



UNIVERSITY *of* VIRGINIA

INVESTMENT MANAGEMENT COMPANY

ANNUAL REPORT 2012–2013





UVIMCO ANNUAL REPORT

2012–2013

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FROM THE CEO

*To the Rector and Visitors of the University of Virginia, Foundation trustees,
and other members of the University community:*



The twelve months ending June 30, 2013, represented an eventful and successful year for the University of Virginia Investment Management Company (UVIMCO). I am pleased to report that our Long Term Pool returned 13.4% in fiscal year 2013, a healthy number in both absolute terms and relative to the benchmark return of 11.3%. Of course, it was a good year for markets as well, with global equities earning more than 17% during the year ended June 30, 2013. Last summer's concerns about fiscal problems in the United States, the economic slowdown in China, and the eurozone crisis seemed to fade in the face of expansive stimulus measures from the Bank of Japan, the U.S. Federal Reserve, and the European Central Bank. Global equity markets rose, and investors continued to react more to actual and perceived central monetary authority actions than to fundamental company results. This macroeconomic focus and the seemingly unlimited, complex, and often contradictory data available to investors caused markets to remain volatile, creating opportunities for our investment managers to exploit differences between fundamental value and price.

While I am pleased with this year's returns, our long-term investment horizon means it is much more important to assess our longer-term performance as the investment manager for the University of Virginia and related foundations. For the twenty-year period ending June 30, 2013, the Long Term Pool recorded an annualized return of 11.8%, comfortably exceeding both the 7.2% return earned by our performance benchmark and the University's spending rate—4% to 6% of the endowment's market value—plus the 2.5% average rate of inflation. This performance is a testament to our strategic asset allocation and risk management activities, the discipline of our manager selection process, and the dedication and expertise of our Board and staff. Although the investment landscape is constantly changing, I believe our portfolio of investment managers is unparalleled, and the Long Term Pool is well positioned for the future.

A highlight of the 2013 fiscal year was the October 2012 launch of UVIMCO's Short Term Pool. The primary purpose of the Short Term Pool is to preserve principal and provide a low-cost, stable, highly liquid, and secure investment vehicle to UVIMCO's investors. The addition of the Short Term Pool also enables the University and its foundations to tailor individualized portfolios of UVIMCO-managed investments to each organization's desired level of risk and liquidity.

A decade ago, the Long Term Pool totaled a little more than \$2 billion. Today, the Long Term Pool approximates \$6 billion, and our returns are among the best in our industry. I am extremely proud of our team for bringing us to this point, and I am grateful to the donors and to University and foundation leadership for their unwavering support of UVIMCO.

A handwritten signature in blue ink, appearing to read 'L. E. Kochard', written in a cursive style.

Lawrence E. Kochard
Chief Executive Officer/Chief Investment Officer
UVIMCO

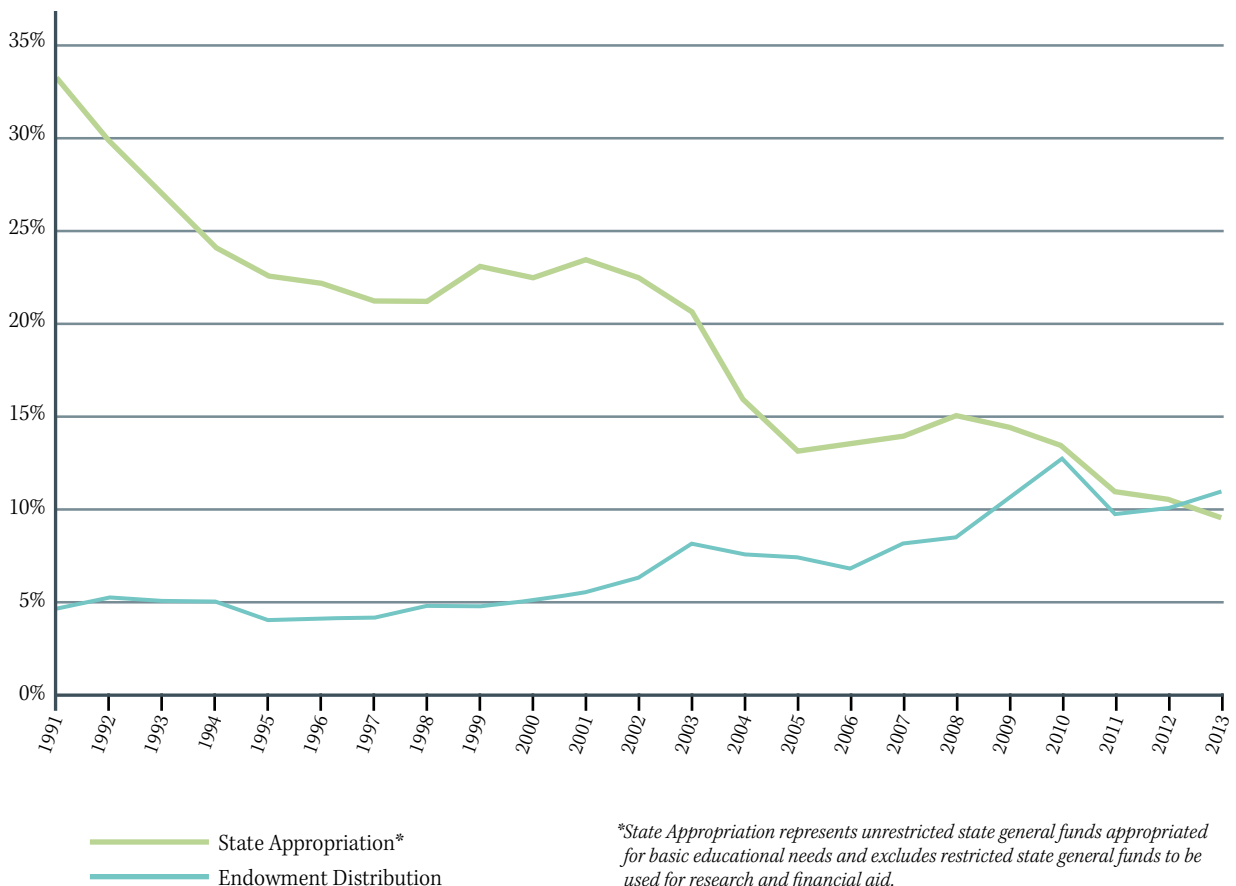
UVIMCO OVERVIEW

UVIMCO provides investment management services to the Rector and Visitors of the University of Virginia and to the University's related foundations. UVIMCO invests the endowment and other long-term funds held by the University and its related foundations in a Long Term Pool, which is custom managed for the endowment spending requirements and risk profile of the University. UVIMCO also manages a Short Term Pool for University and foundation funds with near-term liquidity needs.

