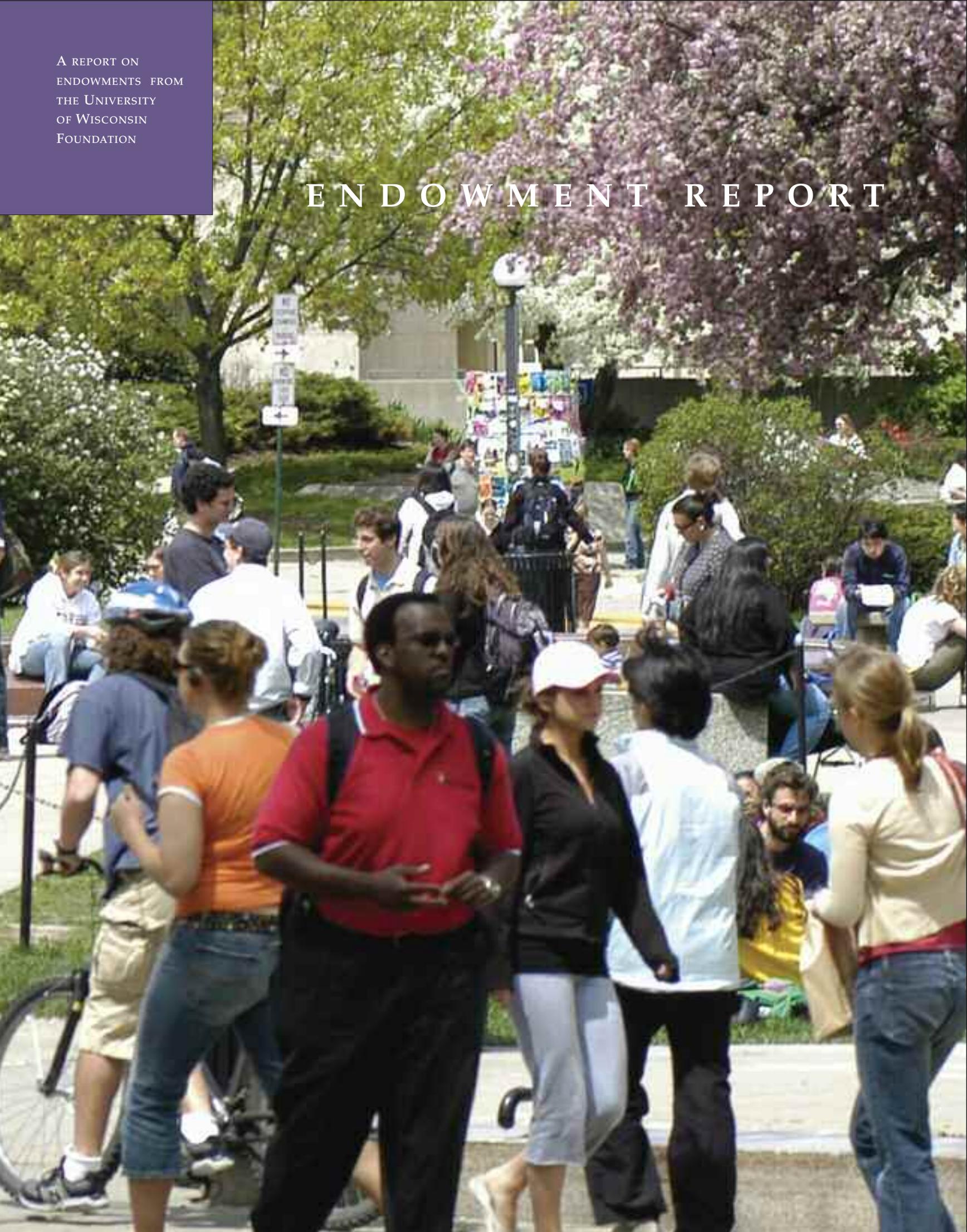


A REPORT ON
ENDOWMENTS FROM
THE UNIVERSITY
OF WISCONSIN
FOUNDATION

ENDOWMENT REPORT



To our donors

This endowment fund report has two distinct parts. The first part describes the performance of all endowed funds when pooled together. The second part is the report prepared specifically for your fund. It can be found in the back pocket of this booklet. As you read the first report, bear in mind that your particular fund is part of the much larger University of Wisconsin Foundation Endowment Fund.

When it comes to actually putting pen to paper, delivery of a less than joyous message is pretty straightforward: tell the truth, put it in perspective and provide reassurance that there are positives to report.

The University of Wisconsin Foundation endowment was and continues to be affected by the current economic downturn. As of year end 2008, we realized a loss of 22 percent in the endowment, or approximately \$390 million. While we are not pleased with this result, we have managed to avoid dangerously precipitous losses. Relative to the stock market and our peer institutions, we are, in fact, encouraged at the value we have been able to preserve. Included in your report is an update of a letter sent to all donors explaining this in greater detail.

