WHAT DO GIFTS CREATE?

To us, they create many things. They create scholarships that help students succeed. They create the resources that empower discovery. They create art. They create community. They create mind-blowing science. They create traditions, legacies and tributes to those we love.

Above all, gifts create opportunity, and because of you, this was our most impactful year yet. This was a landmark year for fundraising, with a record number of gifts supporting the endowment. This inspiring show of support propels us all forward as we aim to achieve even bigger and more challenging goals in the future.

We’re working on what’s next — for education, for research, for the world. And gifts create a place that sparks the genius, creativity and innovation it takes to achieve our dreams. In our evolving, digital future, we know that all facets of human endeavor will play critical roles, from medicine to business to art.

In this issue of the Annual and Endowment Report, we’re showcasing the rich connections created in the humanities and beyond. Whether it’s teaching a language both beautiful and globally significant, using x-ray fluorescence spectroscopy to restore a famous painting, or celebrating the beauty and traditions of diverse cultures, the stories here showcase the creative and forward-thinking landscape that gifts create at the University of Arizona.

This year, the $50 million bequest of Agnese Nelms Haury was fully realized, creating an endowment that supports UA programs rooted in social and environmental justice. As home base for UA’s environmental work, the ENR2 building elevates the impact of this transformative investment. Artwork by Troy Neiman, Coalescence, was installed above the lecture hall that bears Haury’s name to pay lasting tribute to her legacy.

CREATING IS MEANINGFUL AND INSPIRING. THE UA IS INFUSED WITH ACTS OF CREATION — STUDENTS WRITING THEIR FIRST PAPERS, DONORS ENDOWING SCHOLARSHIPS, RESEARCHERS PURSING NEW IDEAS. THIS IS A PLACE WHERE PEOPLE COME TOGETHER TO EXPLORATE, LEARN, AND WORK TOWARD A BETTER TOMORROW. YOUR SUPPORT MAKES THIS INFECTIONATE SPIRIT POSSIBLE.

WE ARE LUCKY TO HAVE SUCH A UNIQUE AND GENEROUS COMMUNITY THAT CONTINUES TO STRENGTHEN THE UA. AS WE CHART A COURSE FOR THE FUTURE, OUR DIVERSITY AND CREATIVITY WILL SET US APART AND GENERATE EVEN MORE REVOLUTIONARY WORK. WE’RE EXCITED FOR WHAT’S NEXT, AND WE’RE EXCITED THAT YOU’RE A PART OF IT.

THANK YOU, AND BEAR DOWN!
Exhibit Specialist Nathan Saxton and Registrar Kristen Schmidt of the UA Museum of Art ready “Woman-Ochre” for examination. Photo: Bob Demers

At right, a conservationist at work in the Center for Creative Photography. Photo: CCP

On the previous page: Detail of “Woman-Ochre” by Willem de Kooning. Courtesy of UAMA.

Contributors
Cory Aaland, Lori Harwood, Jeffrey Javier, Katy Smith, Kim Stol

Design
Cause Design

Get In Touch
Email comments, questions or feedback to communications@uafoundation.org

We Are Here to Help
We are committed to building and maintaining relationships with donors, alumni and friends of the University of Arizona. You can find details about how we manage personal information at uafoundation.org/privacy. If you have questions or need more information about giving to the UA, email donorservices@uafoundation.org or call 520-621-5491 or 800-409-9791.

© 2018 University of Arizona Foundation
This year not only marked the 60th anniversary of the University of Arizona Foundation, it was a record-setting year for giving. Your gifts continue to empower everything that makes the UA great: resources for student scholarships, funding for new technologies, visions for bold projects and so much more.

It’s an exciting time to be a Wildcat. Under President Robbins’ leadership, a new strategic plan will lay an inspiring roadmap for our future. Thank you for your support. We appreciate your continued partnership as we come together to imagine what discoveries and innovations will come next.

“Many of today’s students will eventually work in jobs that haven’t been invented yet. We’re preparing students for this future by fostering creativity and adaptability and by exposing them to interdisciplinary learning. At the same time, our researchers and faculty are making discoveries and developing projects that address today’s biggest challenges and make progress possible. Their breakthroughs come daily and they impact everything, from medicine to business to art. Your philanthropic support contributes to this work, and I am thankful for your continued investment as we look to the university’s future.”

ROBERT C. ROBBINS, PRESIDENT
THE UNIVERSITY OF ARIZONA

“It’s exciting to see the energy around a new vision for the university’s future. More than 8,000 Wildcats joined the strategic planning process with President Robbins, and I am proud to say that I was a part of it, too. There is so much potential to support even more students through scholarship programs like Arizona Assurance and to help researchers make life-changing discoveries. Thank you for your support and for being part of this inspiring Wildcat community.”

TED HINDERAKER, CHAIR
THE UNIVERSITY OF ARIZONA FOUNDATION BOARD OF TRUSTEES

“Philanthropy has the power to change lives, sometimes decades later. A little over 60 years after it was donated, the painting “Woman-Ochre” gave a UA student an experience she can’t get anywhere else. A collection of Hopi baskets has come full circle. And a spontaneous question started the most important collection of North American photography in the world. Your support lives well beyond your gift, and I’m grateful for the chance to share how your generosity has transformed our community.”

JOHN-PAUL ROCZNIAK, PRESIDENT & CEO
THE UNIVERSITY OF ARIZONA FOUNDATION
“I’ve gotten great support from everybody around me. I don’t know how I would have survived without it, quite frankly.”

Shirley Reilly, four-time Paralympic medalist

THIS MAY, Shirley Reilly added an accomplishment to her list: She’s now a University of Arizona graduate in addition to being a four-time Paralympic medalist and winner of the wheelchair division of the 2012 Boston Marathon.

As Reilly prepares for her fifth Paralympic Games in 2020 and launches her career in government and public policy, she’s feeling strong and grateful.

“I’ve gotten great support from everybody around me. I don’t know how I would have survived without it, quite frankly,” said Reilly, who completed her degree with no loans to repay, thanks to donor-funded scholarships.

Reilly’s graduation completed a journey that began in 2003 when she finished high school and was recruited to join the UA’s wheelchair racing team. She faced personal and family struggles that caused her to leave the university and return after taking some classes at Pima Community College.

