The year just completed marks our 12th managing the endowment using a “model” portfolio. Under this approach, our Investment Committee dedicates the first meeting of each fiscal year to consider the target allocations for each asset class. These recommended targets are then presented to our Board for approval; approved targets are published in Exhibit B to our Investment Policy Statement, which you can find at uafoundation.org/investmentpolicy. The Committee works throughout the year to achieve our target allocations. During the last 10 years, the Investment Committee and Board have engaged an independent investment consultant to serve as an extension of our staff. Since July 1, 2013, we have worked with the Fund Evaluation Group (FEG), which provides services to institutions with approximately $50 billion in assets and has significant expertise in serving university endowments and deep expertise and research teams in alternative asset classes.

Our goal in managing the endowment is straightforward: To manage the assets such that the return exceeds the “Hurdle Rate” (the sum of the Payout and the Endowment Fee) so the endowment principal is able to grow and fund in perpetuity the activities our donors envisioned when they made their gifts. In establishing this goal, our Investment Committee defines the primary risks to the endowment as (1) the failure to achieve our goal over a full market cycle; (2) volatility of returns, and (3) permanent loss of capital.

The Payout is the annual distribution from the endowment for the account’s purpose and is equal to 4% of the average fair value of the endowment principal at the three prior calendar year-ends. The Endowment Fee was 1.35% of the fair value of the endowment principal in fiscal 2015.

Craig Barker
Sr. VP Financial Services, CFO, CIO
University of Arizona Foundation

Robert Charles
B&J Enterprises

Gregg Goldman
Sr. VP Business Affairs & CFO
University of Arizona

Thomas Keating
Chairman
Trailhead Ventures LLC

Steve Kelly
Assistant Director Investments
University of Arizona

Allan Norville
President & CEO
Financial Associates Inc.

John Payne
President & Chief Investment Officer
Sterling Investment Management

Sarah Smallhouse
President
Thomas R. Brown Foundations

Joan Sweeney
Chair, Investment Committee
Retired

Kerry Tyler
Managing Director & Chief Operating Officer
Lone Pine Capital

In addition to the Committee members, various Trustees will from time to time participate in the committee process. We would like to thank Karl Eller (Chairman & CEO, the Eller Company) for his continuing participation during fiscal 2015. We would like to thank departing committee member Bob Charles for his six years of dedicated service to the Committee, and welcome Peter Salter to the Committee in 2016.

Our Investment Committee and Board of Trustees set the Payout and Endowment Fee each year after considering a number of important factors. We invite you to review these factors, as well as all other aspects of our policies and practices, in our Investment Policy Statement. One other important term: Historic Dollar Value, which is the sum of all gifts received into an endowment fund since its creation.
INVESTMENT PERFORMANCE

As endowment investing is a perpetual endeavor, it is best to measure the success of such a program over the very long term. The combination of a long-time horizon and high return target translates into a portfolio that requires a greater allocation to risk assets to meet its long-term objectives. We balance this need with investment tools designed to help protect capital in down markets.

This more conservative approach has served the Foundation well; our performance for the 12 years ending June 30, 2015 is as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Return Before Hurdle Rate</th>
<th>Return After Hurdle Rate</th>
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<tbody>
<tr>
<td>2004</td>
<td>14.62%</td>
<td>8.85%</td>
</tr>
<tr>
<td>2005</td>
<td>12.49%</td>
<td>7.18%</td>
</tr>
<tr>
<td>2006</td>
<td>12.31%</td>
<td>7.23%</td>
</tr>
<tr>
<td>2007</td>
<td>15.53%</td>
<td>10.63%</td>
</tr>
<tr>
<td>2008</td>
<td>1.60%</td>
<td>(3.52%)</td>
</tr>
<tr>
<td>2009</td>
<td>(17.68%)</td>
<td>(23.21%)</td>
</tr>
<tr>
<td>2010</td>
<td>9.10%</td>
<td>3.44%</td>
</tr>
<tr>
<td>2011</td>
<td>16.27%</td>
<td>11.01%</td>
</tr>
<tr>
<td>2012</td>
<td>(0.30%)</td>
<td>(5.33%)</td>
</tr>
<tr>
<td>2013</td>
<td>10.30%</td>
<td>5.23%</td>
</tr>
<tr>
<td>2014</td>
<td>14.50%</td>
<td>9.90%</td>
</tr>
<tr>
<td>2015</td>
<td>0.80%</td>
<td>(3.60%)</td>
</tr>
</tbody>
</table>

