



Investment Report to Donors for the Fiscal Year Ended June 30, 2009

The 2008-2009 fiscal year was the most extraordinary investment period in the 55-year history of the WVU Foundation. Never before had we witnessed an environment in which there were such swift and severe market losses affecting most asset classes and regions globally. For the first eight months of the fiscal year (July – February), the S&P 500 Index lost almost 42% of its value before recovering during the final four months of the year to finish down 26%.

For the fiscal year ended June 30, 2009, the value of the Foundation's endowed pool declined from \$417 million to \$315 million. Excluding flows into the pool, the investment portfolio returned -29% for the fiscal year. In spite of the unprecedented market conditions, we expected that the diversification in our portfolio would have provided better downside protection. Although that was not the case last year, it is important that we evaluate our investment strategy in light of the Endowment's long-term horizon.

Because of the perpetual nature of the Endowment, the asset allocation is designed to ensure that it generates net absolute returns over a 'market cycle' (or five years). While the most recent rolling five-year period was negatively impacted by the FY2009 return, the first table below shows that the Endowment has consistently met its objective.

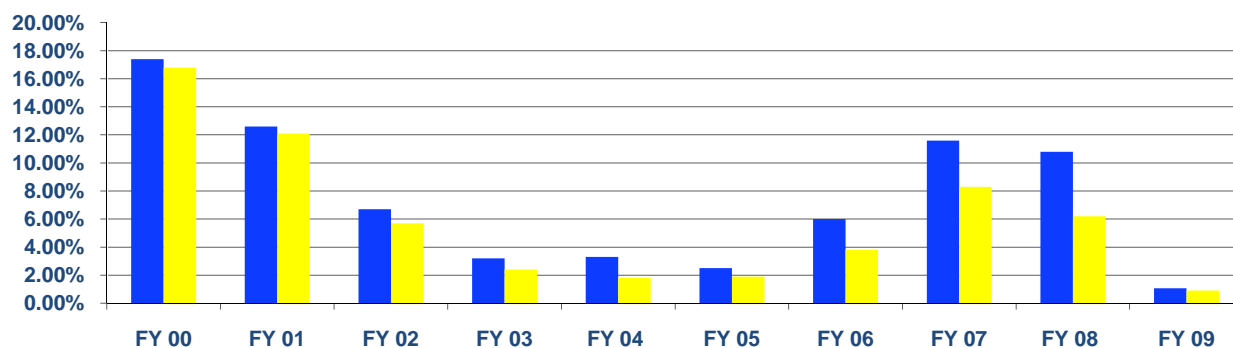
The second table compares the annual return of the Endowment to its blended benchmark for each of the last five fiscal years. With the exception of FY 2008-2009, the Endowment has also out-performed on an annual basis. It is important to note that, while last year's return was extremely disappointing, the majority (95%) of the portfolio's losses were unrealized. This is primarily due to two factors. First, as the markets were quickly spiraling downward, we elected not to permanently lock in losses on our public equity and fixed income holdings. Secondly, as part of our strategy to generate significant capital appreciation, almost half of the endowed pool is committed to private limited partnerships that invest in 'alternative' assets, such as natural resources, private equity, and real estate. These partnerships, on average, have a 10-year term. Historically, these assets were held at cost until the investments were sold by the partnerships and valued upon sale or exit. However, due to the introduction of a new accounting principle (FAS 157), these longer term investments must now be valued at current prices, or 'fair value' (even if there is no intent to sell or a willing buyer). While this change resulted in significant unrealized losses last year, most of these 'paper' write-downs should be recovered over time.

In light of the recent performance of many university endowments and foundations, it is not surprising that the ongoing merits of the 'endowment investment model' are being questioned. The final two tables show the value added to the Endowment's historical returns by having an exposure to alternative investments. Over the past decade, the excess returns that have been generated by the Endowment, relative to the public markets, were largely driven by our investments in natural resources, private equity, and real estate. While we regret the portfolio's recent performance, we are no less convinced today that our asset allocation strategy will serve us well again in the future, and that the Endowment is well-positioned to generate the level of returns necessary to provide support to West Virginia University.

WEST VIRGINIA UNIVERSITY FOUNDATION

Endowment Pool Returns

5 Year Annualized Return for periods ended June 30



	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Endowed Investment Pool	17.4%	12.6%	6.7%	3.2%	3.3%	2.5%	6.0%	11.6%	10.9%	1.1%
60% S&P 500 / 40% Bond Index	16.8%	12.1%	5.7%	2.4%	1.8%	1.9%	3.8%	8.3%	6.2%	0.9%

The investment objective of the Endowed Funds is to achieve at least a positive return (greater than zero) after deductions for inflation and spending over rolling five year periods.

Net Investment Performance for periods ended June 30

%	FY 05	FY 06	FY 07	FY 08	FY 09
WVUF Endowed Investment Pool	8.9	13.6	20.1	0.8	-29.1
<i>Blended Benchmark 60% S&P 500 / 40% Bond Index</i>	<i>6.6</i>	<i>4.8</i>	<i>14.7</i>	<i>-5.3</i>	<i>-13.9</i>

Marketable vs. Alternative Investment Performance for periods ended June 30

%	FY 05	FY 06	FY 07	FY 08	FY 09
Marketable Investments (Equity, Fixed Income)	6.5	11.2	19.0	-10.5	-28.2
Alternative Investments (Natural Resources, Private Equity and Real Assets)	13.6	20.2	21.9	20.3	-29.8
Total Net Return	8.9	13.6	20.1	0.8	-29.1

Annualized Performance June 30, 2004 - June 30, 2009

WVUF Endowment Return	1.1%
WVUF Alternative Investments	6.7%
Barclays Aggregate Bond Index	5.0%
S+P 500 Index	-2.2%