Because UA Adaptive Athletics uses a hybrid model, meaning some members of the program’s six competitive teams are community members, Reilly maintained her UA connections through training. The athletic community encouraged her to keep making academic progress, she said.

“Shirley is the perfect example of why the hybrid system works,” said Peter Hughes, interim athletic director for Adaptive Athletics.

Reilly needed extra time. The system has served as a pathway to a UA degree for athletes in that circumstance and others, said Hughes.

Some team members build their confidence through sports, then decide a UA degree is within reach. Others want to train for new careers because they become injured and can’t continue doing their existing jobs, Hughes said.

Adaptive Athletics stands ready to accept both incoming students and community members with disabilities who want to connect with the UA.

“We have a fully accessible gym. We have athletes traveling around the world competing, and they’re role models to youth,” said Hughes.

“Without donations, we just couldn’t help all these people.”

– BY KATY SMITH

A Tradition of Support

UA Adaptive Athletics, managed by the Disability Resource Center, is the nation’s largest and most comprehensive wheelchair and adaptive collegiate-based sports program.

In addition to scholarships, Adaptive Athletics donors fund operations costs, which include travel and equipment. In fact, since Adaptive Athletics’ founding in 1979, the operations budget has been funded solely through philanthropy.

Tucson business owner and philanthropist Jim Click has been a loyal supporter since the 1980s, when an employee, Richard Nolen, became paralyzed through injury. Nolen joined the UA’s wheelchair track and road racing team and earned a master’s degree in business. The Click family established an endowment for Adaptive Athletics in 2000.
“PHOTOGRAPHS ARE THE WAY we record our history in modern times. It’s important that the university pay serious attention to photography,” said University of Arizona President Emeritus John Schaefer.

Acting on this belief, Schaefer made a bold move a few years into his presidency. At a 1974 UA exhibit showcasing the work of Ansel Adams, Schaefer approached the famed photographer.

“Being young and naive, I asked him 10 minutes into the show if he might want to leave his archives to the UA,” Schaefer told the Arizona Daily Star in 2010.

After discussing the idea at length and beginning a friendship that would last until Adams’ death in 1984, Schaefer and Adams brought an additional four living masters on board. The John P. Schaefer Center for Creative Photography opened the following year.

Today, CCP’s collection is “the most important canon of North American photography in the world,” said Director Anne Breckenridge Barrett.

Because the center was built with archival collections and will grow as more are donated or purchased, conservation of prints, negatives, letters, working materials and related items is a crucial priority.

“When you accept materials, you’re essentially making a commitment to preserve them as close to their original state as possible in perpetuity,” Schaefer said.

In 2011, CCP established an endowed conservator position with a $3.5 million estate gift from photographer Arthur J. Bell. Prior to Bell’s gift, center staff hired contractors to carry out piecemeal conservation services.

“What I bring to the table is the ability to look comprehensively at the preservation program to make sure the institution is taking care of it holistically,” said Dana Hemmenway, the Arthur J. Bell Senior Photograph Conservator.

That ability is helping Breckenridge Barrett, who joined CCP in January 2018 from the Museum of Contemporary Art Chicago, increase visitors’ access to CCP’s collection.

In June, Breckenridge Barrett opened the Heritage Gallery to display cornerstone pieces alongside more recent acquisitions.

The Heritage Gallery exhibit will be rotated twice a year. Hemmenway will help determine which pieces are appropriate to display for each exhibit, “so everything just doesn’t stay in vaults,” said Breckenridge Barrett. – By Katy Smith

The Science of Photo Conservation

Dana Hemmenway, CCP’s Arthur J. Bell Senior Photograph Conservator, ensures optimal temperature, humidity and light levels for CCP’s 5 million archival objects and 100,000 fine prints. She also repairs damaged items and educates CCP staff on conservation methods.

“It’s critical to have someone on staff who can work from a chemistry standpoint every day and know what we need,” said CCP Director Anne Breckenridge Barrett.
Preserving History

Their research and love for the art form inspired the Fingers to meticulously assemble and thoroughly document their collection of Hopi baskets. “Through this donation we hope that future generations will always have a window into the Hopi people’s rich culture and history,” said Andrew Finger.

Jessica Lomatewama, Hopi master basket weaver, said as she held a large woven basket in her gloved hands. “There are no words to describe seeing these baskets, especially these huge ones. I wonder who the person was that made it. I’d like to meet her.”

Lomatewama was examining one of 208 Hopi baskets recently donated to the Arizona State Museum by Judith W. and Andrew D. Finger. As a master artist in the museum’s Honoring Traditions/Bridging Generations program, Lomatewama got an intimate look at these new additions.

Jeremy Johns, a Tohono O’odham and Akimel O’odham basketweaver, was paired with Lomatewama as an emerging artist intern in the program. Together, they pored over each basket, discussing everything from how materials like rabbitbrush are gathered to weaving techniques.

“It’s not just learning from an individual person — you’re learning from that person’s family, from their parents and their friends. It’s knowledge that goes back literally hundreds of years,” Johns said.

The majority of baskets in the Finger collection depict katsinam, spirit messengers integral to the culture of Hopi people. Lomatewama explained how certain baskets are incorporated in young women’s initiation ceremonies or traditional weddings. Other baskets are used for serving piki, a thin, rolled, traditional Hopi flatbread.

“My number-one goal is to share where I come from and what these baskets are used for,” Lomatewama said.

Diane Dittemore, the museum’s curator of ethnological collections, hopes Lomatewama is the first of many Hopi artists to interact with the Finger collection and connect to their deep history. She would like to take the baskets on the road and develop outreach programs in Hopi communities.

“I look forward to working with the Hopi tribe and facilitating more conversations like the one we heard with Jessica,” said Dittemore. “These are really profound ways that we can share a much more in-depth, culturally enriched story.”

ASM’s collection of American Indian basketry is known as the world’s largest, most comprehensive collection of its kind, with more than 4,000 historic and contemporary baskets. The museum’s mission is to preserve and steward the baskets in perpetuity so they are available for research, education and outreach far into the future.

“By just touching this basket, I’m making a connection,” Lomatewama said. “I wonder what was going through the weaver’s mind the day she made this. I wonder if she was a relative of mine.” — BY KIM STOLL

Want to see the Finger collection? Select pieces from the collection will be rotated through the Woven Wonders display in ASM. Learn more at statemuseum.arizona.edu.