Our return before the Hurdle Rate in fiscal 2015 was 0.8%. Headwinds to our portfolio in 2015 included (1) the strength of the U.S. dollar, which negatively impacted our allocations in international fixed income and many of our international equity investments, (2) the value orientation of a number of our equity investments, as growth significantly outperformed value in both domestic and international markets, and (3) weakness in commodity markets that impacted our commodity, gold and MLP investments. Additional performance context is provided by the performance of a number of important benchmarks in fiscal 2015:

- S&P 500 Index: 7.4%
- Russell 2000 Index: 6.5%
- HFRI Equity Hedge Index: 2.6%
- Barclays Ag. Bond Index: 1.9%
- FTSE NAREIT All Equity Index: 1.0%
- Barclays U.S. TIPS Index: (1.8%)
- MSCI Emerging Markets Index: (5.1%)
- MSCI ACWI ex-U.S. Index: (5.3%)
- Citi WGBI ex-U.S. Index: (13.5%)
- Bloomberg Commodities Index: (23.7%)

Our average return for the 12 years ending June 30, 2015 before the Hurdle Rate was 7.5%, while the average return after the Hurdle Rate for the same period was 2.3%. This means that our model portfolio was able to achieve our goal of beating the Hurdle Rate and providing a level of inflation protection to the endowment corpus nearly equal to the 2.9% average of the Higher Education Price Index over this same 12-year period. Our model portfolio’s average return of 7.5% for the 12-year period compares to the average for the S&P 500 Index (9.9%) and the Barclays Aggregate Bond Index (4.3%) for that period, or an average of 7.7% for a “traditional” portfolio invested 60% in the S&P 500 Index and 40% in the Barclay’s Aggregate Bond Index.
Composition: Our $673 million endowment portfolio was composed of the following asset classes at June 30, 2015; a complete list of our holdings by asset class appears at the end of this report.

This portfolio was constructed using the following major assumptions:

- **Downside protection matters.** Our portfolio must be constructed to protect capital in difficult markets. “It’s more important to ensure survival under negative outcomes than it is to guarantee maximum returns under favorable ones,” said Howard Marks.1 Charles Ellis, a well-known financial author and longtime chairman of the Yale Investment Committee, said: “If you avoid large losses with a strong defense, the winnings will have every opportunity to take care of themselves.”2

- **There are no cheap asset classes.** As a result, it is extremely important for our portfolio to remain highly diversified.

- **We need to make meaningful allocations to private equity.** Absolute return and real assets to achieve our goal.

- **It is important to have a meaningful allocation to funds** that can quickly move between and within asset classes. As a result, we have designated 10% of our pool for managers in the mean reversion and tactical asset allocation spaces.

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Agnese Nelms Haury on one of her archaeological digs with UA educators. In 2014 her estate committed $50 million of endowed funds to facilitate ongoing University and community partnerships aligned with her lifelong interests in social justice, the environment and the southwest United States.

Photo: Courtesy of the Agnese Nelms Haury Estate
We allocate significant assets to equity securities to help achieve our goal. As equity markets are not always priced to deliver historic equity-like returns (we believe now is such a time), we continue to believe it is important to allocate our equity exposure in three major categories:

- **Long-only equity** using active managers and enhanced fundamental indexes (35% target in fiscal 2015, which includes a 3% allocation to global REITs).

- **Long/Short equity** managers (4% target). The goal of this allocation is to generate at least the market rate of return with significantly lower volatility than a long-only equity allocation over a market cycle.

- **Private equity managers** (10% target) who through exceptional operational and management skill (not simply financial engineering) can generate returns in excess of public equity markets. The goal of our allocation to this segment is to outperform by 100-500 basis points per year the global equity indexes over a market cycle. We achieved this goal in 2015; our private equity managers as a group returned 13.5% significantly outperforming both the S&P 500 (7.4%) and MSCI ACWI (6.7%) indexes over the one-year period. Our five-year return of 17.9% also outperformed the five-year return of the S&P 500 (17.7%) and MSCI ACWI (11.9%).

