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## Introduction

The following information about the Northern Kentucky University Foundation, Inc. (Foundation) Endowment pool has been prepared in order to provide you information on the management of the Endowment pool and on the individual funds that make up the Endowment pool. The Endowment pool is currently made up of approximately 240 individual funds. The individual funds work together as a single entity as a means to maximize returns and encourage growth. The Foundation utilizes a unitized method of calculation to determine the market value of each individual fund within the endowment pool. Each individual fund is assigned shares or “units” within the Endowment pool. Shares or “units” are evaluated on a monthly basis to determine market value of individual funds.

## NKU Foundation, Inc. Endowment Value

As of June 30, 2012 the Endowment pool supporting Northern Kentucky University (NKU) was valued at \$70.6 million.

## Market Value

Market value is the value of the endowed scholarship, or programmatic fund, established with your gift. The market value is based on the fair market value of all assets as of June 30, 2012. It includes realized and unrealized capital appreciation and is net of spending that has taken place to support the scholarship or program.

## Investment Returns

The long term goals of the Foundation Endowment pool (as outlined in our Investment Policy Statement) focus on investing to achieve consistent growth while managing annual spending, inflation and administrative fees. Historically, the Foundation has been able to achieve earnings while meeting individual donor’s wishes to fund scholarships, programs, professorships, and other awards.

### *Investment Performance* *June 30, 2012*

	Qtr	YTD	1 Yr	3 Yr	5 Yr	10 Yr
<b>Total Fund</b>	<b>-2.5%</b>	<b>5.7%</b>	<b>-0.09%</b>	<b>11.2%</b>	<b>1.6%</b>	<b>6.3%</b>
CPI +5%	0.9%	3.1%	6.6%	7.1%	7.0%	7.4%
Custom Benchmark*	-2.6%	4.0%	-1.4%	9.8%	0.4%	5.5%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Total Fund</b>	<b>-0.9%</b>	<b>21.4%</b>	<b>13.7%</b>	<b>-15.2%</b>	<b>-7.0%</b>	<b>19.6%</b>	<b>11.3%</b>
Custom Benchmark *	-1.4%	20.1%					
CPI + 5%	6.6%	8.2%	6.1%	3.9%	9.9%	7.7%	9.2%
HEPI +5%	3.6%	8.7%	8.7%	8.7%	8.7%	8.7%	9.9%

\* Custom Benchmark is currently comprised of: 30% Russell 3000 Index, 20% MSCI AC World Index ex-US, 15% Barclays Aggregate Bond Index, 15% HFRI Fund of Funds Index, 10% Thomson One/Venture Economics, 5% Dow Jones UBS Commodities Index, and 5% NCREIF Townsend Value Added Index

## Spending Policy/Endowment Payout

To mitigate the impact of short-term market volatility on the Endowment pool, the spending rate is based on a 16-quarter moving average of the market value as of June 30th of the previous year. The approved distribution rate is based upon a total return



approach, which utilizes both income and capital appreciation. The approved distribution percentage available for spending for fiscal year July 1, 2011 through June 30, 2012 was a combined total of 3.875%. The spending percentage is authorized annually by the Board of Directors and determined in accordance

with a Board adopted spending policy. The Foundation has a long-term targeted spending rate of up to 5% of the average market value. The Foundation's spending policy attempts to balance the long-term objective of maintaining the purchasing power of the Endowment pool with the goal of providing a reasonable, predictable, stable and sustainable level of funds to support the students, faculty, and programs at NKU.

## Endowment Pool Program Support

The individual funds within the Endowment pool are designed to support students, faculty, and programs as designated by the donors. Program support is provided in the form of scholarships, fellowships, professorships, building operations, research activities, and general operations. All areas of support are designed to enhance the University and provide ongoing support to current and future generations engaged with University programs.

## Current Asset Allocation

The following chart depicts the composition of the pooled endowment by major investment categories as determined by the Board of Directors. The NKU Foundation endowment pool is invested for a total return with an emphasis on equity investments for growth of the fund over time. The target for the asset allocation to improve yield, diversification, and reduce risk is 65% global equity, 15% global fixed, 10% real assets, and 10% diversifying strategies.