PHOTO: CLARISSA BECERRIL
About 25 years ago, Barbara Martinsons was teaching at Marymount Manhattan College in New York City. The faculty were given the chance to trade teaching a regular class for teaching one in a prison. Martinsons decided to try it. The experience “changed the direction of my life and gave me a sense of vocation,” she said. Martinsons remains dedicated to promoting education for those currently in or coming out of the prison system. “Most of the people in prison are going to come out,” she said. “Education can make them stronger citizens, parents and participants in their communities.”

WHEN THE UNIVERSITY of Arizona English department received a gift from Barbara Martinsons and began the Prison Education Project, assistant professor Marcia Klotz was eager to get involved. Klotz, who teaches English and gender and women’s studies, believes education has the power to change lives.

“I sometimes wish I could teach more than just those students who can afford to take my classes, or those who come from programs that prepare them well for college,” she said. “Teaching in the prison system allows me a chance to do what I’m best at in a way that can begin to redress those inequalities.”

Klotz and Colleen Lucey, an assistant professor of Russian and Slavic studies, have served as faculty coordinators since spring 2017. Since then, they’ve expanded from teaching literature and writing by bringing in UA faculty members from a variety of disciplines. Astronomy professor Edward Prather taught one of the most popular lectures to date.

“Our society is efficient at making certain groups more likely to be locked up than others. When we talk about affording opportunity to education, this is just one version of how we can be a part of making a change,” Prather said.

Within minutes of meeting the group of 30 incarcerated men who attended his astronomy class at the minimum-security Whetstone Unit in Tucson, Prather had established the learning environment he hoped for. After learning a method for detecting exoplanets outside our solar system, students applied it in small groups. Gestures, mathematical arguments and sudden insights marked their discussions.

Over the next hour and a half, murmurs like “This guy’s awesome” and questions that flooded Prather in their level of astronomy knowledge filled the room until class ended with groans of complaint. “That fevered pitch of conversation was what I was trying to foster. That’s where the real learning happens,” Prather said.

For Jeremy, a Whetstone detainee who’s attended several classes taught by University of Arizona professors, Prather’s topic was the most interesting. “I read books about astronomy. I would take a class in it if I could,” he said.

Most attendees spoke with Prather afterward.

“That was profound to be thanked sincerely,” Prather said. “I noticed the happiness that just being a part of education brought them, and that might be the first time they ever felt that way.”

– BY KATY SMITH AND LORI HARWOOD

Turning a Vocation into a Legacy

PHOTO: CHRIS RICHARDS

WHEN THE UNIVERSITY OF ARIZONA FOUNDATION
A MARRIAGE OF ART & SCIENCE

UNIVERSITY OF ARIZONA graduate student Wendy Lindsey earned her bachelor's degree in chemistry, but she didn't want to spend her career in a lab with her head down, poring over test results.

“My dream job is conservation science, which is the study of our cultural heritage from a scientific perspective,” she said. “It’s the analysis and understanding of the chemical processes that underlie art so that we can preserve our rich history.”

“It’s a marriage of art and science,” she added.

Lindsey put her developing skills to the test as she helped authenticate “Woman-Ochre,” the Willem de Kooning painting stolen from the University of Arizona Museum of Art in 1985. The painting was recovered in New Mexico last year.

Arizona State Museum Conservator and Head of the Preservation Division Nancy Odegaard was immediately called in to do a preliminary authentication of the painting. Lindsey accompanied her.

“It was a once-in-a-lifetime opportunity,” Lindsey said. “Stolen paintings very rarely ever come back, so I will probably never again be involved in a scenario like this.”

When it came time to examine the painting, Odegaard and Lindsey noticed horizontal cracks from the painting being rolled up during the theft, conservation treatments from before it was stolen and tattered edges from when it was cut from its frame.

After two hours of careful examination, they determined it was the stolen painting.

The painting will undergo extensive conservation before it is displayed again in the UAMA, and another graduate student will play a role in the conservation science process.

Kristen Watts is a doctoral student in the department of chemistry and biochemistry.

“Paintings are much more complex than what you can see on the surface,” Watts said. “Very often they’re made of several layers; it’s my job to study those layers, analyze what they are and how they interact with other materials.”

In this case, the thieves may have used their own paint in an attempt to conserve “Woman-Ochre.” Watts said any paint the thieves used will have a chemical signature different from the original paints de Kooning used in the 1950s. If Watts can identify the unoriginal paint, conservators will know how to remove it without damaging the painting.

It’s the first step in a long and vital process, but Watts is excited to get started. “This is really an incredible opportunity,” Watts said. “I’m just thrilled that the painting made its way back home so everyone will have a chance to see it again.” – by Jeffrey Javier

The Founding PATRON

Edward J. Gallagher Jr. was one of the UAMA’s most important patrons. Gallagher donated more than 200 paintings, drawings and sculptures over the course of 20 years.

He established an endowment that supports the continued purchase of works for the collection. The endowment has purchased 1,375 works for the UAMA and is also used for the care, preservation and interpretation of the entire collection.

Gallagher purchased “Woman-Ochre” in 1957 and officially donated it to the UA in 1958. The painting was part of one of the largest gifts in UAMA’s history.
Elahé Omidyar Mir-Djalali, founder, chair and president of the Roshan Cultural Heritage Institute, is a proponent of studying the Persian language and culture as they relate to Iran’s place within the global community. “I believe through awareness of history and the study of ancient culture, one can achieve a better understanding about people in pursuit of a peaceful relationship in our contemporary lives,” she said.

Iran has been a focal point of U.S. foreign policy since sanctions were imposed after Americans were taken hostage at the U.S. Embassy in Tehran during the Islamic Revolution in 1979. Diplomatic relations have remained tenuous ever since.

It’s Mir-Djalali’s hope that by establishing sustainable endowments in support of Persian programs, like the one at the University of Arizona, a better understanding of the culture and the people behind it “will encourage appreciation for diversity and ultimately advance work toward a more peaceful world.”

UA professor Kamran Talattof is helping to achieve Mir-Djalali’s goal. Talattof, a preeminent scholar within the field of Persian and Iranian studies, arrived at the UA in 1999 and has since established a nationally recognized graduate program with the support from Mir-Djalali. Since their first meeting 15 years ago at a Middle East Studies Association conference, Mir-Djalali has established three endowments at the UA. Talattof holds the Elahé Omidyar Mir-Djalali Chair in Persian and Iranian Studies within the School of Middle Eastern and North African Studies at the College of Social and Behavioral Sciences.