Working with Nolan Bean, our lead consultant at FEG and FEG’s research team leaders in private equity/venture capital, we established a target of nine relationships in three major categories: (1) International, (2) U.S. small to middle market buyout, and (3) U.S. venture capital. As of June 30, 2015, we have filled our International allocation with Asia Alternatives (Funds I-IV), Africa Development Partners (Funds I-II) and ECI (Fund X). While our allocation to venture capital has been achieved (Atlas Ventures, Draper Fisher Jurvetson and Menlo Ventures), a top priority in fiscal 2016 is to add two additional U.S. buyout relationships to complement our new relationship with Staple Street.

We will consider increasing the number of managers in each of these three categories as our legacy fund of funds investments return capital.

**IMPLEMENTATION**

**CURRENT POSITIONING**

Our positioning continues to reflect several key themes. There will be years such as 2015 where one or more of these themes are headwinds to our portfolio. However, we construct our portfolio with a view to the asset classes and managers who will provide the best risk-adjusted return over the intermediate (seven to 10-year) term.

- **Quality will outperform**—We believe that over the long term quality will win. We express this view in our portfolio in a number of allocations. We believe carefully selected active managers will outperform capitalization weighted indexes over long horizons. We believe that Research Affiliates Fundamental Index portfolios will outperform passive capitalization weighted portfolios (such as the S&P 500) and to further express our quality theme we use the Research Affiliates Enhanced portfolios to screen out economically important companies that are highly leveraged, have a low earnings quality or both. It should be noted we are now accessing the Research Affiliates portfolios through publicly traded PIMCO mutual funds rather than through limited partnerships (same strategy, different wrapper).

- **Emerging markets will outperform**—If you evaluate emerging markets over the short term, currency fluctuations and volatility can overwhelm the true investment potential for this asset class. Our Investment Committee has focused on the long-term valuation fundamentals in emerging equities since September 2003, and we have steadily increased our allocation from 3% at that time to 9% for fiscal 2015 and also broadened it to include frontier markets. In addition to our positions in the GMO Emerging Markets, DFA Emerging Markets Small Cap, Tybourne Long Opportunities and RWC Frontier Markets funds, we have expressed this view in our private equity portfolio with commitments to four Asia Alternatives Funds and two Africa Development Partners Funds, in our long/short equity portfolio with our investment in the Emerging Sovereign Group-Domestic Opportunities Fund, and in our private real estate portfolio with a commitment to the JPMorgan India Property Fund II.

- **Absolute return is an important component**—Absolute return is not important in years when equity markets essentially move in one direction—up. However, we do not believe it is prudent to construct a portfolio on the hope that markets will continue to go up, consistently, in perpetuity. Accordingly, we believe giving broad mandates to leading managers, such as the teams at GMO, Whitebox, Research Affiliates (PIMCO All Asset), King Street, HBK, and Graham, can provide outstanding performance with lower volatility than traditional long-only managers.

- **Diversification of commodity investment**—There will be years such as 2015 when the falling price of oil, natural gas and other commodities adversely impacts our one-year performance. However, we believe that commodities are well suited to protecting a diversified portfolio from inflation over the long term. Many endowments approach commodities investing through a long-only fund designed to outperform either the Goldman Sachs or Bloomberg Indexes. While we believe this is an important component of a portfolio, we also believe it is important to have allocations to specific classes of commodities such as timber, agriculture, energy and gold.
There has been significant recent publicity of large institutional investors removing hedge funds from their portfolios. We continue to believe hedge funds perform an important role in a portfolio, as demonstrated by the fact that our top six performing investments* in 2015 were hedge fund strategies as shown below.

