



ENDOWMENT FUND REPORT

June 30, 2008

Review and Outlook

This past fiscal year was marked by a high level of volatility across financial markets. The RUMC Endowment ('Endowment') was impacted negatively by this volatility, returning 5.1% for the year. While disappointing, this figure compares favorably with broad market indices such as the S&P 500 (a proxy for U.S. equities) and the MSCI EAFE Index (a proxy for international equities), which lost 13.1% and 10.6% respectively in the twelve-month period ended June 30, 2008.

The Endowment was aided by its diversification across asset classes and geographic markets. Equally important, this past year's performance should be considered against the exceptional FY07 fiscal year return of 17.8%. We understand that periods of extreme market volatility can occur in any given year, which is why we position the portfolio for the long term and evaluate performance over a full market cycle. In fact, when evaluated over the most recent three and five year periods, the Endowment has returned on an annualized basis 7.6% and 9.8%, respectively.

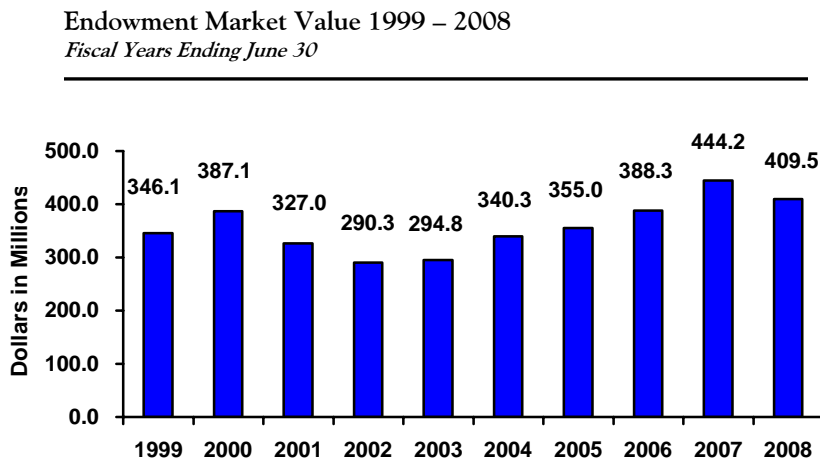
This fiscal year market volatility spiked over a re-pricing of risk that consumed the markets through most of the period. The subprime lending problems that were apparent early in 2007 materialized as a threat to market stability in the latter half of the year. In 2008, as write-downs of securities tied to subprime mortgages widened, investor sentiment clearly turned towards that of risk aversion as recessionary fears for a slowing U.S. economy and inflationary pressures seemed to all converge resulting in a massive sell-off in the global equity markets and a flight to quality to the safety of U.S. government securities.

As we look toward the next twelve months, whether or not the markets return to some sense of stability remains uncertain. However, we're fortunate to have a group of dedicated stewards lead by the Investment Committee of the Board of Trustees that understand market dislocation events occur. As such, the asset allocation policy the Committee guides is designed for the long term and enables us to commit capital to strategies that will protect and grow the Endowment to continue to support the institution's mission.

Purpose

An endowment is a financial gift that is invested to provide income in perpetuity, with the stipulation that the principal remain intact. The Endowment is managed to provide intergenerational equity – the concept that future beneficiaries will receive the same level of support as current beneficiaries. As such, the objective is to maintain and enhance the real value of the Endowment over the long-term by preserving its purchasing power against inflation. The chart below represents the fair market value of the Endowment over the most recent ten-year period.

Figure 1

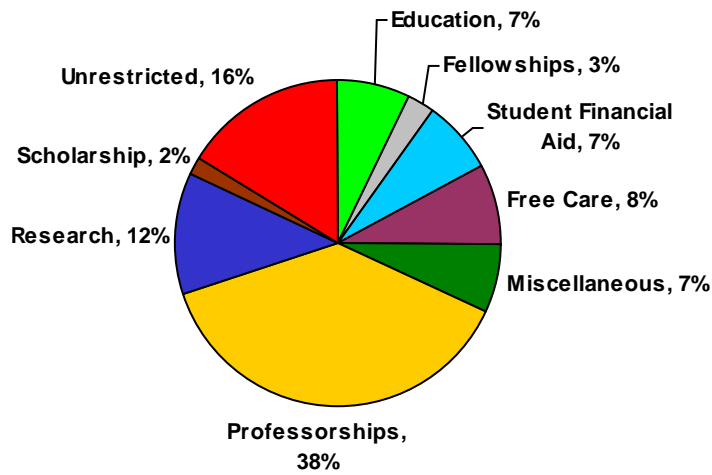


The Endowment pool consists of hundreds of individual funds, each with a specific purpose. The individual endowments are commingled into a single pool for investment purposes, which enables both diversification and economies of scale. Diversification is achieved through an asset allocation policy that targets an array of different asset classes providing an appropriate balance between risk and return. Economies of scale are realized through efficiencies in investment management and administrative costs.