“These endowments bring to light the strength, richness and diversity of Persian culture now and for generations to come,” Mir-Djalali said. The endowments have proved valuable for graduate students like Razi Ahmad, who came to the UA from India to study Persian and Iranian studies. He graduated in 2011 with his doctoral degree and is a lecturer at the University of Kansas.

Ahmad said Persian and Iranian studies programs in the United States are not only important for understanding Iran’s strategically important role in the Middle East. The programs are also important for studying Persians’ long and rich poetic traditions. “It was in the Persian language that the great poets like Rumi, Sa’di and Hafez composed poetry,” Ahmad said. “It’s an area of study that instills humanist ideals and inculcates an ethos of love and brotherhood.”

UA alumnus Razi Ahmad cites a poem by 13th-century Persian poet Sa’di Shirazi as an example of Persian ideals.

Human beings are members of a whole, In creation of one essence and soul. If one member is afflicted with pain, Other members uneasy will remain. If you’ve no sympathy for human pain, The name of human you cannot retain! [Trans. M. Aryanpour]
Dear Supporters
and Friends,

On behalf of the University of Arizona Foundation and its Investment Committee, I want to thank you. This year, your extraordinary generosity brought in more funding for the university’s endowment than the past three years combined — and more than doubled our best year ever. These numbers are astonishing, and a testament to our community’s passion for the University of Arizona.

As you review this year’s results, please keep in mind that we are working hard to generate the best risk-adjusted return possible for our endowment. We will not close the gap in total assets between our endowment and the endowments of our academic peers solely through investment returns, which is why this year’s results are so exciting. We are closer than ever to achieving a $1 billion endowment, a critical milestone that brings us closer to peer institutions and fuels the university’s ambitious strategic plan.

You have given your hard-earned dollars for the perpetual benefit of the University of Arizona, and we want you to have critical details about your investment. We detail our strategy, positioning, managers, and detailed performance results, because we believe it is important for you, our donors and stakeholders, to have this information. We are unaware of any other endowment that provides this level of portfolio transparency.

Please let us know should you have any questions on this report or if you have a suggestion on how to improve our report to you next year.

In gratitude,

Craig Barker
Senior Vice President Financial Services, CFO, CIO
University of Arizona Foundation

Gifts and Commitments

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Purpose of Gifts 2017 – 2018

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University of Arizona Endowment Market Value

- 2008: $0
- 2009: $100,000,000
- 2010: $200,000,000
- 2011: $300,000,000
- 2012: $400,000,000
- 2013: $500,000,000
- 2014: $600,000,000
- 2015: $700,000,000
- 2016: $800,000,000
- 2017: $847,601,567
- 2018: $847,601,567

MAKING HISTORY
A COMMITTED TEAM

The Investment Committee and Board first engaged an independent investment consultant in 2006 to serve as an extension of our staff. Since July 1, 2013, we have worked with the Fund Evaluation Group (FEG). FEG provides services to institutions with approximately $68 billion in assets and has significant expertise in serving university endowments and deep expertise and research teams in alternative asset classes.

In addition to the Committee members, various trustees from time to time participate in the Committee process. We would like to thank Karl Eler (Chairman & CEO, the Eller Company) for his continuing participation during fiscal year 2018.

We would like to thank departing members Tom Keating and Allan Norville for their 15 and six years of dedicated service, respectively, to the Committee. Tom served on the Committee during a time of great transformation and growth, and both Tom and Allan worked tirelessly on behalf of the endowment and university. We welcome Dick Silverman and Joan Sweeney to the Committee and look forward to their time, talent and philanthropy. Craig passed away in December 2017 at the age of 82. "Craig was the consummate gentleman: kind, wise and always available and interested in helping,” said Dick Silverman, past Chair of the UA Foundation Board of Trustees, including many years on the Investment Committee and service as Board chairman.

Craig was generous with his time and support of the UA Foundation. We will miss his insight and counsel.”

The UA Foundation, Alumni Association, Presidential Leadership, Cancer Center, College of Engineering, College of Education, Libraries, Phoenix Biomedical Campus and Steele Children's Research Center have all benefited from Craig and Nancy's combined time, talent and philanthropy. Craig will be remembered as a gentleman, businessman, and loving husband, father, grandfather, brother, uncle and friend. His Wildcat blood ran deep.

2018 INVESTMENT COMMITTEE

Craig Barker  
Senior Vice President Financial Services, CFO, CID, University of Arizona Foundation

Gregg Goldman  
Senior Vice President Business Affairs & CFO, University of Arizona

Thomas Keating  
Chairman, Yvonne Ventures LLC

Steve Kelly  
Assistant Director Investments, University of Arizona

John Payne  
President & CEO, Sterling Investment Management

Allan Norville  
President & CEO, Financial Associates Inc.

Brian Franke  
Principal, Indigo Partners

Sarah Smallhouse  
President, Thomas R. Brown Foundations

Kerry Tyler  
Managing Director & COO, Lone Pine Capital

A Portrait of Loyalty

Craig Berge was a true friend of the University of Arizona and the Foundation. Together, he and his wife of 56 years, Nancy, served tirelessly for the benefit of both institutions. Craig held positions on the Alumni Association Board and the National Leadership Council as well as the University of Arizona Foundation Board of Trustees, including many years on the Investment Committee and service as Board chairman.

Craig passed away in December 2017 at the age of 82. "Craig was the consummate gentleman: kind, wise and always available and interested in helping,” said Dick Silverman, past Chair of the UA Foundation Board and current Investment Committee member. "Craig was generous with his time and support of the UA Foundation. We will miss his insight and counsel.”

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GLOSSARY OF TERMS

Endowment Fee  
The amount reimbursed to the Foundation for administering and providing stewardship to the endowment. The Endowment Fee was reduced to 1.35% from 1.43% of the fair value of the endowment principal as of July 1, 2008. Our Investment Committees 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.

Historic Dollar Value  
The sum of all gifts received into an endowment fund since its creation.

Hurdle Rate  
The sum of the Payout and the Endowment Fee. The annual distribution from the endowment for the account’s purpose is equal to 4% of the average fair value of the endowment principal at the end of the 12 quarterly periods within the three prior calendar year-ends.
INVESTMENT GOAL

Our goal in managing the endowment is straightforward: to manage the assets such that the return exceeds the Hurdle Rate 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.