As in prior years, in fiscal year 2013 the University of Virginia's endowment continued to rank among the five largest for public institutions of higher education and among the twenty largest of all colleges and universities in the United States. Equally important, the University's endowment per student also continues to rank among the largest in the nation for a public university, as it has done consistently in the past. As a different but related measure of strength, the University was ranked first among public schools in Princeton Review's 2013 Best Value Colleges listing, which is based on academic quality relative to cost. The University of Virginia's strong endowment has been a critical asset

Historical State Appropriations and Endowment Distribution

As a Percentage of Academic Division Operating Budget for the Fiscal Years Ending June 30

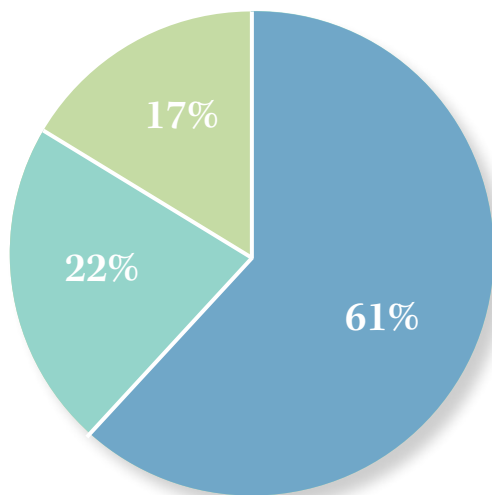


in enabling the University to expand its program offerings and facilities and attract high-quality students and faculty.

The University of Virginia's endowment strength also provides essential financial support and flexibility as the University's other revenue sources change. Historically, the University of Virginia relied heavily on appropriations from the Commonwealth of Virginia for its core funding. However, macroeconomic changes and constrained state budgets in recent years have resulted in less revenue available for public education expenditures in Virginia and many other states nationwide. Steadily declining state support means the University must increasingly rely upon existing gifts and continued donor generosity in order to sustain its margin of excellence. Annual giving contributions help cover the University's yearly operating expenses, while gifts to the endowment, along with the endowment's long-term investment performance, help secure the University's long-term financial stability. As the graph on page 4 illustrates, endowment spending now surpasses state appropriations as a funding source for the University's academic budget.

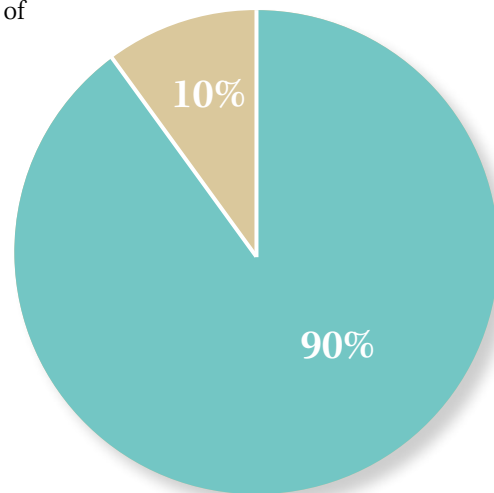
A number of the University's schools and programs have related foundations that manage their philanthropic support. This model allows the University and its foundations to work together with the associated schools and programs to enhance alumni support and ensure that funds are managed prudently and that gifts are used as donors intend. Together, the University and related foundations determine how best to use unrestricted contributions to provide student aid, build and maintain library collections, support student organizations and publications, and enhance teaching and research. The University's Board of Visitors has a representative on the board of each of the affiliated foundations, as does the President of the University. UVIMCO invests both long-term and short-term funds for the University and these related foundations. As of June 30, 2013, the shareholder compositions of both the Long Term Pool and the Short Term Pool were as follows:

The University of Virginia's endowment has been a critical asset in enabling the University to expand its program offerings and facilities and attract high-quality students and faculty.



Long Term Pool

- University of Virginia Endowment
- University-Related Foundations
- University Long Term Operating Reserves



Short Term Pool

- Long Term Pool Cash
- University-Related Foundations

PORTFOLIOS AT A GLANCE

Endowment gifts benefit the University and its related foundations in perpetuity. Invested properly, endowments generate a reliable stream of income necessary for professorships, scholarships, fellowships, lectureships, book funds, and many other purposes. UVIMCO's primary investment objective is to maximize the long-term, inflation-adjusted return of the Long Term Pool within the risk tolerance of the University. UVIMCO achieves this objective by actively managing the Long Term Pool in a manner carefully designed to provide a substantial and growing stream of income to support the programs of the University and its related foundations, while preserving the purchasing power of their long-term investment assets for future generations. During the ten years ended June 30, 2013, UVIMCO's investment program added \$1.3 billion to the University's endowment relative to the performance of a passive institutional portfolio benchmark. Long-term thinking, a relentless pursuit of excellence, and partnerships with exceptionally talented external investment managers have enabled UVIMCO to serve the University and related foundations well for many years.

In October 2012, UVIMCO launched a Short Term Pool to better serve the investment needs of the University and its foundations. The Short Term Pool allows the University and its foundations to invest their cash alongside the cash of the Long Term Pool. Since its inception, the Short Term Pool has been invested in short-term U.S. Treasury notes, bonds, and bills as well as U.S. Treasury guaranteed agency repurchase agreements. As discussed in greater detail later in this report, UVIMCO has utilized its fixed income investment expertise and financial market contacts to create a Short Term Pool that provides a high-quality, low-cost solution for the short-term investment needs of the University and related foundations.

Portfolios at a Glance

Fiscal Year Ending June 30	LONG TERM POOL					SHORT TERM POOL
	2009	2010	2011	2012	2013	2013
Market Value (in millions)	\$3,959.7	\$4,454.7	\$5,346.5	\$5,430.0	\$5,959.5	\$81.3 ¹
Net Asset Value per Share	\$4,006	\$4,612	\$5,732	\$6,025	\$6,833	\$1,001
Return	-21.0%	15.1%	24.3%	5.1%	13.4%	0.1% ²
Strategic Allocation						
Public Equity	20.7%	20.1%	20.3%	20.5%	24.4%	–
Long/Short Equity	25.4%	24.8%	23.4%	22.7%	23.6%	–
Private Equity	16.5%	18.7%	19.5%	19.6%	18.1%	–
Real Estate	4.0%	4.0%	5.9%	8.6%	8.6%	–
Resources	5.9%	7.1%	7.3%	7.0%	5.5%	–
Marketable Alternatives & Credit	15.4%	14.6%	11.9%	9.3%	10.0%	–
Fixed Income & Cash	12.1%	10.7%	11.7%	12.3%	9.8%	100.0%

¹The Long Term Pool invests its cash in the Short Term Pool, and represents 90% of the Short Term Pool's total holdings as of June 30, 2013.

²Fiscal Year 2013 return for the Short Term Pool represents its cumulative return since inception on October 4, 2012.