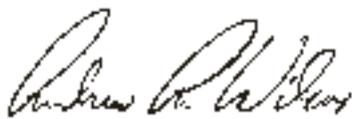
Over the past two years, we modified our investment philosophy with the goal of reducing risk, raising our level of cash and taking advantage of favorably priced assets. Thus far, this strategy is guiding us through rough financial waters.

Investment performance is one obligation of responsible endowment stewardship. Another is maintaining liquidity to meet commitments to the University. You intended your gift to support a purpose that reflects your interests and passion. I can assure you that your gift continues to make a meaningful impact here. The current economic environment is a clear reminder of just how important your dedication to the education, research and outreach missions of the University is today and for the future.

The UW Foundation is fiscally and operationally stable. We are more determined than ever to make sure every gift dollar is received gratefully, managed sensibly and used productively.

A third, and equally important, necessity for superior stewardship is communication. I expect you will have questions. I encourage your comments—favorable and critical. You may have suggestions—philosophical and practical. I hope you will share them all with me and Foundation staff. Together, we will continue the rewarding work of making our great university a truly extraordinary one.

Thank you.



ANDREW A. WILCOX
President
University of Wisconsin Foundation

Endowments at the University of Wisconsin Foundation

A cornerstone of private giving throughout the history of higher education, endowments are based on initial gifts of substantial size that in turn provide annual earnings generated by investment of the principal.

As the gifts grow in value on a total-return basis, they provide annual spendable income at the same time that the principal continues to appreciate. Endowments serve not only as dependable and relatively predictable resources to help meet new or recurring expenses as they arise, they also are sustained in perpetuity. They are gifts that last virtually forever.

Endowments are long-term accounts with a minimum balance requirement. The Foundation's endowment accounts are all pooled and invested as one portfolio.

Newly endowed funds or additions to existing funds are invested in the Foundation's Endowment Fund Pool. The Endowment Pool operates much like a mutual fund. Each endowed gift owns a number of units in the pool. The number of units each fund owns is determined by the value of the units at the time of the investment. To preserve the endowment for perpetuity, only a portion of the pool's return is spent for the purpose designated by the donor.

Currently, the spending rate is 4.75 percent of the pool's average market value over the last 12 quarters. Net returns in excess of the spending rate increase the market value of the Endowment Pool. The pool is invested over an infinite time horizon with the goal of maintaining the value in real terms, thus providing a steady flow of income.

Growth of the endowment principal comes from two areas: investment returns and additional gifts. For the endowment to exist in perpetuity, the investment return must outpace the two principal

threats to growth: the spending rate and inflation. To achieve this goal, the endowment uses a total return concept in which principal appreciation and income growth are expected to preserve the "purchasing power" of the Endowment Pool over a long-term horizon.

The UW Foundation staff, along with the investment committee of the Foundation's board of directors, reviews the pool's investment performance, analyzes recommendations and proposals from professional investment managers and consultants, and determines the appropriate asset allocation formula. Currently, the return objective is to achieve an annualized return of 10 percent over a complete market cycle (typically a 5-10 year period).

Just as important as maximizing total return is the objective of minimizing risk. The Foundation pursues this goal by broadly diversifying across major asset classes, which historically have been shown to minimize investment risk and to enhance investment performance.

Investments in less-liquid private equity investments also are prudent to achieve further diversification benefits. Volatility and risk are expected within any one asset class; however, a well-diversified portfolio should offset those risks over a longer period of time.

Of course, 2008 was a year of extraordinary economic, and by extension, investment volatility. Included with this report is an update of information sent to our donors last fall. It explains our overall investment philosophy and our performance relative to the investment markets.

Asset allocations

The asset allocation target for the University of Wisconsin Foundation Endowment Fund is 20 percent domestic equities, 13 percent international equities, 10 percent fixed income, 12 percent real assets, 30 percent marketable alternatives and 15 percent, non-marketable alternatives. These targets have been established by the Foundation's board of directors and are reviewed frequently to ensure investment and diversification objectives.

Beginning Market Value: The market value of your endowed gift as of December 31, 2007. The beginning market value does not include the Endowment Payout or the annual amount made available to be spent by the recipients of your gift, prior and up to December 31, 2007.

Ending Market Value: The market value of your endowed gift as of December 31, 2008. The ending market value does not include the Endowment Payout or the annual amount made available to be spent by the recipients of your gift, throughout the year of 2008.

Endowment Payout: The portion of the Endowment Pool's total return that is allocated to be spent for the fund's designated purpose. Currently, the formula to calculate this amount is 4.75 percent of the Endowment Pool's average market value over the last 12 quarters.

***Book Value:** The total of all gifts received since the inception of the fund; normally this amount cannot be spent unless specifically allowed by the donor in the memorandum of agreement establishing the fund. This amount will increase when additional gifts are added or when any of the spendable income is reinvested into principal. This amount will decrease if spending from the principal is allowed and amounts spent exceed the appreciation of the fund.

It is important to remember when comparing these figures to other investment results (mutual fund returns, for example) that actual earnings (dividends and interest) are not reinvested into the Endowment Pool. They are used to supplement the quarterly income allocated to Endowment Fund participants.