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.

2018 Investment Performance

8.3%

RETURN BEFORE HURDLE RATE

BENCHMARKS

FOR FISCAL YEAR 2018

17.6%
Russell 2000 Index
U.S. Small Company Equity index

14.4%
S&P 500 Index
U.S. Large Company Equity index

8.2%
HFRI Equity Hedge Index
Long/Short Equity Hedge Fund index

8.2%
MSCI Emerging Markets Index
Emerging Markets Equity index

7.3%
MSCI ACWI Ex-U.S. Index
International Equity index

7.3%
Bloomberg Commodities Index
Commodity Futures Index

7.2%
FTSE NAREIT Global Index
Global real estate equity index

2.1%
Barclays U.S. TIPS Index
U.S. Inflation-protected bond index

-0.4%
Barclays Ag. Bond Index
Core U.S. Bond index

Results

Our return before the Hurdle Rate in fiscal year 2018 was 8.3%*. This compares to a return of 7.8% for the target weighted benchmark and 6.2% for a 60% MSCI All Country World Index/40% Barclays US Aggregate Bond Index portfolio.

Our average return before the Hurdle Rate for the 15 years ending June 30, 2018, was 7.9%, while the average return after the Hurdle Rate for the same period was 1.8%. 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 during the 15-year period.

The Investment Committee believes it is important to maintain a highly diversified portfolio, tilting toward opportunities as they present themselves. The period since March 2009 has been a challenging one for a diversified approach such as ours, as the unconventional monetary policies of the Federal Reserve and the central banks of other developed countries have continued to drive U.S. equity market valuations to extremes.

These policies have also made it appear as if a passive investment approach is the right one for almost every asset class, that a growth orientation is superior to a value orientation, that non-U.S. diversification isn’t additive, and that certain hedge funds no longer have a place in a portfolio.

The return of volatility to the equity markets in February 2018 may mark the beginning of the end of a highly unusual period and a return to a more normal environment where diversification is again rewarded.

*Using performance information received through September 30, 2018.
Atlas Venture X was added to the portfolio in 2015. Atlas invests in life sciences companies with an emphasis on early-stage investments. Atlas Partners Bruce Booth, Jason Rhodes, Peter Barrett, Jean-Francois Formela, David Grayzel and Kevin Bitterman have done superb work building a diverse portfolio of companies with business models across the spectrum of big biology platforms and asset-centric companies. We also are excited to have received an allocation to Atlas Venture XI.

We have made three commitments to Scout Energy Partners, a manager that makes direct investments in small-to-mid-sized upstream oil and gas assets in the continental U.S. Managing Directors John Baschab, Todd Flott and Jon Piot have moved quickly to exploit an opportunity to acquire assets at attractive prices from a variety of sources, assisted by a proprietary, internally designed software tool. The size of our commitments in Fund II, Fund III and Fund IV have resulted in Scout becoming the fifth-largest manager in our endowment pool.

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 its approach. Palo Alto specializes in health care investing with an edge in that practicing medical doctors are members of its investment team. Palo Alto was the No. 1 performer in the pool in each of 2017, 2015 and 2014, the No. 5 performer in 2012, and outperformed the NASDAQ Biotech Index by 960 basis points net of fees in 2018.

PIMCO Research Affiliates Enhanced U.S. Small, formerly known as the Research Affiliates Enhanced U.S. Small Fund, was added to the portfolio in 2007. The fund was the No. 2 performer in 2013. The fund underperformed the Russell 2000 index by 130 basis points net of fees in the year. Our relationship with Research Affiliates began in October 2004 with our investment in the PIMCO All Asset Fund, which they sub-advised. This was the second strategic partnership we formed and accounts for just under 1% of the endowment in four different strategies.
Since hiring FEG as of July 1, 2019, 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 the exceptional U.S. equity returns of the past few years have significantly reduced the likelihood of generating such returns going forward. The FEG-P portfolio of the U.S. stock market using the so-called Shiller method (Cyclically Adjusted Price/Earnings ratio, or CAPE) remained at 36.0 as of June 30, 2018 (Source: Research Affiliates). This ranks in the 97th percentile relative to history, only exceeded by the tech bubble and a few months before the 1929 crash. This contrasts with the CAPE for Emerging Market Equities, where we have a higher allocation, which is 14.1 and in the 1st percentile. While no one measure is perfect, CAPE ratios do a reasonable job of predicting long-term returns from equity markets.

Accordingly, it is important to spread our risks more equally across the four major asset categories: (i) global equity (target of 45%), which consists of U.S. and international equity, long-short equity, and private equity; (ii) global fixed income/cash (target of 16%), which consists of cash, U.S. rate sensitive fixed income, and real estate; (iii) global commodities (target of 12%), which consists of mean reversion, tactical volatility hedge, and precious metals; and (iv) global real estate (target of 20%), which consists of U.S. and international real estate, TIPS, gold, timber/forestry and commodities/energy, and (a) diversifying strategies (target of 10%), which consist of mean reversion, tactical asset allocation and low volatility hedge.

For the past five years, we have undertaken the difficult work of building out our portfolio of private investments. When we undertook a national search for a new consulting firm in 2019, we sought a partner that had deep expertise across all private asset class types, and who could help us build out a best-in-class portfolio in those areas. During the five years ending in 2018, we steadily increased dollars committed to and invested in private vs. public markets, as we believe this provides us with another opportunity to outperform public markets in equities, credit, real estate and energy. As of June 30, 2018, we are near our long-term targets for investment in private equity, and will near our long-term targets for both private credit sensitive fixed income and private real estate over the coming years. We have committed are called. We are hopeful of achieving our long-term target for private equity of 25% (vs. our near-term target of 15%) within five years as we will commit to, and then fund, leading managers. Our preferred commitment size across all private asset classes is generally 1% of our endowment pool, as the endowment pool has grown, the commitment size increased from $6.5 million/fund to $7.5 million/fund during 2018, and will be $8.1 million in 2019.

Increased our Allocation to Private Equity We believe a period of extremely low oil and gas prices and the corresponding underinvestment in extraction and production created an attractive opportunity set to which we committed.

$12.5 million to Scout Energy Partners IV, our third commitment to this firm, which uses a theme-based approach to target attractive real-estate sectors at any point in the market cycle.