ENDOWMENT AT WORK

ACCESSUVA is the University of Virginia's financial aid program designed to make higher education affordable for all admitted students, regardless of economic circumstance. Because access for every academically eligible student is a priority at the University of Virginia, the University has made an annual commitment of \$40.4 million in need-based grants to undergraduates. Princeton Review's most recent guide to best colleges rated AccessUVA as the best financial aid program among public colleges and universities.

An athlete in many sports growing up, it was not surprising that Jasmine Braxton Cabrera (Curry '12) chose kinesiology with a concentration in sports medicine as her major at the University of Virginia. Thanks to AccessUVA, Jasmine is a first-generation college student in her family and a role model to young people in her hometown of Amherst, Virginia, who also aspire to a college education. She says, "What seemed like an impossible situation—going to one of the best schools in the country—was made possible for me only through AccessUVA."

Jasmine's success at U.Va. remained fueled in part by the knowledge that friends back home were "using me as an example for their kids." She adds, "I want to serve as a role model for kids for what they can achieve if they pursue their dreams with passion and persistence, knowing that opportunities—like AccessUVA—can open up doors of possibilities to last a lifetime, and instill confidence in you that enables you to take risks later in life." In her new Charlottesville-based personal training business, Jasmine continues to inspire many, in her hometown and beyond, as she approaches her clients' fitness goals with the same relentless passion and confidence that first brought her to U.Va.



INVESTMENT STRATEGY

Attractive long-term investment returns are best produced by maintaining a consistent and effective investment philosophy and process over time. At UVIMCO, we seek to maintain a consistent investment philosophy and process by adhering to several core principles. These five principles guide everything we do at UVIMCO as we invest the Long Term Pool.

First, we are long-term investors. Our relatively long time horizon allows us to capitalize on market inefficiencies and risk premiums that arise from other investors' focus on short-term news and market events. In addition, our ability to avoid imprudent reactions to short-term dislocations provides our investment strategies with the potential to outperform investors who are unable to take a similarly long-term view. Although our portfolio may outperform expectations in the short term, this is not our goal. Rather, we seek to outperform our benchmarks over the long term, which means we are willing to underperform passive benchmarks and peer investors over shorter periods of time.

Second, we seek attractive long-term returns through our external investment manager selections, asset allocation decisions, and portfolio tilts that take advantage of economic themes. Securities are selected for UVIMCO by a team of extraordinary external managers. Whereas the vast majority of money managers fail to beat passive benchmarks, UVIMCO's disciplined research process and pattern recognition enable us to develop relationships with outstanding investment managers who demonstrate an edge in both security selection and asset allocation. The reputation we have cultivated as a value-added partner, our extensive market contacts, and the patient capital that we provide have allowed us to build relationships with the most successful managers who, in many cases, do not accept capital from new investors.

Third, we believe that price matters. Behavioral biases by other investors with different investment time horizons can cause prices of investments to differ from their fundamental values for long periods of time. Markets tend to overreact to recent events and assume that recent good or bad news will continue into the future. At UVIMCO, we believe in long-term reversion to fundamental values. Superior long-term returns depend on investing in securities, themes, and asset classes with current prices below their fundamental values. Mispricings and other special situations at the security level create opportunities for our external investment managers, while thematic and asset-class inefficiencies may be exploited by both external investment managers and our internal investment team through portfolio tilts and hedges. We also seek investments that have fallen out of favor, resulting in a supply/demand mismatch of capital. We recognize that prices can differ from their fundamental values for extended periods, so we remain patient for this approach to yield results.

Fourth, we believe our success is largely dictated by the quality of the people on the UVIMCO team and the long-term partnerships we maintain with external investment managers. We ask all staff members to demonstrate a strong work ethic, a passion for investing, effective teamwork skills, and a desire to put the University's interests above personal interests. We expect our external investment managers to demonstrate similar values, and we believe that hiring talented, high-integrity managers is one of the most important ways in which we control portfolio risk.

Finally, we believe in the benefits of diversification. We expect that the quality of our research and investment selection will lead to good results over time, but we understand that certain decisions will be unsuccessful. Therefore, we diversify our investments across asset classes, themes,

Our relatively long time horizon allows us to capitalize on market inefficiencies and risk premiums that arise from other investors' short-term focus.

and managers. We meticulously review and test each of these allocations on a continuous basis, and rebalance the portfolio when necessary. We pursue strategies and investments where we have expertise, and decline opportunities where we do not. This approach requires humility in our investment team. We also seek humility in our investment managers, appreciating those who are confident but not overconfident, who employ investment processes in which we have shared conviction, and who consider the downside risk of every investment.



MANAGER ATTRIBUTES

UVIMCO executes investments primarily through third-party private investment fund managers. Each year, we meet and rigorously evaluate dozens of prospective managers. Our due diligence process is thorough, and assessing each manager's investment strategy, track record, risk management, skill set, and character takes time. Our process often results in only a few new manager relationships being established each year. We view each relationship as a true long-term partnership that lasts well beyond the initial investment decision.

Recognizing that we are partnering with people, and not institutions, our due diligence process assesses qualitative factors such as integrity and judgment in addition to investment prowess and specialized technical expertise. Our discipline is to invest in managers who are good partners, avoid excessive leverage and mitigate other risks, and provide a high level of transparency into their process, philosophy, and team. We require all of our external partners to demonstrate unquestionable ethics and character. We also seek managers who have a healthy disregard for mediocrity and are focused on "solving for greatness." Our managers must be innovative and fiercely competitive while retaining a constant awareness that they are stewards of the University's resources.

UVIMCO also strives to fully understand and appreciate what drives each manager. Simply put, manager motivations must align with UVIMCO's values. Therefore, we invest with managers who are considerate and reasonable in weighing both UVIMCO's interests and those of their respective firms. While proper alignment of interests alone does not determine investment performance, it does help ensure that UVIMCO and its managers share successes and failures, financially and otherwise, as true partners.

INVESTMENT POLICY

UVIMCO's Board of Directors establishes the investment policy for the Long Term Pool and monitors the development, analysis, adoption, and execution of investment decisions by the UVIMCO staff. An investment policy is a financial blueprint designed to reflect an institution's return objectives and risk tolerance. Such a policy should balance an institution's ability to tolerate a decline in assets available for spending within a given time frame with its desire for returns and greater available assets in the future. The policy establishes a long-term asset allocation designed to meet the institution's financial goals within this risk and return framework. In the absence of such a framework, investors may either make short-term asset allocation decisions that result in inferior returns, or assume an improper level of risk.

Given the role of an investment policy in guiding an institution toward its long-term investment objectives, such policies are generally reviewed not more than annually and are revised infrequently and in modest ways, thus evolving gradually over time. However, revisions may be needed to respond to changes in an institution's long-term investment objectives or risk tolerance, fluctuations in global economic and investment market conditions, the inception of new asset class categories, or other factors. While endowments typically exist in perpetuity, investment policies tend to take into account expected conditions within a ten- to fifteen-year time frame. This interval length is typically sufficient to capture the economic and financial conditions that will likely influence portfolio performance for a long-term investment pool.

