



West Virginia University

Division of Planning and Treasury Operations

December 18, 2012

The Honorable Earl Ray Tomblin
Governor of West Virginia
State Capitol 1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Governor Tomblin,

In accordance with the requirements of WV State Code 12-1-12d(f), I respectfully submit the enclosed report on behalf of the West Virginia University Board of Governors. This report provides information about the University's unrestricted investment fund for the period November 1, 2011 - October 31, 2012. In order to present a 12-month return and provide this report by December 31 of each year, WVU has chosen November 1 – October 31 as its investment reporting year.

The value of the WVU unrestricted investment portfolio managed by the WVU Foundation was \$46,918,424 on October 31, 2012. The asset allocation ranges for these funds as well as the actual allocation as of October 31, 2012 may be found in the attached report from the WVU Foundation on page 4.

The 12-month return for these investments can be found on page 5 of the report from the WVU Foundation. The WVU portfolio achieved a 12-month return during the investment reporting period of 7.9%. As a point of comparison, during the same period of time the S&P 500 returned 15.2% and the Barclay's Aggregate bond index rose 5.3%. WVU uses a blended benchmark to assess performance. The benchmark blended rate for the period was 6.4%. This portfolio outperformed its blended benchmark by 145 basis points.

WVU and the WVU Foundation are proud that this portfolio has performed so well under volatile market conditions. The graph on page 2 of the WVU Foundation report demonstrates the significant declines and subsequent 'rebounds' of the S&P over the past several years largely related to the European sovereign debt crisis and market reactions to potential solutions to that crisis. We view the comparative performance of our portfolio detailed on page 5 as evidence that this investment program and the prudent investment strategies allowed within the program can generate positive results.



West Virginia University

Division of Planning and Treasury Operations

Should you desire additional information regarding WVU's investment with the WVU Foundation, please contact me directly.

Sincerely,

Elizabeth P. Reynolds

Elizabeth P. Reynolds
Associate Vice President for Planning and
Treasury Operations

cc: Aaron Allred, Legislative Services
John Homburg, Legislative Services
Andrew Payne, III, WVU Board of Governors Chair
Ed Robinson, WVU Board of Governors Finance Chair
James P. Clements, President
Narvel G. Weese, Jr., Vice President for Administration and Finance

December 17, 2012

Mr. Narvel G. Weese, Jr.
Vice President for Administration and Finance
West Virginia University
Stewart Hall
Post Office Box 6205
Morgantown, West Virginia 26506

Re: Annual Report to West Virginia University
Regarding the Unrestricted Investment Funds

Dear Mr. Weese:

The West Virginia University Foundation, Incorporated, in its capacity as Investment Agent, has prepared the enclosed annual report on the Unrestricted Investment Funds (the "Investment Funds") for the 12-month period from November 1, 2011 through October 31, 2012. The Investment Funds were made available pursuant to West Virginia Code §12-1-12d.

Included herein is a Market Overview and a Portfolio Review for the 12-month period, detailing the investment assets under management, asset allocation, and annual performance.

We are honored to serve as Investment Agent on behalf of West Virginia University and look forward to serving your needs as they relate to the Investment Funds. If you have any questions or would like any additional information, please do not hesitate to contact us.

Sincerely,

A handwritten signature in blue ink that reads "Richard S. Kraich". The signature is written in a cursive style.