$7.5 million to Iron Point Real Estate Partners Fund II, which uses a theme-based approach to target attractive real-estate sectors.

$25.5 million to Stage Energy Partners II, our third commitment to this fund whose third fund was the No. 2 performer in our endowment in 2018.

$7.5 million to Pelican Energy I, our second commitment with this firm, which focuses on building oil companies in the oilfield services sector.

We also invested an additional $10 million in an increased allocation to Master Limited Partnerships (MLPs) to take advantage of price weakness in this sector. In connection with this investment we moved to a more concentrated portfolio (R&H Energy MLP Swap) run by Rob Raymond.

Increased our Allocation to Private Equity We increased our exposure to private equity with leading managers by committing:

$3.5 million to Cressey & Co., our first commitment to this experienced firm, which specializes in building leading middle market health care businesses in partnership with exceptional management.

$2 million to CVC II, our second commitment to this London based buyout firm with over 40 years of experience.

$5.5 million to Carterian Pinnacle I, our first commitment to this firm, which is focused on opportunities across emerging markets.

$6.5 million to Timber Bay I, our first commitment to this firm, which specializes in acquiring assets from private equity funds at or near the end of their funds lives. This is a new category of private equity investment for our endowment pool.

Increased our Allocation to Private Real Estate We have added three new private real estate managers to the following three managers:

$6.5 million to Hartbeat European Fund V, which targets a variety of property sectors in mature, liquid and established markets with a focus on the U.K., France and Spain.

$6.5 million to Singerman Real Estate Opportunity Fund I, which focuses on executing complex transactions through investments in debt and equity across the major property sectors.

$7.5 million to Iron Point Real Estate Partners Fund II, which uses a theme-based approach to target attractive real-estate sectors.

Increased our Allocation to Short/Long Equity Allocation We increased our exposure to private equity in 2019, and will be $8.5 million in 2019, and expect this section of the endowment pool to be shorter in the future as a result.

$3.5 million to Pershing Square, a manager we had been invested with for five years and who has done a good job navigating these difficult markets, elected to close their fund on June 30 and return capital. At the same time, the Committee elected to reduce our overweight to emerging markets by exiting our investment in the Emerging Sovereign Group-Domestic Opportunities Fund. Proceeding the proceeds from the return of funds from these two managers, we invested $17 million in June with Firefly Value Partners, who joined with Highfields Capital, are our continuing managers in this asset class.

Expanded our Credit Sensitive Allocation We committed $50 million to Angelo Gordon Direct Lending Fund III, our second commitment to this manager but out first made by the endowment pool. Though this sector is currently being flooded with capital, we believe disciplined, experienced teams with deep networks such as the Angelo-Gordon team run by Trevor Clark (who has over 20 years of experience in this asset class) will deliver an attractive risk-adjusted return to our endowment pool.

Removal Commodity Futures from the Portfolio In September 2016 we added the Elkhorn Fundamental Commodity ETF to our endowment pool. Though this sector is currently experiencing elevated market volatility, we believe certain managers and exposure concentrations in connection with the FEG Conference, then held at second meeting of the year in New York City. As a result, the Committee received reports from a record number of managers reporting managers in 2018 included:

- Rob Arnott, Research Affiliates, Chairman
- Peter Yu, Carterian Capital, Managing Partner
- Kevin Kenny, Emerging Sovereign Group, Chief Investment Officer
- Tim Jenkins, Marble Arch, Managing Partner
- Peter Williams, Westport Capital Partners, Managing Partner
- Dries Darius, King Street Capital, Member
- Jack Ross, Waterfall Asset Management, Principal
- Stuart Elman and Raju Rishi, RRE Ventures, General Partners
- Rick Friedman, GAMO, Asset Allocation team
- Russell Benedict, Westport Capital Partners, Managing Principal
- Abigail Mason, Kaskip & Co., CIO
- Rob Raymond, R&H Energy, Principal
- Joon Yun, Palo Alto Healthcare, Managing Partner

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 which provides “sustainable growth” (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 year 2019 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 reduced from 1.25% to 1.37% for fiscal year 2019.

Committee Meetings/ Presentations The Investment Committee held its first meeting of the year in Washington, D.C. in con- nection with the FEG Conference, then held at second meeting of the year in New York City. As a result, the Committee received reports from a record number of managers reporting managers in 2018 included:

- Rob Arnott, Research Affiliates, Chairman
- Peter Yu, Carterian Capital, Managing Partner
- Kevin Kenny, Emerging Sovereign Group, Chief Investment Officer
- Tim Jenkins, Marble Arch, Managing Partner
- Peter Williams, Westport Capital Partners, Managing Partner
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- Stuart Elman and Raju Rishi, RRE Ventures, General Partners
- Rick Friedman, GAMO, Asset Allocation team
- Russell Benedict, Westport Capital Partners, Managing Principal
- Abigail Mason, Kaskip & Co., CIO
- Rob Raymond, R&H Energy, Principal
- Joon Yun, Palo Alto Healthcare, Managing Partner
INVESTMENT BELIEFS

1. 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.” 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 We will not take additional risk simply to keep pace with other endowments, but will only take on more risk when market conditions warrant.

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

3. We need to make meaningful allocations to private equity, diversifying strategies and real assets to achieve our goal.

4. We maintain a value orientation in our equity portfolios, as we believe a combination of value and quality will win over the long term.

5. Economist Harry Markowitz is correct. Portfolio diversification provides investors with a “free lunch” in that a given level of return can be achieved with lower volatility. Moving toward a “flatter” portfolio is a key component of how we are building additional portfolio diversification.

6. 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.

Great Expectations

FEG’s Asset Allocation Analysis showed our 2018 model portfolio was expected to provide a total annual return of 8.0% with a standard deviation of 14.6% over a 10-year period. Standard deviation is a measure of the variability of returns around the mean; the higher the standard deviation (potential variability), the higher the potential risk.

The following shows the ten largest managers in the pool at June 30, 2018, as a group these 10 account for 52.3% of total assets.
RIGOROUS

Global equity

45.6% of the portfolio at June 30, 2018; Fiscal year 2018 return of 11.1% vs. the MSCI All Country World Index return of 10.7%.