**Due to economic conditions, gift proceeds were not invested after the first quarter of 2008.*

PERFORMANCE

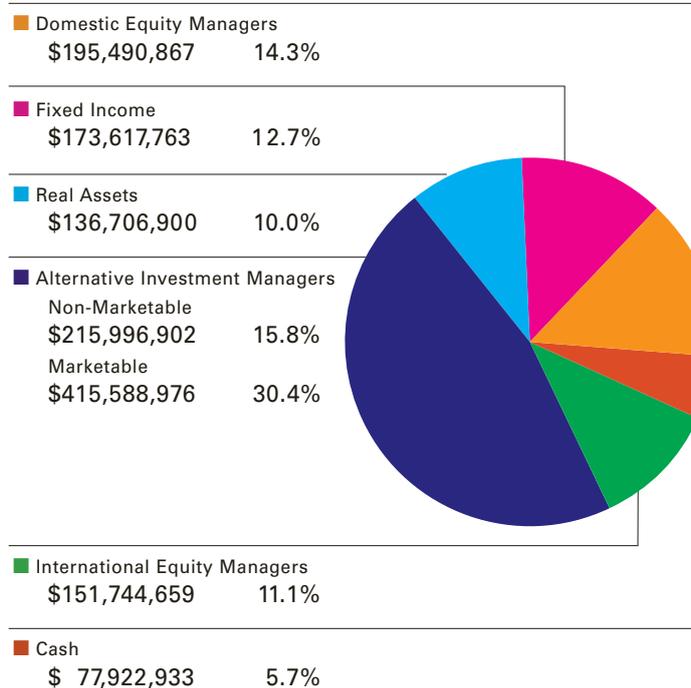
Average Annual Total Returns

1 Year =	-22.8%
3 Years =	-0.1%
5 Years =	4.9%
10 Years =	4.1%
Inception =	11.2%**

**Date of inception 1/1/84

ASSET ALLOCATION AS OF DECEMBER 31, 2008

Total Endowment Fund Assets: \$1,367,069,000



Copies of the complete audit are available upon request. The UW Foundation complies with all applicable federal and state reporting requirements.

The power of an endowment

Sobey Okuyama, doctor of veterinary medicine, wore a child's size eight shoe and a boy's size 14 overalls. He stood about five feet tall. Friends and co-workers at the Brook Hill Farms, Inc. in Geneseo, Wisconsin, where Okuyama was herd veterinarian, watched with amusement as his horn-rimmed glasses barely cleared the steering wheel of his big Oldsmobile. When he made rounds among his beloved dairy cows, especially the Guernseys, he could almost walk under them. Even though he died in 1953, Okuyama continues to make a huge impact at the University of Wisconsin-Madison School of Veterinary Medicine.

"Doc Sobey," as he was called, never married and had no children but he thought about future generations and wanted his money to go where it would do the most good. His wishes have been fulfilled, perhaps beyond his imagination. For more than 50 years, his generosity has helped advance animal science. It has benefitted research, including the study of lactic acid bacteria and the control of bovine leukosis, as well as staff retention and facilities. More important, his gift will continue to support the work that was his life thanks to the power of an endowment.

Since 1953, Okuyama's initial bequest of \$60,000* "for research in the field of dairying and veterinary science" as stated in his will, has increased tenfold to a current market value of \$600,000. At the same time, nearly \$300,000, or five times the original amount, has been used by the School. The combined market value and income created through investment growth total more than \$1 million. Okuyama's wish to do the most good will continue for many decades to come.

Sobey Okuyama was born in Japan in 1889. At age 19, he arrived in California for high school but discovered his true home in Wisconsin when he joined

a Japanese friend at Brook Hill Farm. He financed his studies at Cornell University and The Ohio State University by working at the farm and returned there full time after earning his advanced degrees.

Doc loved being among the 500 cows but he also had an agile mind and curious intellect. He and a UW-Madison professor pioneered the use of artificial insemination to improve dairy herds. Brucellosis, called undulant fever in humans, is a highly contagious disease transmitted from animals to people via raw meat. In the 1930s, Doc worked with UW-Madison researchers to develop a vaccine for this disease based on original work he did years earlier. He was among the first to develop acidophilus, a bacteria often added to milk. In his tiny (naturally) laboratory on the farm, he conducted dozens of bacteriology experiments. One week before his death, Doc met with University researchers on a potential calf experiment for Brook Hill.

Doc was a red, white and blue American and would not hesitate to place a small bet on a football game, one of his passions. When the Japanese attacked Pearl Harbor in 1941, he was devastated. Some said it broke his heart. And there were a few who turned against him. At first, he withdrew socially but nearly every veterinarian and many friends within a hundred miles let Doc know they trusted and cared about him.

On a warm summer evening, Doc Sobey died as people often saw him in life: a small, solitary figure sitting on his couch reading. That's what a giant looks like.

**Dr. Okuyama's bequest was to the Department of Animal Health and Biomedical Sciences that was later reorganized into the current School of Veterinary Medicine.*



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FOUNDATION