Richard S. Kraich, CFA
Vice President & Chief Investment Officer

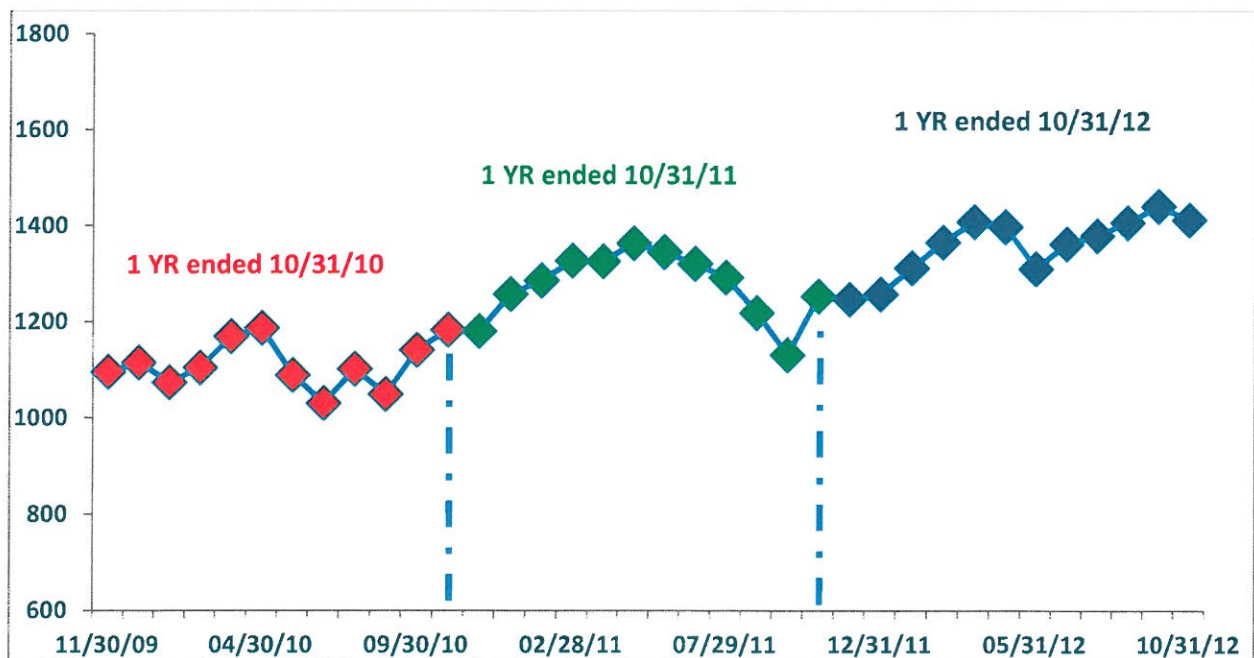
Market Overview

Following the worst quarter since the collapse of Lehman Brothers in 2008, the markets began to recover in the fourth quarter of 2011 despite the continuing sovereign debt crisis in Europe. Over the last year, markets appear to move in anticipation of government policy and central bank decisions as much as other economic news. Improving economic data in the U.S. and massive injections of liquidity supplied by central banks in the developed world, particularly in the U.S. and Europe, have increased the risk appetite in global markets over the last year. The European Central Bank announced a three-year Long-Term Refinancing Operations (“LTRO”) program in December 2011, increased the size of the program in February 2012, and announced in September a new program called Outright Monetary Transactions (“OMT”), planning to purchase government bonds without limit with a focus on maturities from 1-3 years. Also in September, the Federal Reserve announced QE3, saying it would buy \$40 billion of mortgage-backed securities every month until the job market improves. This move, in addition to the Fed’s plan to continue a federal funds target range of 0% to 0.25% until the unemployment rate drops to 6.5%, keeps interest rates very low. All these actions helped equity returns to strongly outperform bond returns over the 12-month period ending October 31, 2012.

The following charts display (i) the change in value of the S&P 500 over the most recent 3-year period, and (ii) the performance of key market indices for the 1-, 2-, and 3-year periods ended October 31, 2012.