Although the individual funds are commingled into a single pool, each fund receives its pro-rata share of earnings based on the Endowment's spending policy. Earnings are based on a total return approach, which includes income, realized and unrealized gains and losses. These funds support the Medical Center's mission, be it in the areas of patient care, research or education. In addition to the restricted-use endowment gifts, unrestricted gifts provide the Medical Center maximum flexibility in their use and are typically directed at supporting the institution's most pressing needs. The Endowment currently provides support for the following groups of activities:

Figure 2

Endowment Program
As of June 30, 2008



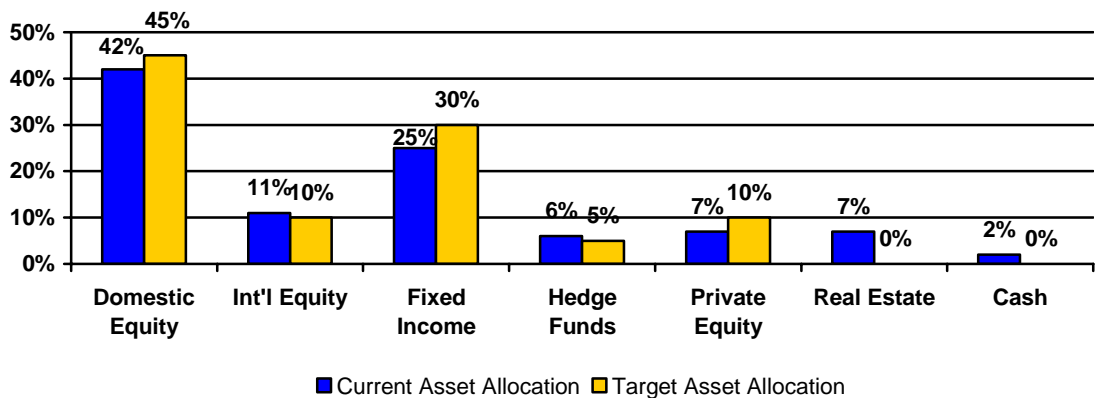
Asset Allocation

The Investment Committee of the Board of Trustees is charged with determining an asset allocation policy that will best meet the long-term investment objectives of the Endowment within an acceptable level of risk. The Investment Committee is supported by internal staff and external investment advisors in establishing and executing on this policy.

Given that the Endowment pool is invested for perpetuity, its investment horizon is long-term. The objective is to maximize returns relative to an appropriate level of risk. The portfolio’s asset allocation is reevaluated each year, including a review of the expected risk, return and correlation among asset classes.

Figure 3

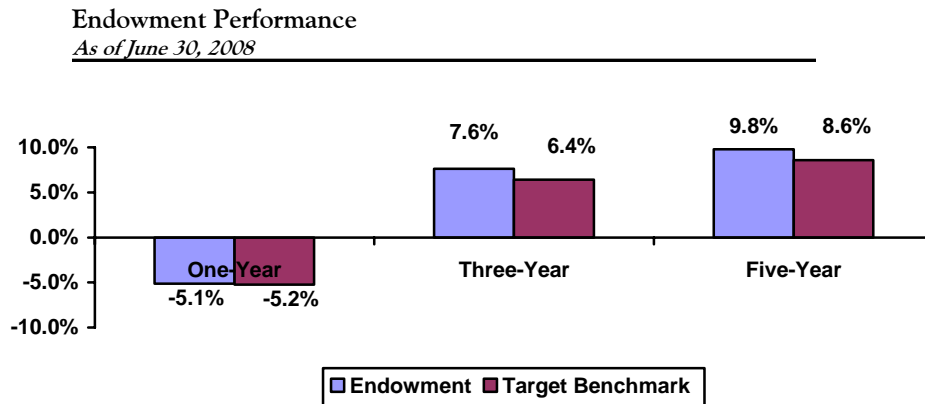
Asset Allocation
As of June 30, 2008



Investment Performance

The Endowment's return objective is to earn a real return between 4.0% - 5.0% over the rate of inflation. Given the portfolio's current asset allocation structure, it has a long-term expected nominal rate of return of between 8% - 10%. We believe this range of return is sufficient to provide support for operations while protecting the Endowment's purchasing power from inflation.

Figure 4



Spending Policy

For the fiscal year-ended June 30, 2008, the Endowment distributed \$16.8M in program support compared to \$15.4M in the previous fiscal year. The spending policy as approved by the Finance Committee of the Board of Trustees is 4.3% based off a moving three-year average of Endowment market values. The use of a moving average asset base moderates the impact of market volatility on annual spending, which in turn allows the Endowment programs to be able to better project their earnings for incorporation into their annual budgets.

Conclusion

Generations of donors, including patients, alumni, and friends have thoughtfully provided for the future of the Medical Center through their generosity. As such, the Board of Trustees and the administrators of the Medical Center are committed to the prudent management of the Endowment. The Endowment is and will remain a critical component in enabling the Medical Center to accomplish its mission benefiting current and future generations.