Our Board of Directors reviews UVIMCO's investment policy on an annual basis. The investment policy sets forth the applicable standard of care, delineates the responsibilities of the Board and staff, and establishes various parameters for risk management, including portfolio diversification and liquidity. The investment policy also includes a policy portfolio allocation that is established by the Board based upon the University's risk tolerance and expected future capital requirements. The Board carefully considers capital market risk and return estimates to ensure that the policy portfolio is appropriately designed to achieve the investment objectives for the Long Term Pool. UVIMCO's long-term investment policy portfolio allocation and related performance benchmarks are as follows:

Policy Portfolio

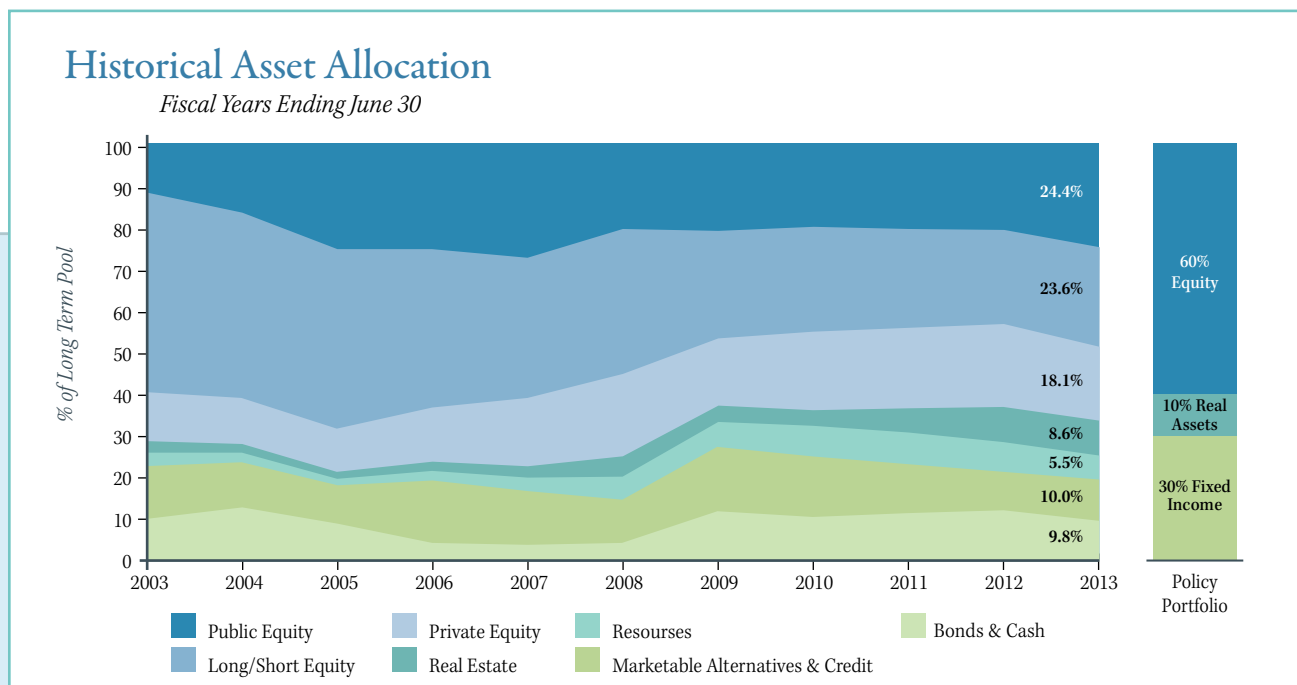
Broad Asset Class	Allocation (%)	Benchmark
Equity	60	MSCI All Country World Equity
Real Assets	10	50% MSCI U.S. Real Estate 50% MSCI All Country World Real Estate
Fixed Income	30	50% Barclays U.S. Aggregate Bond 50% Barclays Global Aggregate Bond (Hedged)
TOTAL	100	Policy Portfolio Benchmark

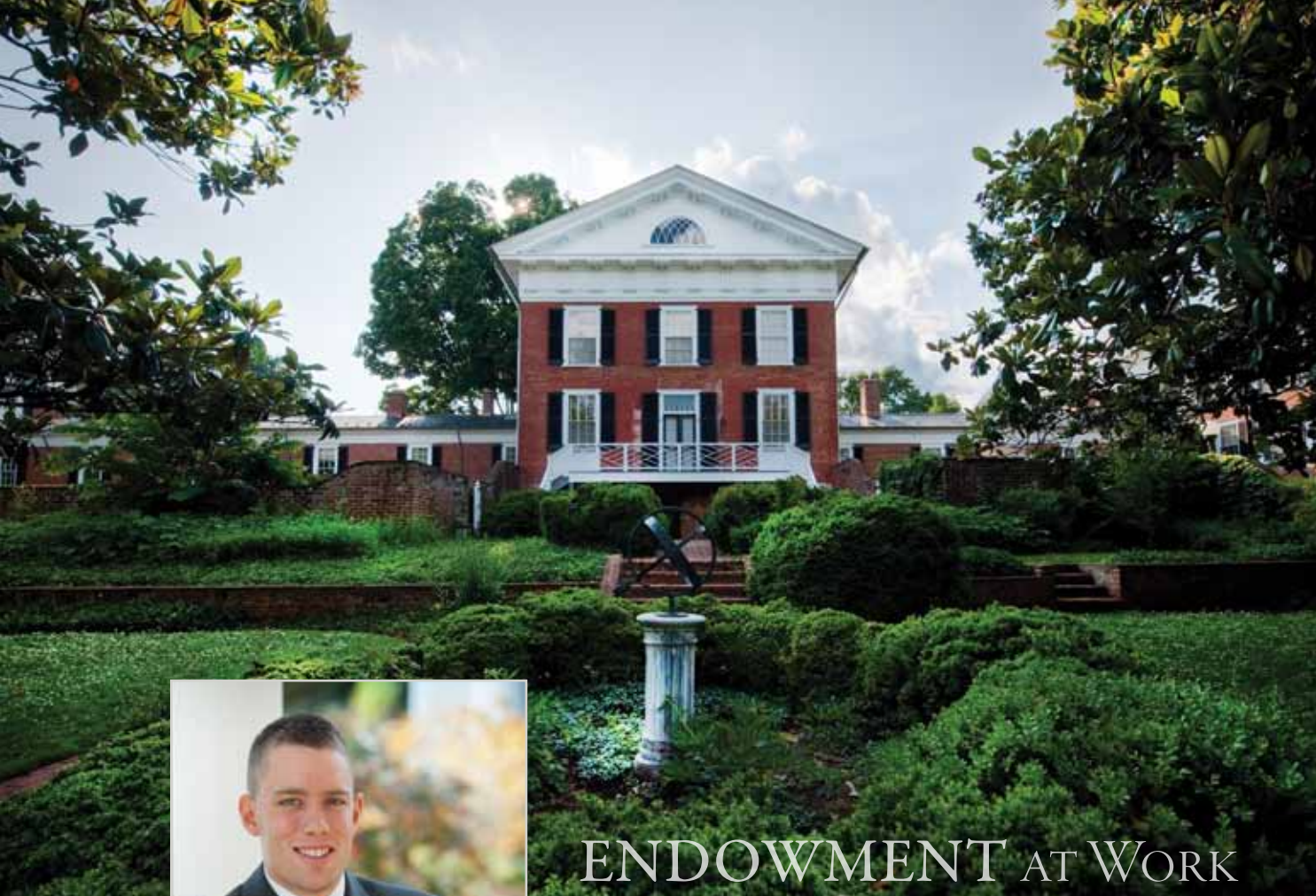
Equity investments provide an opportunity to participate in the growth of public and private companies. In a growing global economy with low inflation, these investments have historically provided the highest long-term return opportunities. Real assets provide protection in an inflationary environment, and thus tend to benefit a diversified portfolio during periods of rising prices or interest rates, and/or a depreciating dollar. Fixed income and marketable alternative investments provide protection in deflationary or weak economic environments.