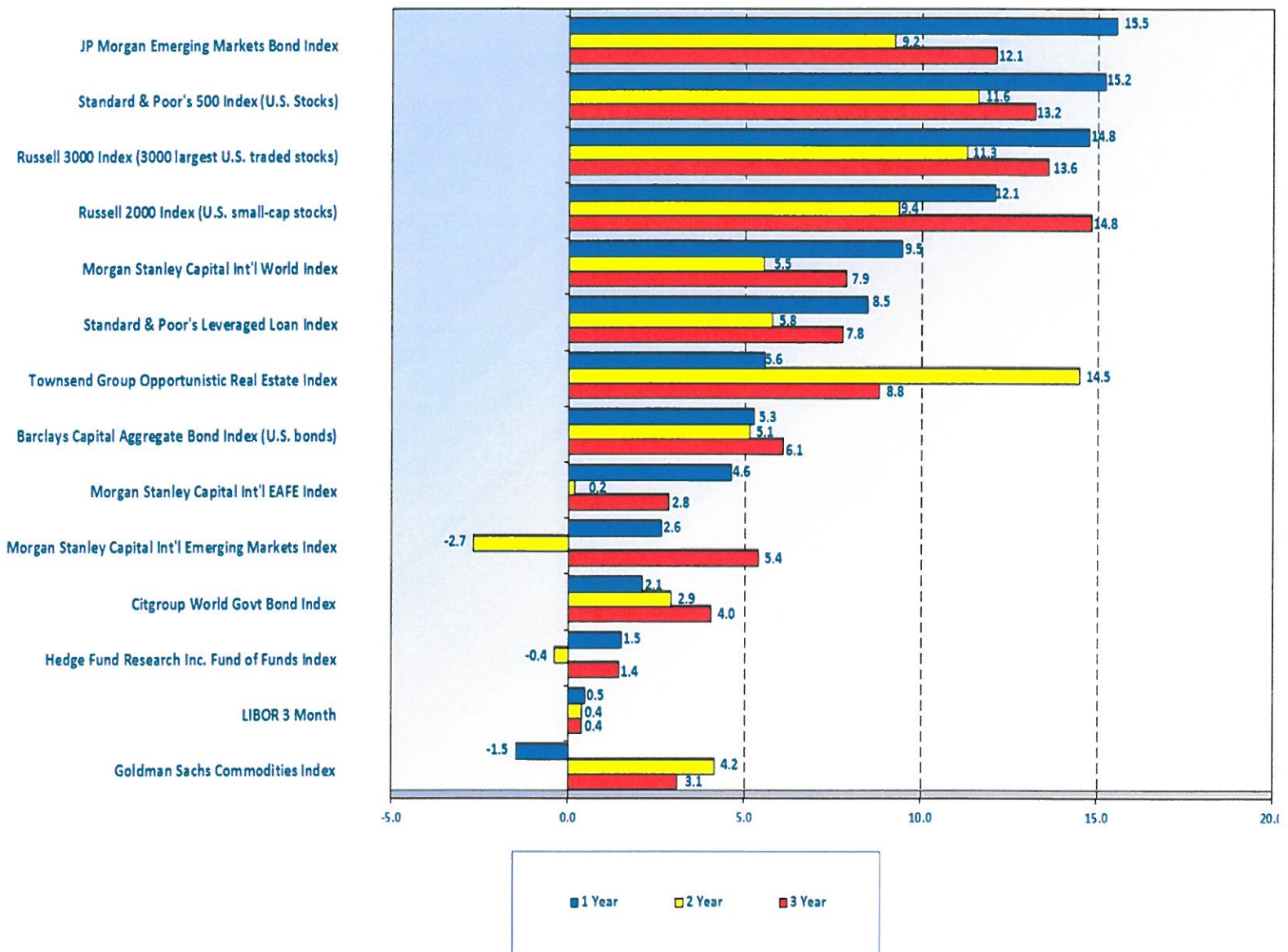
The first chart illustrates the S&P 500 monthly returns over the last 3 years. Dips in returns over this period are largely the result of different rounds in the European sovereign debt crisis, starting in the spring of 2010, plus the U.S. government debt ceiling debacle and subsequent downgrading from a AAA rating in the summer of 2011.

S&P 500 Values



The Market Performance chart illustrates the strong performance of U.S. equities and emerging markets debt over all three time periods. International equities, both developed and emerging, have been disappointing and have negatively impacted diversified portfolios. Commodities had the worst performance in the last 12 months.