**Palo Alto Healthcare** was added to the portfolio in fiscal 2011 as a part of our effort to improve the positioning of our long/short equity allocation. In 2015 we reclassified Palo Alto to our U.S. small equity allocation to better reflect their approach. Palo Alto specializes in health care investing with an edge in that practicing medical doctors are members of their investment team. This fund was the 5th performer in the pool in 2012, the 1st performer in the pool in 2014, and outperformed the Russell 2000 index by 60 percentage points net of fees in the year.

**Marble Arch Partners** was added to the portfolio in fiscal 2014 as one of two new long/short equity managers sourced by FEG. Marble Arch tends to invest in small and mid-capitalization companies, special situations and international companies with a private equity-style value approach. Marble Arch outperformed the HFRI Equity Hedge benchmark by 17 percentage points net of fees in the year.

**Tybourne Long Opportunities** runs a concentrated portfolio with a particular focus on businesses based in Asia, global businesses that derive a significant percentage of profits or growth from Asia, and best in class technology and media businesses that are global in scope and scale. Tybourne, one of three new emerging/frontier markets managers added to our portfolio in 2014, outperformed the MSCI Emerging Markets index by over 22 percentage points net of fees in the year.

**Pershing Square** was added to the portfolio in 2011 as a part of our effort to improve the positioning of our long/short equity allocation. We have since reclassified Pershing Square in our model to our U.S. large equity allocation to better reflect their approach. This firm is well known for their expertise in activist investing. This fund was the 2nd performer in the pool in 2014, and outperformed the S&P 500 Index by nearly seven percentage points net of fees in the year. We invest in Pershing Square through Pershing Square Holdings (PSH.AS) which as of October 2014 trades on the Amsterdam Stock Exchange.

**Whitebox Asymmetric Opportunities** was added to our portfolio in 2013 and provided an immediate benefit with a return of 21.6% in that year. This fund, run by Portfolio Manager Paul Twitchell, can move quickly between and within asset classes. Whitebox outperformed the HFRI Relative Value Index by over seven percentage points net of fees in the year.

**Graham Discretionary Portfolio**, added to our low volatility hedge allocation in 2011, provides access to a broad array of macro-oriented trading strategies in a single fund. The fund participates primarily in the fixed income, commodity, currency and equity index markets. Graham outperformed the HFRI Macro Index by over three percentage points net of fees in the year.

*Investments that comprise at least 1% of the pool as of June 30, 2015
The Investment Committee worked closely with FEG to continue to fine tune our model portfolio and identify high quality, uncorrelated managers, certain of which are only able to access as a result of our relationship with FEG. Significant actions taken by the Committee during the past fiscal year included:

**Continued moving towards a “flatter” portfolio**—Since hiring FEG as of July 1, 2013 we have been moving our model portfolio targets toward FEG’s “flattened” portfolio targets. Such a portfolio maintains an equity bias, but recognizes the fact that exceptional U.S. equity returns have significantly reduced the likelihood of such returns going forward. Accordingly, it is important to spread our risks more equally across the four major asset categories: Global Equity (long-only equity, long-short equity and private equity); Global Fixed Income/Credit (U.S. rate sensitive investments, U.S. credit sensitive investments and International Fixed Income); Real Assets (public and private real estate, TIPS, Gold, Timber/Agriculture and Commodities/ Energy); and Diversifying Strategies (Mean Reversion, Tactical Asset Allocation and Low Volatility Hedge).

Steps taken towards the “flatter” portfolio in fiscal 2015 included: (1) reducing our target for U.S. equities by 4%, (2) increasing our target for emerging/frontier equities by 1%, (3) increasing our target for low volatility hedge by 2% and (4) increasing our target for TIPS by 1%.

**Further diversified our commodities allocation**—In 2014, we expanded our model portfolio to provide exposure to U.S. energy infrastructure primarily through publicly-traded master limited partnerships and affiliated companies. In 2015, we further expanded our model portfolio to include three complementary direct private energy relationships: (1) a $3 million commitment to Scout II, a manager that makes direct investments in small-to-mid-sized upstream oil and gas assets in the continental U.S., (2) a $5 million commitment to MAP 2015, a manager that constructs a highly diversified portfolio of natural gas and wind infrastructure investment we received in 2015 when we began managing the unified endowment.

