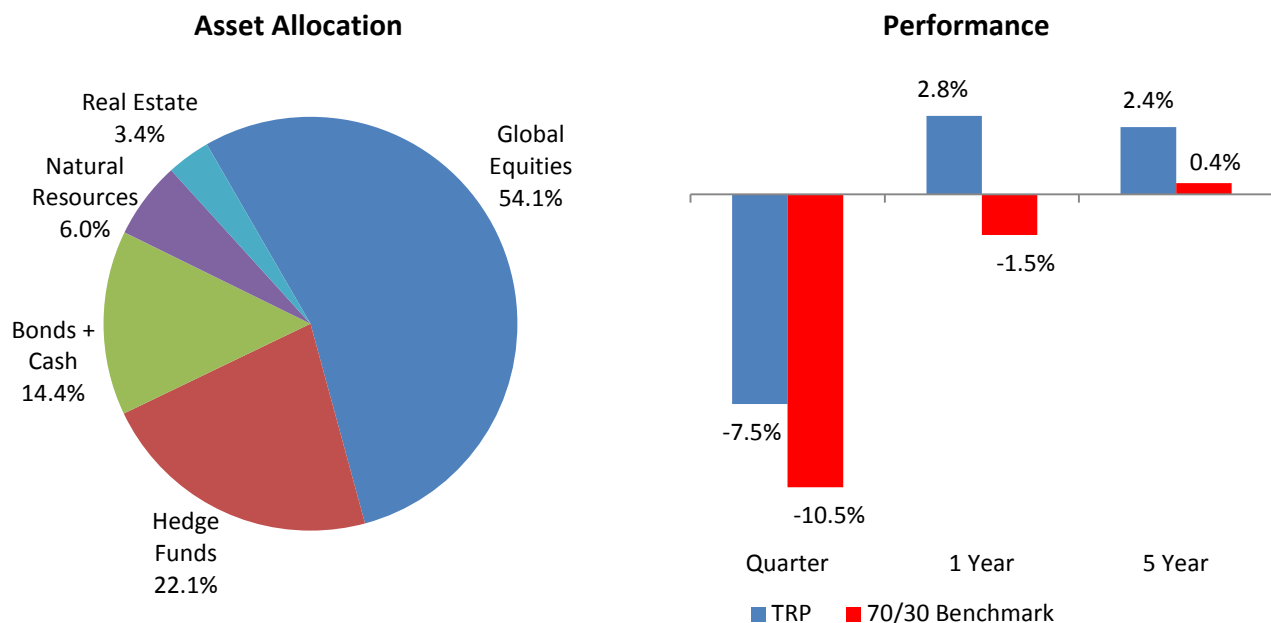


# The University of Arkansas FOUNDATION, INC.

For the quarter ended September 30, 2011

## Total Return Pool (Endowment)

The University of Arkansas Foundation supports the University of Arkansas System by administering and investing private gifts for benefit of the campuses and units of the University of Arkansas System. The Foundation invests private endowed gifts in a single highly diversified investment pool (the Total Return Pool) pursuant to an investment policy designed to maintain over the long-term a target return of 8-9% per annum. The market value of the Total Return Pool as of September 30, 2011, was approximately \$1.01 billion.



## Commentary

The Total Return Pool declined 7.5% during the quarter ended September 30 as global equity markets tumbled. The chaotic debate over the U.S. debt ceiling provided a negative market catalyst for nervous investors who were concerned about the sovereign debt crisis in Europe and economic data that was worse than expected. Global equity markets declined almost 17% during the quarter. Returns for all equity classes in the portfolio were negative. However, the portfolio outperformed its benchmarks due to its conservative positioning within equity classes. The bond portfolio rose 4% helped by a "flight to quality" as investors sought refuge from the volatile equity markets. Hedge funds outperformed the equity markets and helped to dampen portfolio volatility.

At quarter-end the portfolio's asset allocation was positioned fairly close to target with a couple of exceptions. Bonds continue to be underweighted relative to target due to low current yields. Hedge funds remain overweighted as protection from market volatility while providing a higher expected return than bonds.