



West Virginia University

Division of Planning and Treasury Operations

December 19, 2013

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 October 1, 2012 – September 30, 2013. In order to present information and provide this report by December 31 of each year and to provide this information based on a date that is more standard within the investment industry, WVU has changed the reporting period to the 12-months ending September 30. We previously reported for the 12-months ending October 31. The report within and the comments throughout reflect this new 12-month reporting period.

The value of the WVU unrestricted investment portfolio managed by the WVU Foundation was \$52,186,634 on September 30, 2013. The asset allocation ranges for these funds as well as the actual allocation as of September 30, 2013 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 11.1%. As a point of comparison, during the same period of time the S&P 500 returned 19.3% and the Barclay's Aggregate bond index returned (1.7%). WVU uses a blended benchmark to assess performance. The benchmark blended rate for the period was 10.3%. This portfolio outperformed its blended benchmark by 80 basis points and has also outperformed the blended benchmark for the 3-year period and since inception.

As mentioned on page 4 of the WVU Foundation report, WVU reviews its asset allocation of this portfolio at least annually. Over the past two years, upon recommendation of the WVU Foundation based on WVU's expressed risk tolerance, WVU has modestly increased its equity allocation to more closely reflect the long term nature of the assets being managed.



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WVU and the WVU Foundation are proud that this portfolio has performed so well in strong equity but challenging fixed income 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 as well as market reactions to continued quantitative easing by the Federal Reserve which is impacting domestic markets. We continue to 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.

Should you desire additional information regarding WVU's investment managed by the WVU Foundation, please contact me directly at 304-293-4245.

Sincerely,

A handwritten signature in blue ink that reads "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 12, 2013

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 October 1, 2012 through September 30, 2013. 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,



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

Market Overview

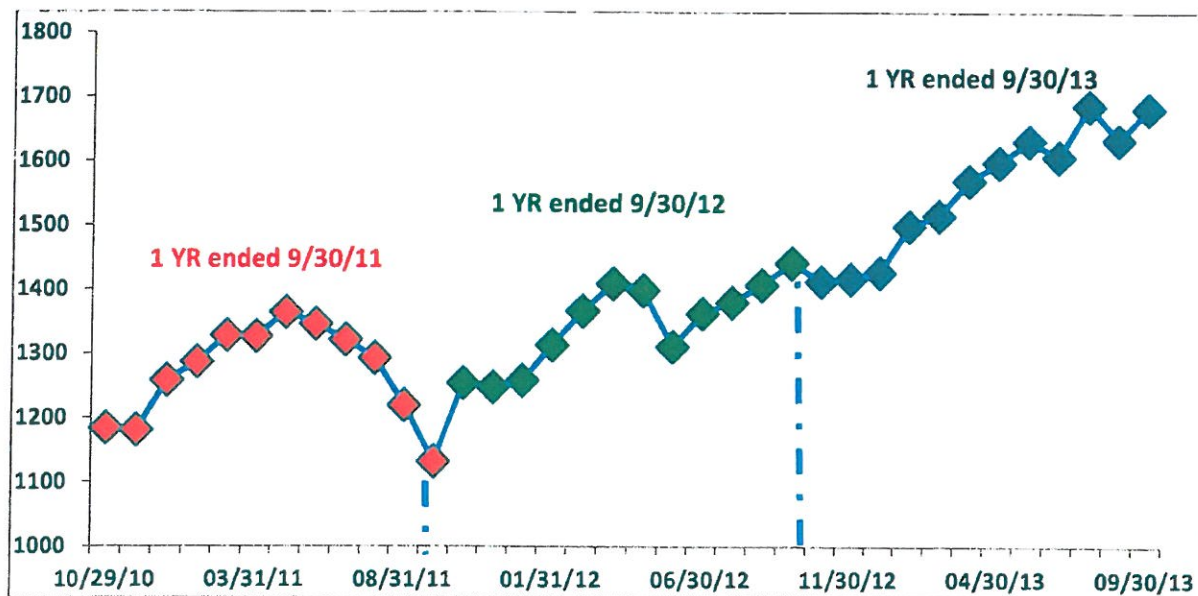
The continued postponement of tapering of quantitative easing by the Federal Reserve led to broad increases in the major equity market indices, both in the U.S. and international markets, during the last 12 months ending September 30, 2013. For the U.S., the S&P 500 gained 19.3% over the past year, while the Russell 3000 gained 21.6%. Small cap stocks in the Russell 2000 had a very strong year, gaining 30.1%. Central bank support and improved outlooks in Europe and Japan bolstered returns in the international equity markets. The Morgan Stanley Capital International EAFE Index returned 23.8%. Emerging markets, however, only gained 1.0% for the period.

The Barclays Aggregate Bond Index returned -1.7% during the one year period ending in September 2013 as interest rates began to rise in the spring when the Federal Reserve suggested it may start tapering its asset purchases. The Citigroup World Government Bond Index (-4.6%), the Emerging Markets Bond Index (-4.1%), and the Goldman Sachs Commodities Index (-4.1%) posted larger losses for the period.