Since the strategic policy portfolio is established to reflect the risk tolerance and long-term needs of the University, revisions to the policy portfolio are infrequent and gradual, generally occurring only when the University's risk tolerance changes. However, because an optimal asset allocation evolves over time in response to changing economic circumstances, and because market prices and portfolio valuations are inherently dynamic, the actual investment allocation of the Long Term Pool will differ from the policy portfolio allocation at any given point in time. As the policy portfolio is designed to reflect the risk tolerance of the University, the actual asset allocation and exposures of the Long Term Pool are constantly monitored to ensure that the level of market risk is sufficiently consistent with that of the policy portfolio. The Long Term Pool's actual allocation as of June 30, 2013, was 66% to equity managers, 14% to real asset managers, and 20% to fixed income, marketable alternatives, and cash. Looking through to our managers' underlying investments, the Long Term Pool had allocations of 54% to equities, 15% to real assets, and 31% to fixed income (including credit) and cash as of June 30, 2013. The Long Term Pool ended the fiscal year with equity market risk comparable to but slightly less than that of the policy portfolio.

The Long Term Pool's asset allocation has been relatively stable for several years but has changed over time. Thirty years ago, the endowment portfolio that UVIMCO managed was simple—75% domestic equity and 25% fixed income. A decade later, UVIMCO began to develop a more sophisticated portfolio that was heavily weighted toward nontraditional investment strategies. By 2003, long/short equity strategies represented nearly 50% of the Long Term Pool. From 2004 to 2008, new capital flowing into the Long Term Pool was used to rebalance the portfolio, directing it toward investments in public equity, private equity, and resources, and away from long/short equity. During the 2008–2009 financial crisis, we further reduced investments in long/short equity, using the resulting funds to increase our cash and bond portfolio. The following graph displays the trends in the asset allocation of the Long Term Pool over the past decade:

The Long Term Pool's asset allocation has been relatively stable for several years but has changed over time.





ENDOWMENT AT WORK

THOMAS JEFFERSON'S University of Virginia is a place where producing leaders for a self-governing people has always been a primary goal. This goal of nurturing future leaders is at the heart of the Jefferson Scholars Foundation's (JSF) mission: to attract to the University the most promising leaders, scholars, and citizens in the world and to give them sufficient financial support so they are free to develop their talents and use them for the good of the University community. The JSF undergraduate scholarship

program currently supports 117 Jefferson Scholars in residence at the University of Virginia by covering the entire cost of their attendance for four years.

Joseph (Joe) Riley (College '13) will join thirty-one other college students from across the country this fall to become a member of the American Rhodes Scholars' class of 2013. Joe stated, "JSF has helped me make the contacts and gain the experience I needed to be competitive for the Rhodes Scholarship." Rhodes Scholars are chosen not only for their outstanding scholarly achievements, but for their character, commitment to others and to the common good, and potential for leadership in whatever domains their careers may lead.

Joe's many accomplishments include being ranked the top Army ROTC cadet nationally and serving as the founder of Operation Flag the Lawn, which raises money for the Wounded Warrior Fund and helps bridge the civil-military divide. Joe was an advisor for the U.Va. Honor Committee and a member of the Class Council as well as an undergraduate lecturer for the course "Ethics in Modern Warfare." He is co-authoring a book on Sino-American relations with Dale Copeland of the University's Woodrow Wilson Department of Politics. Joe plans to complete his master's degree and doctorate in international relations at Oxford University and pursue a career as an infantry officer. "It's so important for someone who is invested in national security to be involved in foreign affairs," he said. "How do we shape our actions in a way that helps facilitate peace?"

RISK MANAGEMENT

UVIMCO strives to identify and proactively address investment risks and opportunities in order to provide our shareholder institutions with an important component of their integrated risk management activities. We determine the investment risk tolerance for the Long Term Pool by balancing the competing objectives of providing a stable source of capital available for current spending with growing the assets available to meet the University's long-term needs. Investments with low risks and low returns decrease the possibility of significant short-term depreciation, and a corresponding reduction in assets available for current spending, but such investments also decrease expected long-term growth of the portfolio, thus jeopardizing the ability of the University and its foundations to meet their long-term requirements. Conversely, investments with higher risks and higher potential returns increase the possibility of a near-term decline in assets available for current spending but also increase the expected long-term growth of the portfolio.

UVIMCO utilizes rigorous quantitative and qualitative risk management tools and analyses to assess and manage the risks in the Long Term Pool over time. We measure and control for three primary risks: market risk, manager risk, and liquidity risk.

Market Risk. Market risk is measured by the volatility of returns or maximum potential drawdown in a portfolio. Although UVIMCO actively monitors a variety of market risks, including inflationary, interest rate, and credit risks, among others, we believe the largest market risk factor of the Long Term Pool is equity market risk. In the past twenty years, global equity markets have had two peak-to-trough downturns of more than 50%. UVIMCO manages market risk in the Long Term Pool by diversifying across three broad asset classes: equity, fixed income, and real assets. We continually review our actual allocations to these

asset classes and rebalance the portfolio when necessary. We also employ certain hedging strategies as circumstances warrant. We strive to continuously improve our measurement and management of market risk by performing scenario analyses to evaluate various potential portfolio and economic changes. We refine these analyses by utilizing the underlying holdings data of our external managers in our models.