Market Performance
Periods Ended October 31, 2012



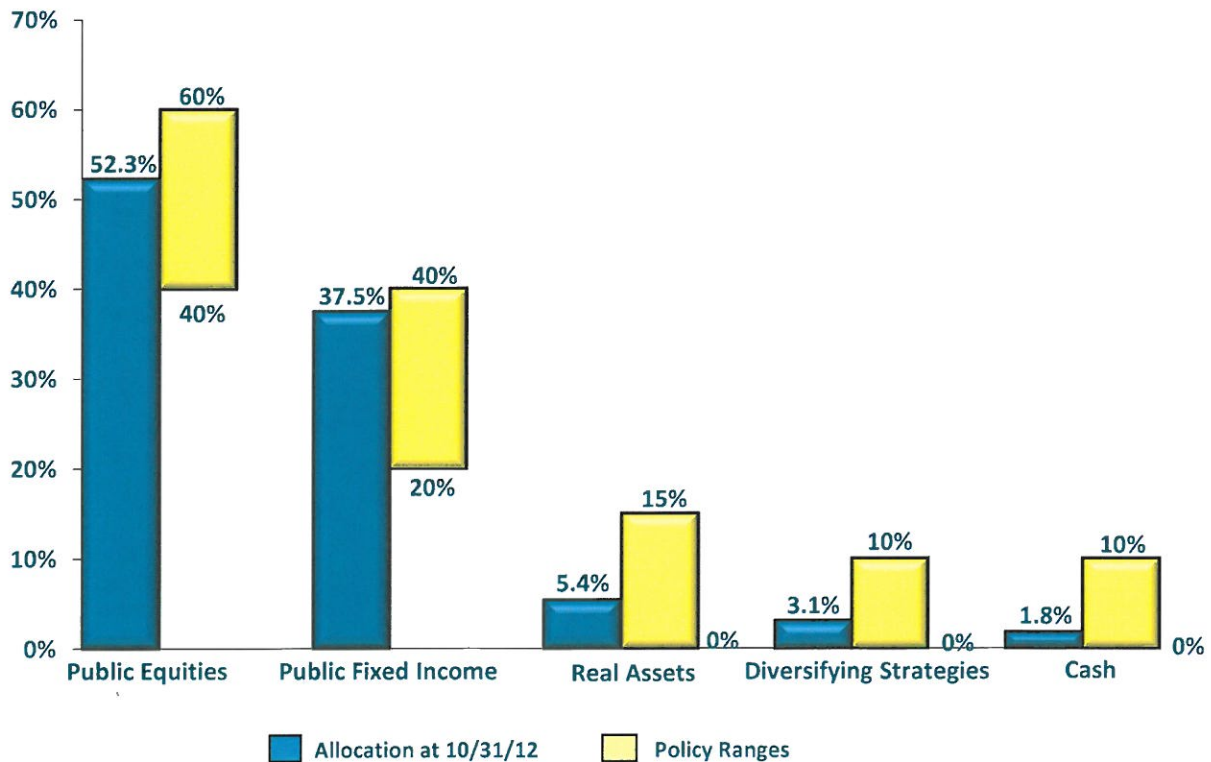
Portfolio Review

Investment Assets under Management: At October 31, 2012, the value of the Investment Funds' portfolio was \$46.9 million. The portfolio generated \$3.2 million of net earnings during the twelve month period.

Asset Allocation: With the passage of West Virginia Senate Bill 330, the sunset provision for the Investment Funds was removed from West Virginia Code §12-1-12d(g) effective 90 days after March 12, 2011 and therefore the Investment Funds can be invested on a more long-term basis. The University Planning Committee, which serves as the Investment Committee ("Committee") for the Investment Funds, believes the Investment Funds are endowment like and should be invested on that basis. Therefore, the Committee approved a change to the asset allocation for the Investment Funds at the December 14, 2011 Committee meeting. The approved ranges are noted in the chart below. As funds can be invested for the long term and there is little need for current income from the Investment Funds, the new asset allocation has moved from a majority of the assets invested in fixed income to a more diversified portfolio focused on achieving reasonable returns on invested capital over time. The longer term focus assumes a willingness to take on a somewhat higher degree of risk. This leads to a greater use of equities in the portfolio. The transition to this new asset allocation was made during the first six months of 2012.

At October 31, 2012, all asset classes were in line with their policy ranges. This portfolio is rebalanced quarterly to policy ranges subject to Committee review and approval. The Investment Policy allows for flexibility to maintain allocations outside the recommended range at the Committee's discretion.

Asset Allocation as of October 31, 2012



Performance: For the 12 months ended October 31, 2012, the Investment Funds earned \$3.2 million, resulting in a 7.9% return for the year while the S&P 500 gained 15.2%, the MSCI EAFE gained 4.6% and the Barclays Aggregate Bond Index rose 5.3%. The Investment Funds outperformed their custom blended benchmark by 145 basis points. Performance was led by the Funds' investments in Public Equities, most notably Dodge & Cox Stock Fund, which gained 17.7% for the 12-month period. The portfolio was also helped by strong returns from exposure to international bonds in the Brandywine Global Fixed Income Fund, returning 9.0% for the year. The Real Assets portion of the portfolio struggled in the one year period, returning a disappointing -2.1%, but has gained 7.0% for the 10-month period ending October 31st. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 3.3%, as compared to the S&P 500 Index return of 2.3%.

Performance

%	<u>1 YR</u>	<u>3YR</u>	<u>ITD</u>
WVU Unrestricted Investment Funds	7.9	8.0	3.3
<i>Custom Benchmark*</i>	6.4	6.8	3.3
<i>S&P 500 Index</i>	15.2	13.2	2.3
<i>MSCI EAFE</i>	4.6	2.8	-1.8
<i>Barclays Aggregate Bond Index</i>	5.3	6.1	6.1
<i>90 day T-bills</i>	0.1	0.1	1.4

**Custom Benchmark calculated by State Street. Benchmark is a dynamic blend based upon the average monthly balances of all WVU Unrestricted investment accounts and the returns of their corresponding benchmark indexes.*