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 September 30, 2013.

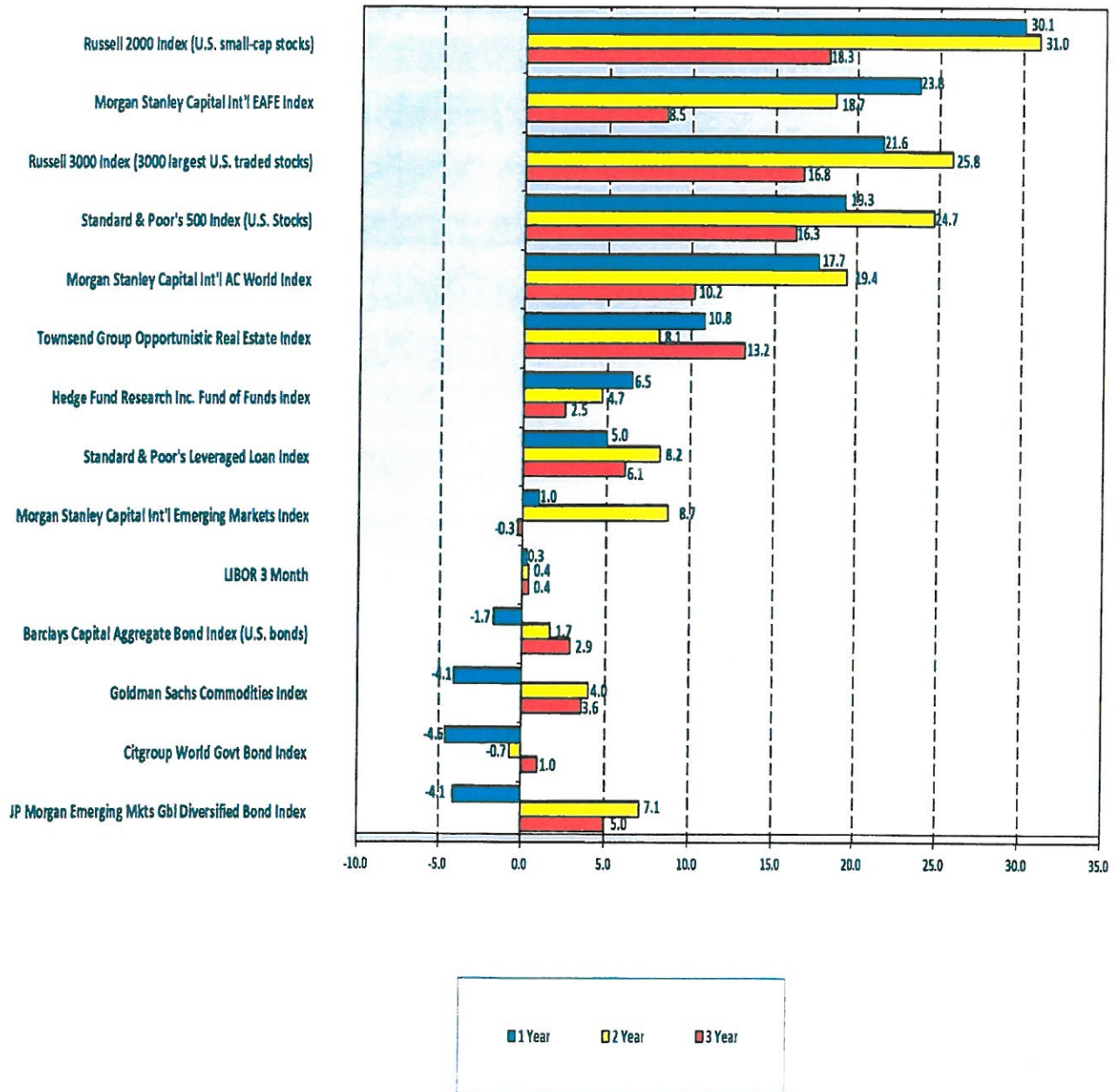
The first chart illustrates the S&P 500 monthly values over the last 3 years. The worst dip in values over this period was largely the result of the U.S. government debt ceiling debacle and subsequent downgrading from a AAA rating in the summer of 2011.

S&P 500 Values



The Market Performance chart illustrates the strong performance of U.S. equities over all three time periods.