Manager Risk. The Long Term Pool invests with more than 100 external managers. UVIMCO seeks to maintain a portfolio of managers that generates sufficient returns to compensate for bearing both the market risk of the asset class as well as the additional risk inherent in working with individual managers. Manager risk includes the risk that the specific investments selected by the manager will underperform the relevant benchmark, operational or business risks within the manager's organization, lack of transparency, and leverage. UVIMCO mitigates manager risk by diversification and employment of extensive and ongoing due diligence to assess both the investment and operational aspects of our external fund managers on an upfront and ongoing basis. In addition, our investment policy ensures diversification by limiting our exposure to any single manager.

Liquidity Risk. UVIMCO defines liquidity risk for the Long Term Pool as an inability to meet any of the following four primary liquidity requirements: (1) investor withdrawals, (2) the excess of capital calls over expected capital distributions from private funds, (3) the need to rebalance the portfolio's investment allocation following a market decline, and (4) the ability to deploy cash opportunistically as attractive new investment opportunities arise. We manage liquidity risk in the Long Term Pool by maintaining a portfolio of U.S. Treasury bills



Liquidity risk management is critical for a long-term investment portfolio with significant illiquid investments.

and notes, retaining sufficient liquidity with our public equity and hedge fund managers, and carefully monitoring the pace of our commitments to private investments.

Given our four primary requirements, we believe an appropriate target for liquidity is to invest 10% of the Long Term Pool in assets that are safe and highly liquid, and to ensure that at least 30% of the Long Term Pool is available for conversion to cash in any twelve-month period. At any moment, the amount of actual liquidity we have available is a function of the size and nature of our private portfolio, the total of Long Term Pool funds invested in bonds or cash, and the liquidity terms of our public investments.

As of June 30, 2013, approximately 10% of the Long Term Pool's assets were invested

in highly liquid, government-issued debt securities and cash. Over time, we expect the sum of the liquid U.S. Treasury bond and cash portfolios to vary between 8% and 12% of the Long Term Pool. In addition, as of June 30, 2013, we were able to access more than 31% of the Long Term Pool's investments within three months, and about 47% within a year. This current level of liquidity exceeds the Long Term Pool's minimum requirements. Although excess liquidity is a drag on returns in today's low interest rate environment, we believe this liquidity provides the Long Term Pool with insurance against future turbulent markets, and will allow us to fund attractive investments that will more than compensate for the costs of this liquidity to the current portfolio.

INVESTMENT PERFORMANCE

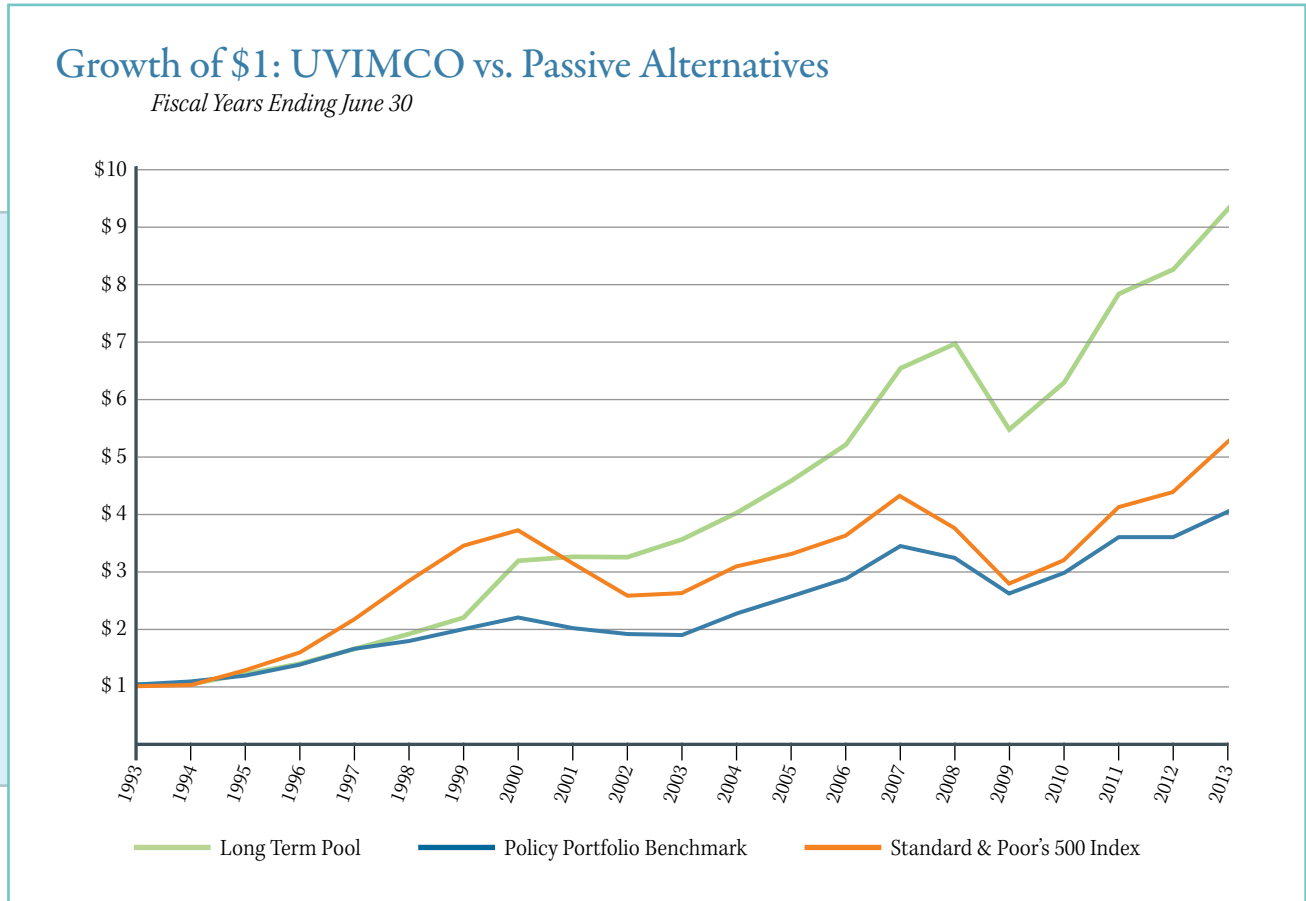
We assess the performance of the Long Term Pool in several ways. Our primary objective is to generate real, inflation-adjusted, long-term returns in excess of the University's spending rate, thereby achieving our goal of generating a steady source of income to support the University's mission. We also seek to outperform the long-term returns of our passive policy portfolio benchmark. Finally, we consider our performance versus the broad universe of other institutional investors. Though we do not focus unduly on the investment activities and results of peer organizations, we recognize that relative performance is important to our investor organizations.