U.S. Equities

Our purpose for holding U.S. equities is to generate growth via total return. We use four managers in our U.S. equity allocation: GMO Quality, Palo Alto Healthcare, DGHM and PMICO Research Affiliates Enhanced (both large and small). We believe carefully selected active managers will outperform capitalization weighted indexes over long horizons. We also 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 which are highly leveraged and/or have a low earnings quality.

Our 2018 U.S. equity returns were negatively impacted by Pershing Square Holdings, which we exited during the year as a part of our effort to concentrate our positions.

International Equities

Our purpose for holding international equities is to generate growth via total return. Our international equity investments provided strong returns in 2018, with three of the seven top performing investments in the endowment coming from these markets. We use nine managers in our international equity allocation: PMICO Research Affiliates Enhanced, Lancaster European Equities, The Children’s Investment Fund, GMO (both International Small and Emerging), DFA Emerging Markets Small Cap, RWJ Frontier Markets, Tybourne, Constellation and New Horizon. We believe that international equities today are more attractively priced than their U.S. counterparts, and we maintain our overweight to them and in particular to emerging markets.

If you evaluate emerging markets over the short term, currency fluctuations and volatility can overwhelm the true investment potential for this asset class, as was the case in the fourth quarter of fiscal year 2018. Our Investment Committee has focused on the long-term valuation fundamentals of emerging equities since September 2003, and we have steadily increased our allocation from 3% at that time to 9% for fiscal year 2018 and also broadened it to include frontier markets and country/region specific managers. We have also expressed this view in our private equity portfolio, with commitments to five Asia Alternatives Funds and two Africa Development Partners Funds, and in our private real estate portfolio with a commitment to the JP Morgan India Property Fund II. The Committee reduced our overweight in 2018 by exiting the Emerging Sovereign Group-Domestic Opportunity Fund, as noted previously.

Long/Short Equity

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. We used four managers in this asset class in 2018, as noted earlier Highfields and Firefly remain in the Endowment pool in 2019. This continued to be a challenging asset class in 2018.

Private Equity

Our purpose for holding private equity investments is that top managers, 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 300-500 basis points per year the Global Equity indexes over a market cycle. Our private equity managers as a group over five years have achieved this goal, returning 15.5% vs. 9.4% for the MSCI All Country World Index and 14.6% for the Thomson One All Private Equity Index.

Working with Nolan Bean, our lead consultant at FEG and FEG’s research team leaders in private equity/venture capital, as of June 30, 2018, we have established relationships with 17 leading firms in three major categories: (1) international (Asia Alternatives, Africa Development Partners, ECI, OpCapita and Cartesian), (2) U.S. small to middle market buyout (Staple Street, Mason Wells, Silver Oak, Angeles, Cresey and Timber Bay) and (3) U.S. venture capital/growth equity (DFJ Venture, Menlo Ventures, Atlas Venture, DG Growth, Summit Partners and RRE Ventures). In 2019 we will opportunistically expand the number of relationships, with a longer-term goal of allocating 20% to this asset class. The help of a first-rate consultant has been critical to our efforts to grow our allocation to leading managers in this asset class, and we have that with FEG. One headwind to our Private Equity allocation is a result of our small endowment size in 2003 when we implemented the model portfolio approach. This meant that our initial allocations to private equity were in fund of funds, as our small size would not allow us to both invest directly and maintain a diversified portfolio. We have a number of legacy fund of funds investments that are nearing the end of their fund lives and are no longer generating significant gains. At the same time, we are making a number of new commitments that are still early in the j-curve (the tendency of funds early in their life to generate negative returns while the portfolio is maturing) and thus providing returns to the endowment. Once we have established the targeted number of relationships and are funding them on a serial basis (i.e. Fund I, Fund II, etc.), both of these factors should have minimal impact on our portfolio going forward.
Global fixed income/credit

Income/Credit

Bond Index

-0.4% for the Barclays U.S. Aggregate

Fiscal year 2018 return of 4.0% vs.

12.7% of the portfolio at June 30, 2018;

-6.4% and the Whitebox Asymmetric

Opportunities Fund returned 5.7% in

2018. The GMO Mean Reversion Fund

returned 4.4% in 2018. Our commitment
to the fourth, Elliott International, remained
primarily uncalled as of June 30, 2018. A
more “normal” interest rate environment
and level of market volatility will benefit
these funds.

Eugene Fama and Ken French.

We believe the opportunity set in U.S. Fixed Income is in the

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Credit Sensitive: We believe the better opportunity set in U.S. Fixed Income is in credit sensitive investments, and we hold a mix of private credit funds (where capital is called over time) and credit hedge funds. We have positioned our credit hedge funds with a focus on asset-backed securities, which provide both a strong current yield and excellent total return prospects. This positioning was additive to performance in 2018 with strong returns from Marble Ridge (8.8%), Waterfall Eden (8.7%) and our private credit sensitive managers Falcon, Merit and Oak Hill (20.3%) as a group.

International Fixed Income: Our purpose for holding international Fixed income is to provide diversification and total return. We believe the opportunity set for Developed Markets international fixed income is extremely unattractive, as high quality bonds in these markets trade either at all-time low or even negative yields. We will own these securities in our endowment at these levels. Our only position in international fixed income is in the Gramercy Distressed Opportunity Fund III, which exploits Gramercy’s expertise in distressed debt investing in emerging markets while avoiding currency exposure.

Cash

Our purpose for holding cash is two-fold: (1) provide dry powder in a market downturn and (2) provide liquidity for our commitments to private equity, private real estate, private energy, private credit, and absolute return managers, which in total amount to 21.6% of the fair value of the portfolio.

We use two managers in our cash allocation. Our major position is in the JP Morgan U.S. Government Money Market Fund, we want to take no market risk whatsoever with a portion of our cash reserves. We are pleased that as interest rates normalize, there is actually a return on (not just of) our cash, which reached 1.8% at the end of 2018. Our remaining allocation is in the DFA One-Year Fixed Income Fund with a goal of exceeding the return we earn on the U.S. Government Money Market Fund with only nominal risk.

Rate Sensitive: Our purpose for holding U.S. Fixed Income (both rate sensitive and credit sensitive) is to provide deflation protection and total return. We believe U.S. treasury (rate sensitive) securities are significantly overvalued and therefore hold only a 2.0% position in Rate Sensitive investments through the DFA Extended Short Term Quality Fund. DFA is the largest manager in the endowment pool, and is our top choice for any asset class where we do not believe traditional active management is appropriate. Despite its index-like construction, DFA has a long track record of outperforming its benchmarks due in part to superb trading skill and portfolio implementation, which benefits from close ties with top academic minds including Eugene Fama and Ken French.