**Added three new managers to our private real estate allocation**—Our performance in this asset class has lagged due to both vintage year and implementation issues. We have focused heavily on improving our positioning in the past two fiscal years and added three new investments in private real estate in 2015: (1) a $5 million commitment to Iron Point III, an opportunistic manager that focuses on allocating capital based on investment themes that reflect current or emerging conditions in the real estate markets, (2) a $5 million commitment to Singerman Real Estate Opportunities Fund II, an opportunistic manager that focuses on providing a diversified real estate exposure with a quality return profile, a value tilt and the opportunity for value creation at the property level and (3) an $8 million investment in the Brookfield Global Listed Infrastructure Fund to replace a European infrastructure investment we received in 2013.

**Completed our allocation to international private equity**—As noted earlier in this report, we are looking to establish and maintain three international private equity relationships. A $1.8 million commitment was made to ECI X, a fund focused on middle-market control-oriented buyout transactions of companies generally headquartered in the UK.

**Made our first allocation to U.S. small to middle market buyout**—We made the first of three planned commitments to U.S. small to middle market buyout managers, a $5 million commitment to Staple Street. This new fund, founded by Managing Directors with substantial experience with two top private equity firms, will focus on control buyout investments in underperforming lower middle market businesses.

** Completed our exposure to leading Venture Capital managers**—Our roster of leading venture capital managers was finalized by adding a manager that complements well our existing relationships with Draper Fisher Jurvetson and Menlo Ventures. We made a commitment of $1 million to Atlas Venture X, a fund that focuses on early-stage value creation investing in the biopharma sector.

**Reduced and repositioned our exposure to international fixed income**—International fixed income was a challenging allocation in 2015 due both to the strength of the U.S. dollar and the unprecedented low levels of interest rates in international developed markets. To reflect the reduced opportunity set for returns in developed markets international fixed income, the Committee closed out our position in that asset class in June 2015. To mitigate the impact that continuing dollar strength will have on our emerging fixed income position, the Committee elected to: (1) reduce by 50% in June 2015 our investment with our local currency emerging markets manager and (2) commit as of July 1, 2015 $10 million to Gramercy Distressed Opportunities Fund III, a fund that seeks to realize value through active involvement in distressed emerging market securities denominated primarily in U.S. dollars.

**Concentrated our positions**—There are several factors that make us truly unique in the endowment world. First, we offer unmatched transparency to our donors and to our University customers. We are aware of no other endowment in the country that provides this level of transparency with respect to asset allocation, managers, actions taken and positioning. Second, we believe there is value in concentrating positions with high conviction managers. As noted in prior reports, we have high concentrations with both GMO and Research Affiliates, which were crucial partnerships we formed in the first two years of using the model portfolio approach before engaging an independent investment consultant. We regularly evaluate the number of manager relationships we oversee, looking for opportunities to concentrate our holdings while maintaining broad diversification. We took two opportunities to concentrate our portfolio further in fiscal 2015: (1) We closed out our position in GLD, the exchange traded fund, and concentrated our holding with First Eagle Gold, which invests in both gold bullion and mining shares and that we believe is more attractively valued given the significant decline in mining shares and (2) When Research Affiliates elected to exit the International Small Cap space, we invested the proceeds with our remaining manager, the GMO International Small Companies Fund.

**Maintained the Payout rate at 4%**—Our Investment Policy Statement and Arizona law require us to specifically address a number of factors each year when setting the Payout Rate. A Payout Rate should not be adjusted each year to reflect the return achieved in the previous year, but should be a rate that provides “intergenerational equity” (the beneficiaries of today should not benefit at the expense of the beneficiaries of tomorrow, and vice-versa). We believe the 4% rate declared for fiscal 2016 is the rate that gives us the best chance to achieve that equitable result. After considering all the factors required in our Investment Policy Statement, the Endowment Fee was maintained at 1.35% for fiscal 2016.