Generally speaking, the Long Term Pool's investment performance can be attributed to market performance, asset allocation and portfolio tilts, and manager selection. The past year rewarded many equity market participants. Global equities recorded significant gains during the fiscal year as concerns about the fiscal health of the United States and Europe, sequestration, the fiscal cliff, and the potential collapse of the European Monetary Union all abated. Investors shrugged off many of their lingering macroeconomic fears, and solid corporate results and expansive monetary policies drove markets upward. The continuing bull market in domestic public equities and an improving U.S. economy also resulted in a healthy exit environment for private investments.

Within this context, the Long Term Pool returned 13.4% for the year ending June 30, 2013, outperforming by more than 200 basis points the policy portfolio benchmark return of 11.3%. Although we are very pleased by this level of absolute and relative performance, it is not our goal or expectation to outperform the passive benchmark over short periods of time. Rather, as long-term investors, we believe the Long Term Pool's performance is most appropriately evaluated over multi-year periods. Over the ten- and twenty-year periods ending June 30, 2013, UVIMCO's portfolio compounded at an annualized rate of 10.2% and 11.8%, respectively. This performance comfortably exceeds both the University's spending rate (plus inflation) and the 7.7% and 7.2% annualized returns available through ownership of the passive policy portfolio over the same time periods.



The following graph illustrates the long-term differential of investing in the Long Term Pool versus passive alternatives over the past twenty years.



In addition to evaluating the Long Term Pool's performance relative to the market and our policy portfolio, we consider our performance relative to the TUCS All Master Trust Universe, a widely accepted benchmark for the performance of institutional assets. This year, we are pleased to report that the Long Term Pool's returns exceeded both the median and top quartile returns of other institutional investors over short- and long-term time periods.

UVMCO Long Term Pool Relative Performance

Annualized through June 30, 2013

	1 YR	3 YR	5 YR	10 YR
UVMCO Long Term Pool	13.4%	14.0%	6.2%	10.2%
TUCS All Master Trust Universe Top Quartile	13.3%	12.0%	6.0%	7.6%
TUCS All Master Trust Universe Median	11.3%	10.6%	5.1%	6.9%

Asset allocation is an important determining factor of a portfolio's investment return. Asset classes perform differently from one another under varying market and economic conditions, and diversification across investment exposures helps temper portfolio risk and volatility. UVMCO's asset allocation has been relatively stable over recent years, reflecting slight opportunistic adjustments within the framework of the policy portfolio.

UVMCO Strategy Allocation and Investment Returns *(in percentages)*

	June 30, 2013 Allocation ¹	Annual Return (Fiscal Year)					Annualized		
		2009	2010	2011	2012	2013	5YR	10YR	20YR
Equity									
Public	24.4	(31.1)	27.8	41.1	0.0	22.8	8.8	14.6	12.0
Long/Short	23.6	(17.4)	2.8	16.2	6.8	17.3	4.3	9.6	9.4
Private	18.1	(35.5)	19.7	35.5	8.9	11.8	5.0	11.5	21.1
Total Equity	66.1	(25.7)	15.5	29.8	5.3	17.3	6.6	11.6	13.9
<i>MSCI All Country World Equity</i>		<i>(28.9)</i>	<i>12.3</i>	<i>30.8</i>	<i>(6.0)</i>	<i>17.2</i>	<i>2.9</i>	<i>8.1</i>	<i>7.1</i>
Real Assets									
Real Estate	8.6	(45.4)	(28.1)	3.8	13.0	8.7	(12.9)	0.1	2.8
Resources	5.5	(23.5)	40.9	62.2	4.7	4.5	13.9	23.2	–
Total Real Assets	14.1	(34.9)	9.0	35.6	8.5	7.2	2.3	12.6	10.6
<i>MSCI Real Estate²</i>		<i>(39.2)</i>	<i>31.7</i>	<i>34.8</i>	<i>7.6</i>	<i>10.0</i>	<i>5.0</i>	<i>10.4</i>	<i>8.3</i>
Fixed Income, Cash & MAC									
Marketable Alternatives & Credit (MAC)	10.0	(1.5)	22.7	9.2	3.4	15.7	9.6	7.1	7.8
Government Bonds	7.4	17.8	6.4	0.7	0.1	0.2	4.9	4.8	6.5
Cash & Currency	2.4	26.8	0.5	0.3	(0.1)	0.0	5.0	–	–
Total Fixed Income, Cash & MAC	19.8	9.5	16.1	5.6	1.9	6.6	7.8	5.8	7.0
<i>Barclays Aggregate Bond³</i>		<i>6.6</i>	<i>8.6</i>	<i>3.0</i>	<i>7.1</i>	<i>0.5</i>	<i>5.1</i>	<i>4.4</i>	<i>5.9</i>
Long Term Pool	100.0	(21.0)	15.1	24.3	5.1	13.4	6.2	10.2	11.8
<i>Policy Benchmark⁴</i>		<i>(19.6)</i>	<i>13.3</i>	<i>22.4</i>	<i>(0.4)</i>	<i>11.3</i>	<i>4.4</i>	<i>7.7</i>	<i>7.2</i>

¹ % of Net Asset Value

² 50% MSCI U.S. Real Estate and 50% MSCI All Country World Real Estate (prior to January 1995, 100% FTSE NAREIT)

³ 50% Barclays U.S. Aggregate Bond and 50% Barclays Global Aggregate Bond (Hedged in USD)

⁴ Geometrically linked monthly average of 60% MSCI All Country World Equity, 10% MSCI Real Estate, and 30% Barclays Aggregate Bond

As the table above indicates, different investment strategies make positive (as well as negative) contributions to the Long Term Pool's total performance over various periods of time. During the fiscal year ending June 30, 2013, our public equity portfolio contributed meaningfully to the Long Term Pool's relatively strong return, and over the last five-year period, it produced more than 5.9% excess return per year relative to the MSCI All Country World Index. Over longer periods, private equity contributed most significantly to the Long Term Pool's outperformance, as the twenty-year average annualized return of 21.1% outperformed the benchmark return by 14.0%. The Long Term Pool's long-term outperformance in both public and private equity reveals the exemplary security selection and value-add capabilities of our external managers.

Real assets, including real estate and resources, represent 14.1% of the portfolio as of June 30, 2013. Within our composite real asset performance, our real estate and resources returns vary widely from each other and from year to year. Demonstrating this variability,



our resources portfolio has outperformed all other strategies over the five- and ten-year periods ending June 30, 2013, but during the last twelve months, our resource investments underperformed all other strategies except government bonds and cash. Macroeconomic news related to the U.S. Federal Reserve's anticipated unwinding of its stimulus programs, coupled with China's actual and anticipated slowdown, weighed heavily on commodities and commodity-related equities over the last year.

Our 19.8% allocation as of June 30, 2013, to the diversifying collection of fixed income and marketable alternative strategies produced an excess return of 6.1% for the year, with marketable alternatives and credit producing the strongest sub-category return of 15.7%. Several of our marketable alternatives and credit managers have flexible investment mandates and varied skills that enable them to move within the equity and credit spaces based on the current opportunity set. Over the past year, several of these managers took advantage of the rise in global equities, while other managers realized significant gains from opportunistic investments made during the global credit crisis. Government bonds and cash behave differently, and are included in the Long Term Pool primarily for liquidity purposes and for their low correlation to equity markets.