Market Performance
Periods Ended September 30, 2013



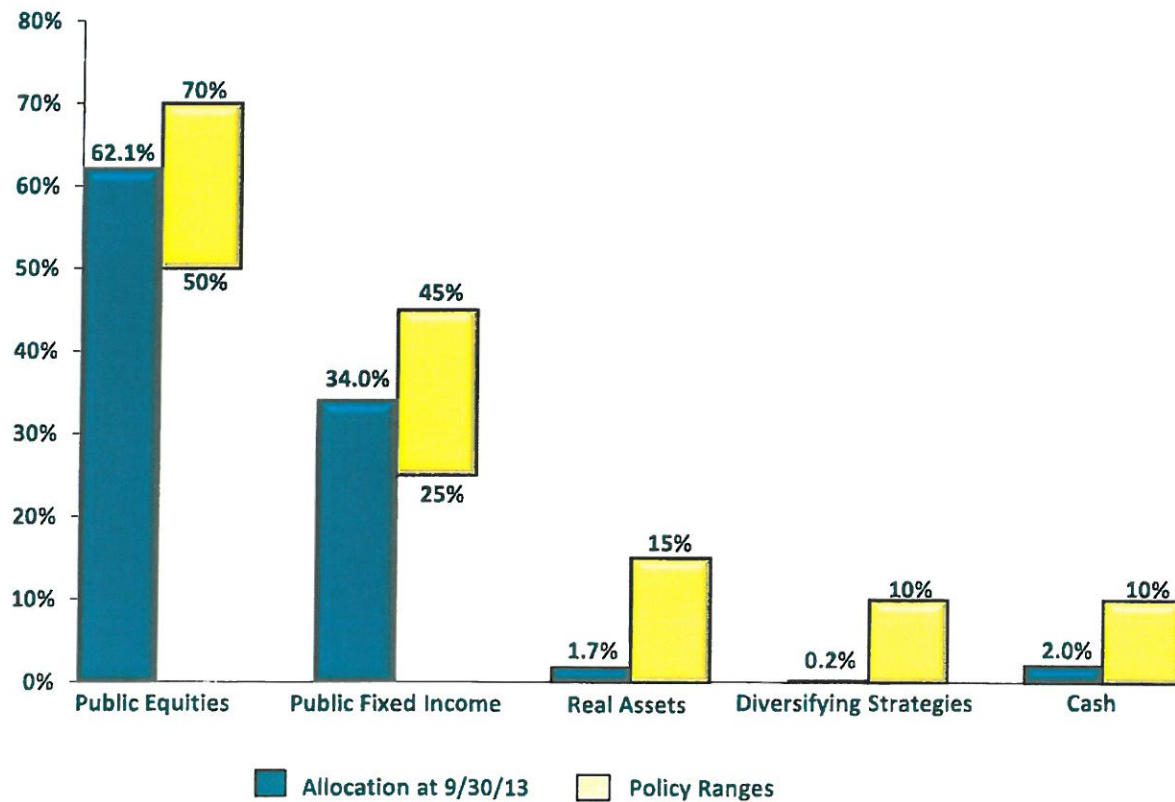
Portfolio Review

Investment Assets under Management: At September 30, 2013 the value of the Investment Funds' portfolio was \$52.2 million. The portfolio generated \$5.3 million of net earnings during the twelve month period.

Asset Allocation: The Investment Funds' asset allocation policy is reviewed annually with the Committee. In March 2013, the Committee approved the ranges noted below. The ranges for Public Equities and Public Fixed Income were raised slightly from the ranges approved a year earlier (Public Equities range was 40% - 60% and Public Fixed Income was 20% - 40%). The Public Equities allocation was raised to take advantage of the Federal Reserve's support for financial assets through their quantitative easing program.

At September 30, 2013, 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 September 30, 2013



Performance: For the 12 months ended September 30, 2013, the Investment Funds earned \$5.3 million, resulting in a return of 11.1% for the year. The Investment Funds outperformed their custom blended benchmark by 79 basis points. Performance was led by the Funds' investments in Public Equities, most notably Dodge & Cox Stock Fund, which gained 29.3% for the 12-month period and Dodge & Cox International Stock Fund, which returned 27.8% for the same period. The Fixed Income portion of the portfolio, while beating the Barclays Aggregate Index, had a return of -0.7% for the year as interest rates began to rise in the spring of 2013. The Real Assets space struggled in the one year period, returning a disappointing -1.8%. This was due to the performance of our gold ETF position which was liquidated in April 2013. Since inception of the Investment Funds' program in November 2006, the program has generated an annualized return of 4.6%, as compared to its Custom Benchmark return of 4.4%.

Performance

%	<u>1 YR</u>	<u>3 YR</u>	<u>ITD</u>
WVU Unrestricted Investment Funds	11.1	8.6	4.6
<i>Custom Benchmark*</i>	<i>10.3</i>	<i>7.9</i>	<i>4.4</i>
<i>S&P 500 Index</i>	<i>19.3</i>	<i>16.3</i>	<i>5.0</i>
<i>MSCI EAFE</i>	<i>23.8</i>	<i>8.5</i>	<i>-0.6</i>
<i>MSCI Emerging Markets</i>	<i>1.0</i>	<i>-0.3</i>	<i>7.0</i>
<i>Barclays Aggregate Bond Index</i>	<i>-1.7</i>	<i>2.9</i>	<i>5.1</i>

**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.*