

## **MEMORANDUM**

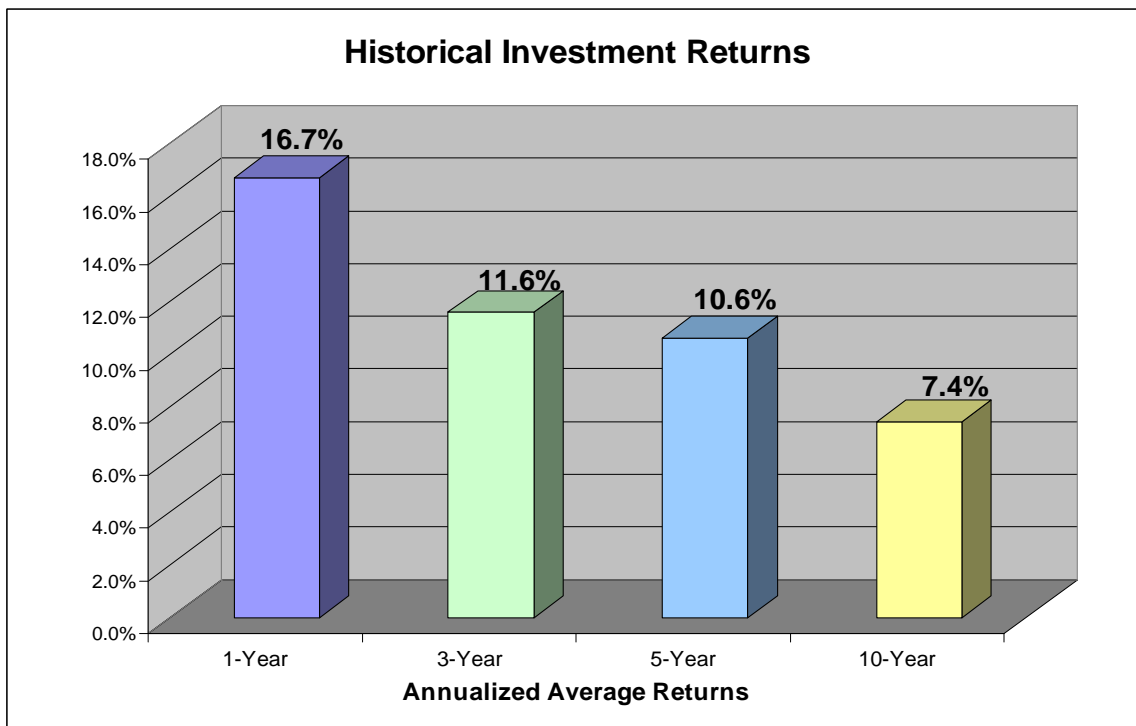
### **Recap of Foundation Investment Performance for the Quarter Ended December 31, 2007:**

For the 6-month period ended December 31, 2007, the Foundation's rate of return was 0.8%, which is equivalent to approximately \$1.3 million of realized and unrealized gains. During this period, the Foundation's total fund performance exceeded that of the comparable composite financial index, which was up 0.1%. The Foundation's fiscal year-to-date gains are comprised of a -0.5% loss on equities, a 4.4% gain on fixed income investments, and a 0.8% gain on alternative investments.

### **Foundation Investment Policies:**

The Foundation's current asset allocation consists of 49.7% of the total amount invested in equities, 21.0% of the total amount invested in fixed income, and 29.3% of the total amount invested in alternative investments. In September 2007, the Foundation's Board of Directors approved a change to its asset allocation policy decreasing the target allocation to fixed income from 25% to 18% and increasing the target allocation to alternative investments from 25% to 32%. This change encompasses the addition of the following new sub-asset classes: Global Bonds (2.5%), Global REITs (2.5%), Private Equity (5%) and Commodities (2.5%). Although the target allocation to equities remains the same (50%), the target allocation to international equities was increased from 10% to 15% (while the target allocation to domestic equities was decreased from 40% to 35%). Funding of the new investments as well as portfolio rebalancing were completed by December 31, 2007, with the exception of fully funding the private equity investment because it requires more time.

As a reminder, the Foundation's unrestricted, temporarily restricted and permanently restricted funds are pooled together so that any gains/losses affect all funds in accordance to the ratio of those funds to the total amount invested. It is the Board of Directors' policy to assume responsibility for the unrealized and realized gains/losses related to unrestricted and temporarily restricted accounts. In the same manner, all endowment gains/losses affect endowment balances.



## **Quarterly Commentary:**

While most U.S. stock indexes finished 2007 with gains for the year, stocks traded lower in the final quarter of 2007. Ongoing weakness in the housing market, concerns over sub-prime mortgages, and crude oil prices that approached \$100 per barrel all undermined investor confidence. The fourth quarter began on a positive note as a result of the third-quarter interest rate cuts by the Federal Reserve Board ("Fed"). The Fed reduced rates by a total of an additional .50% during the fourth quarter. This action did little for the market, however, as investors seemed preoccupied with inflationary pressures, lackluster holiday retail sales, and news reports detailing the impact of sub-prime exposure on large financial companies.

In general, larger stocks were the better performers among the market's capitalization groups, specifically large cap value stocks. One reason for the disparity between growth and value was the poor performance of financial stocks, which typically reside on the value side of most indexes. On the other hand, technology, a growth sector, was one of the year's better performers, benefiting from healthy earnings growth and a number of successful products. Further, given the weak U.S. dollar, investors benefited from the fact that many technology companies derive a significant portion of their revenue from abroad. Reflecting these developments, financials and consumer discretionary were the two weakest S&P 500 sectors, suffering double-digit losses during the fourth quarter. Utilities, a defensive sector, and energy turned in the best performances. Technology ended the quarter around the break-even mark, outperforming the broader market and posting a healthy gain for the year.

As might be expected in a period where investors were increasingly sensitive to risk, high-yield bonds were one of the bond market's weakest sectors, while Treasuries performed relatively well. Higher-quality bonds performed well amid growing concerns about a slowing economy and even a possible recession in the United States. The strongest gains in bond prices came during November, as some investors sold stocks and bought bonds. International markets struggled in the fourth quarter of 2007 with more than half of the world's developed markets posting negative results. Emerging markets fared better given their comparative insulation to the sub-prime turbulence that began to surface mid-year.