The Investment Committee receives reports from selected managers during its meetings throughout the year. Reporting managers in fiscal 2015 included:

- **John West**
  Managing Director
  Research Affiliates

- **Eva Greger**
  Founder and Managing Director
  GMO Renewable Resources

- **Abigail Mason**
  Chief Investment Officer
  Kaspick & Company

**Significant Actions Taken in Fiscal 2015**

- **Added new Credit Sensitive investments**—We added two new credit sensitive managers in 2015, both operating in sectors that add additional diversification to our portfolio. A $10 million investment was added in June to Waterfall Eden, a high-yield asset backed securities fund offered by a firm that has the ability not only to invest in such securities, but to originate them. A $6.5 million commitment to Falcon Fund V (expected to close in November 2015) was approved and represents our first investment with a manager specializing in privately placed mezzanine investments.
Thank you again for your support of the University of Arizona and the University of Arizona Foundation. Your support of our endowment is critical to the continued excellence at the University. As we hope we have demonstrated to you, we are working hard to generate the best risk-adjusted return possible for our endowment. However, we will not close the gap between our endowment (the ninth largest in the PAC-12 per the most recent NACUBO-Commonfund Survey) and our academic peers solely through investment returns. Annual giving to the unified University endowment during the Arizona NOW campaign has been $20.7 million in 2011, $17.7 million in 2012, $17.1 million in 2013, $29.4 million in 2014 and $26.4 million in 2015. We ask for your help in continuing to grow our endowment between now and the conclusion of the campaign on June 30, 2018.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Manager/Style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>JP Morgan, PIMCO, DFA</td>
</tr>
<tr>
<td><strong>U.S. Equities:</strong></td>
<td></td>
</tr>
<tr>
<td>Large-Cap</td>
<td>GMO Quality, Pershing Square, PIMCO RAE</td>
</tr>
<tr>
<td>Small-Cap</td>
<td>PIMCO RAE, Palo Alto</td>
</tr>
<tr>
<td><strong>Int’l Equities</strong></td>
<td></td>
</tr>
<tr>
<td>Developed Large</td>
<td>PIMCO RAE</td>
</tr>
<tr>
<td>Developed Small</td>
<td>GMO</td>
</tr>
<tr>
<td>Emerging/Frontier</td>
<td>GMO, DFA Small Cap, RWC Frontier, Tybourne Long Opportunities</td>
</tr>
<tr>
<td><strong>U.S. Fixed Income</strong></td>
<td></td>
</tr>
<tr>
<td>Rate Sensitive</td>
<td>Vanguard</td>
</tr>
<tr>
<td>Credit Sensitive</td>
<td>BeachPoint, Oak Hill, Rimrock, Waterfall</td>
</tr>
<tr>
<td>Int’l Fixed Income</td>
<td>PIMCO</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Blackrock, JPMorgan, Spur, Oak Hill, Capital Dynamics: Adams Street, Commonfund, Brooke, Keyhaven, SVB Asia Alternatives, Africa Development, ECI, Draper Fisher Jurvetson, Menlo, Atlas, VIA, Tech Partners, Staple Street</td>
</tr>
<tr>
<td><strong>Absolute Return</strong></td>
<td></td>
</tr>
<tr>
<td>Mean Reversion</td>
<td>GMO Mean Reversion, Whitebox Asymmetric Opportunities</td>
</tr>
<tr>
<td>Asset Allocation</td>
<td>GMO Global Allocation Absolute Return, PIMCO All Asset</td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>ESG Domestic Opportunities, Marble Arch</td>
</tr>
<tr>
<td>Low Volatility Hedge</td>
<td>King Street, Graham Capital, HBK, Claren Road</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Public Real Estate</td>
<td>Cohen &amp; Steers Global Realty</td>
</tr>
<tr>
<td>Private Real Estate</td>
<td>Morrison Street, New Boston, Legacy, Perseus, Lasalle, JPM India, Westport, Brookfield, Iron Point, Singerman</td>
</tr>
<tr>
<td>TIPS</td>
<td>Vanguard</td>
</tr>
<tr>
<td>Precious Metals</td>
<td>First Eagle</td>
</tr>
<tr>
<td>Timber/Agriculture</td>
<td>GMO Forestry and Farmland Optimization</td>
</tr>
<tr>
<td>Commodities/Energy</td>
<td>Commonfund Multi-Strategy, Harvest MLP, VIA, Scout, MAP</td>
</tr>
</tbody>
</table>
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