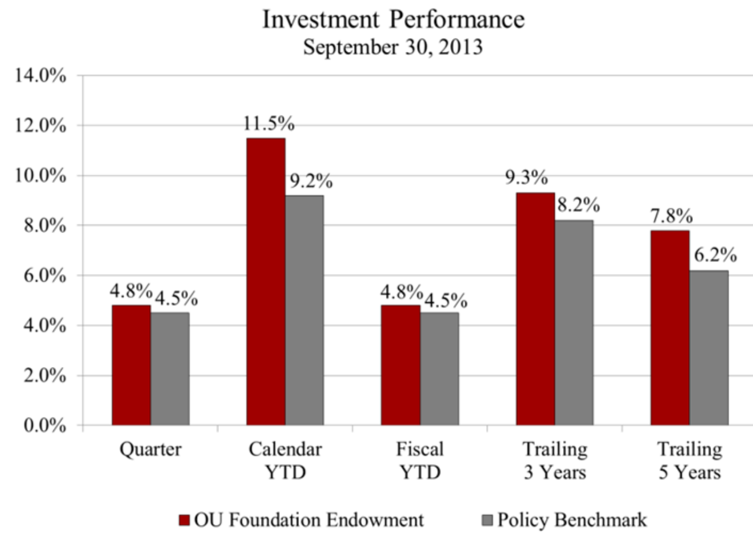
THE UNIVERSITY OF OKLAHOMA FOUNDATION

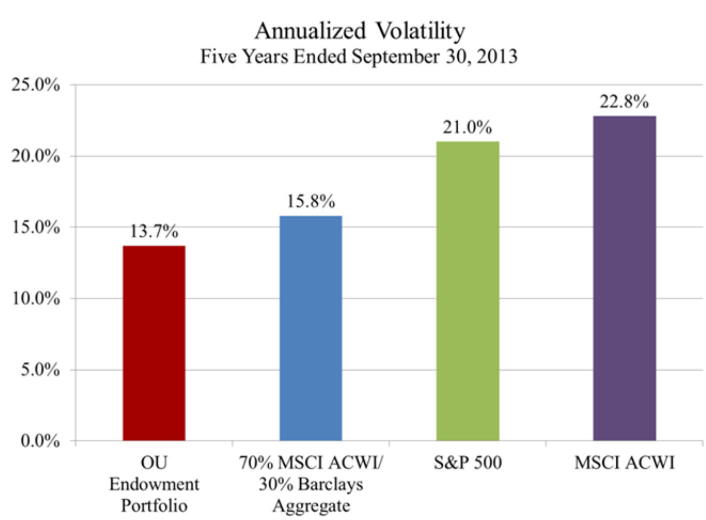
Investment Report – 1st Quarter of Fiscal Year 2014

Stocks churned higher in the quarter as the S&P 500 rose 5.2% on the backs of the materials and industrial sectors. The index is up 19.8% in 2013 and 174% since its March 2009 low. The bond market inched forward as the Barclays Aggregate gained 0.6% led by commercial mortgage backed securities. It will be interesting to note if markets continue their ascension in spite of the government shutdown and debt ceiling debate in October.



Most investors were surprised when the Fed decided not to commence tapering Quantitative Easing in September as they had indicated they would just a quarter before. As a result stocks and bond markets experienced a solid rally to end the quarter. The U.S. unemployment rate ended September at 7.2%; however, the slow and steady decline in the unemployment rate has been, at least partially, because of the decline in the participation rate. Due to the aforementioned government shutdown, U.S. GDP for the quarter will not be released until sometime in November. Eurozone economies are picking up steam after their first positive quarter-over-quarter change in GDP in nearly two years. Chinese GDP rose to 7.8% in the quarter, but the country's economic outlook remains uncertain.

The OU Foundation's endowment portfolio appreciated 4.8% in the quarter, beating the policy benchmark by 0.3%. The best absolute return of 10.2% came from developed, non-U.S Equities though the allocation trailed the surging MSCI EAFE index by 1.4%. The Opportunistic allocation turned in the best relative outperformance of 4.5% as it returned 9.1% for the quarter. In 2013, the Foundation's opportunistic investments have surged 65.3%, the portfolio's best performance by a wide margin. The Deflation Hedge fell 1.6%, accounting for the only loss in the portfolio this quarter. The Foundation's Investment Committee approved two private commitments this summer, one to health care focused venture capital and another to distressed real estate. The Foundation's views on asset class valuations and the resulting portfolio positioning have been rewarded lately. While most allocations are currently held fairly close to strategic targets, others have been tactically adjusted to take advantage of market dislocations. A prime example has been the deliberate underweight to U.S. Treasury bonds, a move that has preserved approximately 0.2% in total return.



In addition to improving returns, tactical allocation shifting is also intended to reduce portfolio volatility. As seen in the graph to the left, the endowment has experienced 2.1% less volatility annually when compared to a passive 70/30 portfolio over the last five years. When compared to equity indices, the endowment exhibits roughly 2/3 of the volatility. This lower risk strategy allows for more consistent returns and has provided the University of Oklahoma with steady and reliable distributions. The OU Foundation delivered over $36 million in endowment distributions to the university after FY 2013. For more information, call or email Ben Stewart, the University of Oklahoma Foundation's Director of Investments, at 405-321-1174 or *bcstewart@ou.edu*.