We categorize diversifying strategies in three unique segments:

Mean Reversion: Our purpose for holding these assets is to exploit a fundamental principle in investing: Investment returns will revert to the mean over time. Mean reversion may not occur quickly, nor will prices revert precisely to historical means. Accordingly, our managers in this allocation (GMO and Whitebox) can appear “wrong” for an extended period of time. In their October 2014 Fundamentals, Research Affiliates stated “The largest and most persistent active investment opportunity is long-horizon mean reversion. Quite simply, systematically buying assets with relatively low prices (and correspondingly high yields) and having the conviction to hold these positions over potentially extended horizons allows investors to earn higher risk-adjusted returns, albeit at significant emotional cost.” The GMO Mean Reversion Fund returned -6.4% and the Whitebox Asymmetric Opportunities Fund returned 5.7% in 2018. The GMO Mean Reversion Fund provided strong returns in a number of market environments including 2005 (the No. 5 performer in the fund), 2008 (No. 6), 2009 (down only 1.2%), and 2012 (No. 4). Whitebox has generated an annualized return that exceeds its benchmark by 390 basis points per year since the inception of our investment in October 2012.

Tactical Asset Allocation: Our purpose for holding these assets: to allow us to allocate a portion of our portfolio to top asset allocators using a primary or secondary benchmark (CPPI + 5%) that aligns well with our endowment benchmark of inflation plus 3.5%. Our two managers (GMO and PIMCO) tactically invest in areas of the market which their asset class forecast shows are positioned to generate the most attractive return over the next seven to 10 years. The PIMCO All Asset Fund returned 4.3% in 2018, while the GMO Global Allocation Absolute Return strategy returned 4.1%. Both have outperformed the HFRI Fund Weighted Index since inception while also exceeding our Hurdle Rate of return.

Low Volatility Hedge: Our purpose for holding low volatility hedge assets is for diversification and total return. We are looking for equity-like returns with bond-like volatility over a full market cycle, and we only invest in funds with an inception to date standard deviation of 6.0 or less.

We use four low volatility hedge managers. King Street Capital is a long/short credit and event driven manager that returned 33.1% in 2018; Graham Discretionary is a global macro manager that returned 1.6% in 2018; and HBK is a multi-strategy hedge fund that returned 4.4% in 2018. Our commitment to the fourth, Elliott International, remained primarily uncalled as of June 30, 2018. A more “normal” interest rate environment and level of market volatility will benefit these funds.
We invest in real assets for inflation protection, diversification and total return. We allocate among six different categories:

- **Public Real Estate**
  This was the first alternative asset class added to our portfolio. The DFA Global Real Estate Securities Fund returned 5.7% in 2018 vs. 5.2% for the benchmark.

- **Private Real Estate**
  We made our first private real estate investment in 2007 with a goal of outperforming our public real estate investments. Since engaging FEG, we have invested with Westport (and New Cold), Iron Point, Singerman, Harbert and Farallon. Our positioning in this asset class has been significantly upgraded, and we anticipate strong relative returns going forward. Our managers as a group returned 6.8% in 2018 vs. the 8.6% return from the Thomson One Private Real Estate Index; weighing on the 2018 return was a the JP Morgan India Real Estate Fund II (-16.5%).

- **Inflation-Protected Securities**
  Though it has not yet appeared in size, we believe there is still a real possibility of inflation as a result of actions taken by central banks around the globe. In his December 2013 white paper entitled “No Silver Bullets in Investing,” James Montier states that “if you are seriously worried about inflation, then this (TIPS) is still insurance that pays you for owning it (as opposed to the expected negative value of most insurance)” (page 14). The DFA Inflation Protected Securities Fund returned 1.7% vs. 2.1% for the benchmark.

- **Gold**
  We hold gold in our portfolio as insurance against deflation or a loss in faith in the financial system (to quote Jim Grant of Grant’s Interest Rate Observer, the value of gold is inversely related to the market’s confidence in central bankers). The First Eagle Gold Fund invests in gold primarily through the stocks of high-quality precious metals miners, which is a leveraged bet (both on the upside and downside) on physical gold. The First Eagle Gold Fund fell by 6.8% vs. a 1.4% decline in the index.

- **Timber/Agriculture**
  We added this asset class to our portfolio in 2004 to allow us to participate in an investment that has a low correlation to equity markets and provides biologic growth in all market cycles. We have three timber investments with The Rohatyn Group (TRG) and one Agriculture investment with TRG in their Farmland Opportunity Fund. We added a second manager (Homestead Capital) to this allocation in August.

- **Commodities/Energy**
  This asset class was added to the portfolio in 2005 to provide inflation protection and returns uncorrelated to the equity markets. We have a broadly diversified allocation which consists of:
  - An MLP Equity Manager (RCH)
  - A total of $25.5 million in commitments to Scout Energy Partners, our oilfield services manager
  - A $6.5 million commitment to Rockland Power III, our power manager

Our private energy managers as a group led the endowment pool in performance; our 6% allocation generated a return of 49.2% vs. 21% for the S&P 500 Energy Sector and 6.2% for the Thomson One Private Natural Resource Index.

**Enduring Future**
Together, we’re creating a bright future for the UA. We’re investing in all the good we’ve done, all the good we’re doing now, and all the good that’s yet to come. If you have an established endowment, we hope you’ll increase your investment and amplify your impact this year. If you have not yet created an endowment, please consider establishing one. Long-term investment creates a unique and meaningful connection to the UA and our generous philanthropic community.
To us, they create many things. They create scholarships that help students succeed. They create the resources that empower discovery. They create art. They create community. They create mind-blowing science. They create traditions, legacies and tributes to those we love. Above all, gifts create opportunity, and because of you, this was our most impactful year yet. This was a landmark year for fundraising, with a record number of gifts supporting the endowment. This inspiring show of support propels us all forward as we aim to achieve even bigger and more challenging goals in the future. We’re working on what’s next — for education, for research, for the world. And gifts create a place that sparks the genius, creativity and innovation it takes to achieve our dreams. In our evolving, digital future, we know that all facets of our diversity and creativity will set us apart and generate even more revolutionary work. We’re excited for what’s next, and we’re excited that you’re a part of it.