Asset Class	Current Weight June 30, 2012	Target Range
Large/Mid Cap Equity	34.1%	10% - 45%
Small Cap Equity	4.3%	0% - 20%
International Equity	8.5%	5% - 25%
International Small Cap Equity	0.4%	0% - 10%
Emerging Markets	5.3%	0% - 10%
Fixed Income	18.2%	10% - 35%
Fund of Funds - Hedge Fund	13.0%	0% - 20%
Fund of Funds - Private Natural Resources	6.0%	0% - 10%
Private Equity	7.4%	0% - 15%
Private Real Estate	2.7%	0% - 10%
Cash	0.1%	0% - 5%

## NKU Foundation, Inc. Executive Committee

The Executive Committee carries out the business of the Foundation and has the authority to act on all matters affecting the Foundation other than regular or special meetings of the Foundation Board. The Executive Committee is responsible for adopting policies recommended to it by the Investment Committee, including the Investment Policy Statement.



### June 30, 2012 Executive Committee members:

Judith H. Gibbons, President  
 J. David Bender, Vice-President  
 William C. Vermillion, Secretary  
 Daniel Groneck, Treasurer  
 Barry G. Kienzle  
 Terry L. Mann  
 Dennis Repenning  
 Gerard St. Amand  
 James C. Votruba  
 Karen Zerhusen Kruer, Executive Director

## NKU Foundation, Inc. Investment Committee

The Investment Committee monitors and evaluates the investments of Foundation assets (exclusive of cash and real properties) and recommends investment policies to the full Board through the Executive Committee. The Investment Committee meets regularly (generally four times annually) to review investment performance and policy issues that may arise. The committee evaluates and selects an endowment investments consultant and approves new investment managers when necessary. In summary, the Investment Committee:

- Establishes asset allocation percentages and appropriately makes allocations to investment funds and/or fund managers
- Monitors each manager's performance by comparison to appropriate indices
- At least annually, monitors and reviews the overall endowment fund investment progress and allocation decisions
- Recommends an annual spending rate for the endowment fund
- Is responsible for hiring and firing investment managers and increasing or decreasing allocations to these managers.

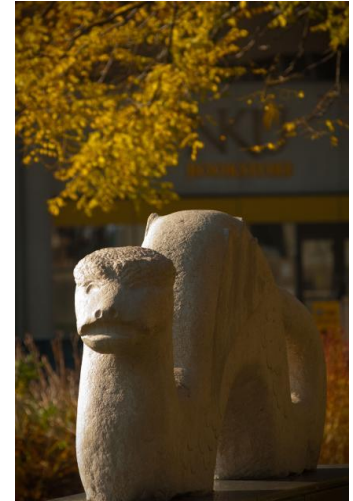
In between regular Investment Committee meetings, an Investment Leadership Subcommittee has been authorized to act on behalf of the full Investment Committee, when necessary, on matters regarding manager selection and rebalancing of the Foundation's traditional liquid (stocks and bonds) assets in the endowment portfolio. The subcommittee generally meets four to six times annually.



**June 30, 2012 Investment Committee members:**

Kevin M. Sheehan and William C. Vermillion, Committee Co-chairs  
 Paul W. Chellgren  
 Jason O. Jackman  
 James R. Poston, Jr.

Gerard St. Amand  
 John Winkler

**Endowment Investments Consultant\***

The investment consultant is responsible for assisting the Investment Committee and Executive Director in all aspects of managing and overseeing the Foundation investment portfolio. On an ongoing basis the consultant will:

- Provide the Committee with timely, proactive recommendations in all areas related to the Fund, including rebalancing, asset allocation, manager due diligence, investment styles and other pertinent information as it becomes available to the Investment consultant.
- Supply the Committee with reports (e.g. asset allocation studies, investment research and education) or information as reasonably requested
- Monitor the activities of each investment manager and their investment fund
- Provide the Committee with quarterly performance reports
- Review the Investment Policy Statement with the Committee

*\* Fund Evaluation Group, LLC (FEG) is the current endowment investments consultant. FEG serves as the investment advisor to over \$33 billion in institutional assets comprised of foundations, endowments, healthcare organizations, retirement plans, public funds, insurance companies and taxable clients. FEG is headquartered in Cincinnati, OH, has over 90 employees and is employee owned.*



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