SHORT TERM POOL

The primary purpose of the Short Term Pool is to preserve principal and provide a low-cost, stable, highly liquid, and secure investment vehicle to UVIMCO's shareholders.

In 2012, UVIMCO established the Short Term Pool to offer the University and related foundations an alternative for enhancing management of their short-term operating funds. The primary purpose of the Short Term Pool is to preserve principal and provide a low-cost, stable, highly liquid, and secure investment vehicle to UVIMCO's shareholders. The Short Term Pool allows the University and its foundations to invest their cash alongside the cash of the Long Term Pool. By varying their relative allocations of investment funds between the Long Term Pool and the Short Term Pool, the University and its related foundations now have the opportunity to tailor an individualized portfolio of investments to their respective levels of desired risk and liquidity. As discussed earlier in this report, holding increased levels of liquid investments generally results in decreased overall expected returns in the long term.

The Short Term Pool is invested in U.S. Treasury notes, bonds, and bills with maturities of not more than one year, and in U.S. Treasury guaranteed agency repurchase agreements, a form of short-term borrowing for dealers in government securities. UVIMCO minimizes the counterparty credit risks inherent in such repurchase agreements by partnering with highly rated counterparties, using master netting agreements, accepting only U.S. Treasury collateral, and daily marking to market.

The Short Term Pool is managed by Sherri King and her staff. When Sherri joined UVIMCO in March 2012, she brought more than fourteen years of experience on Wall Street in various senior-level

fixed income roles, including positions with Credit Suisse; Bear, Stearns & Co.; and JPMorgan Chase & Co. The Short Term Pool bears lower expenses than if managed externally, as UVIMCO charges no management or performance-based fees to the Pool. In-house management also enables UVIMCO to tailor the composition of the Short Term Pool to the liquidity needs of the University and its foundations.

As asset protection and liquidity are the primary objectives of the Short Term Pool, UVIMCO expects that the yield on the Short Term Pool may be less than other short-term investment options. Many other highly liquid vehicles invest in commercial paper or bonds that are exposed to interest rate or credit risk in order to capture incremental basis points of yield. However, these vehicles, such as money market funds, have the potential to lose principal in the event that investment income does not fully cover operating expenses or investment losses.

Several funds reached or approached this critical point during the global credit crisis that began in 2008. In a worst-case scenario, a money market fund could restrict redemptions due to unexpected declines in the value of underlying investments. UVIMCO does not reach for yield in the Short Term Pool. We believe that in the current economic environment, the incremental yield available does not warrant the added risk in an account designed to provide asset protection and liquidity on demand. Rather, asset appreciation and income are achieved through our investments in the Long Term Pool.

BOARD OF DIRECTORS

UVIMCO is a separate 501(c)(3) Virginia non-stock corporation. It is governed by a Board of Directors that includes three individuals appointed by the University of Virginia's Board of Visitors and one appointed by the University President. Our Board meets four times a year to discuss investment strategy, set investment policy, and monitor performance. UVIMCO's Board of Directors as of July 1, 2013, is as follows:

John G. Macfarlane III, Chair

DARDEN '79

Appointed by the UVIMCO Board

Jerry B. Bias

COLLEGE '90

Appointed by the UVIMCO Board

David C. Burke

MCINTIRE '88, LAW '93

GRADUATE SCHOOL OF ARTS & SCIENCES '94

Appointed by the UVIMCO Board

A. Macdonald Caputo

COLLEGE '63, LAW '66

Appointed by the Board of Visitors

Patrick D. Hogan

Appointed by the President of the University

Anton J. Levy

MCINTIRE '96

Appointed by the UVIMCO Board

W. Austin Ligon

Appointed by the UVIMCO Board

David B. MacFarlane

MCINTIRE '84

Appointed by the UVIMCO Board

Richard A. Mayo

COLLEGE '64, DARDEN '68

Appointed by the UVIMCO Board

Dr. Edward D. Miller

Appointed by the Board of Visitors

Timothy B. Robertson

COLLEGE '77

Appointed by the Board of Visitors

Owen D. Thomas

ENGINEERING '83

Appointed by the UVIMCO Board

Biographical sketches of UVIMCO's Board members are available on our website: www.uvimco.org

UVIMCO STAFF

The Board delegates day-to-day investment management activities to UVIMCO's experienced full-time staff. Our team of thirty professionals works closely with the Board to implement UVIMCO's investment strategy through selection of external managers, tactical asset allocation, and internal trading. UVIMCO draws on the talent and experience of women and men who are committed to investment excellence and supporting the University of Virginia. We believe our team's combination of long-tenured director experience and newer members provides a fertile environment for investment ideas and productive research. Together, we strive to continually refine and improve our idea generation, due diligence process, and collaborative efforts to fulfill our mission.

SENIOR STAFF

Lawrence E. Kochard

GRADUATE SCHOOL OF ARTS & SCIENCES '96, '99

Chief Executive Officer/Chief Investment Officer

Kristina M. Alimard

DARDEN '03

Chief Operating Officer/Chief Compliance Officer

Rob Walker Freer

Managing Director

Sherri King

Managing Director

Edward H. Klees

General Counsel

Sargent McGowan

MCINTIRE '95

Managing Director



Sharon C. Argo
Executive Assistant

Mary B. Barrick
COLLEGE '82
Records Manager

Matt Bernstein
Information Technology Specialist

Diana L. Clark
Investment Accountant

Brendan P. Dawson
MCINTIRE '09
Associate

Dubie Dubendorfer
BIS '08, MCINTIRE '09
Information Technology Manager

Steven Eelkman Rooda
MCINTIRE '12
Investment Analyst

Allison P. Gillam
MCINTIRE '06, '07
Senior Investment Accountant

David L. Haas
MCINTIRE '98
Associate

Leah M. Hall
MCINTIRE '09
Investment Analyst

Sharon F. Herbert
*Manager of Corporate Accounting
and Human Resources*

Martin Hohoff
MCINTIRE '10
Investment Accountant

Mike Husseini
MCINTIRE '11
Investment Analyst

Elizabeth R. Liles
Administrative Assistant

Jason M. Love
MCINTIRE '95
Director

Kim Martin
BIS '07
*Corporate Accounting
Human Resources Assistant*

Chellie V. Morris
Administrative Assistant

Laura E. Roller
MCINTIRE '09
Associate

Tina B. Shifflett
Office Manager

Long D. Trinh
Performance Analyst

Nancy Vetter
Travel Specialist

Peng Wang
Associate

Dawn C. Wilson
*Manager of Investment
Accounting and Reporting*

John Winn
LAW '05
Manager of Investment Operations

