The Investment Office of The Ohio State University was established in September of 2008 to manage the long term financial assets of the institution. The Investment Office is part of the Business & Finance Division of the University with advisory oversight by an Investment Working Group (IWG) appointed by the University Board of Trustees. The IWG consists of investment professionals and the SVP-Finance & CFO of the University. The IWG reviews asset allocation targets, strategic directions of investment decisions, and evaluates the performance of the Investment Office’s investments and professionals.

The Investment Office is tasked with the management of the Long Term Investment Pool (LTIP) which is a diversified portfolio of actively managed financial and real estate assets valued at approximately $2.12 billion as of June 30, 2011. The LTIP contains three distinct pools of capital:

- University Endowment $921.2MM
- Foundation Endowment $484.4MM
- Long Term Operating Funds $715.1MM
- Total LTIP $2,120.7MM

To facilitate the comparison of returns with the results of other institutional investors such as endowments and foundations and to match up with the university’s fiscal year-end, LTIP performance measurements are calculated on the twelve months ending June 30 of each year. The LTIP realized a 16.8% investment gain for the twelve months ended June 30, 2011. The LTIP portfolio is constructed on a foundation of modern portfolio theory while incorporating strategic and tactical asset allocation shifts. The portfolio is designed to provide consistent long term returns over a multiple year cycle which in turn provides consistent annual payouts to the University’s operating budget and preserves the sustainability of the LTIP for future generations of Ohio State faculty and students.

With the founding of the Investment Office in 2008, the University chose to separate the management of its long-term financial assets from that of the Treasury function and the short-term assets. This decision followed the path taken by a majority of our peer universities which is to have a distinct team focusing exclusively on the endowments and related long term assets. The strategy, operations and implementation have all been aligned to focus on managing a “perpetual” pool of capital.

The Investment Office, with assistance from the IWG and the Board of Trustees, actively manages the LTIP by selecting third-party managers to whom we deploy the LTIP capital. The brand name of The Ohio State University and the investment reputation of the new investment office help to enable us to gain access to some of the best third-party managers in the world. Within each asset class we strive to place capital with a diversified set of managers across investment strategies, geographies, and time horizons. We actively look to seize opportunities from drivers of economic growth through a diversified and risk-controlled portfolio that is less likely to suffer large drawdowns than the LTIP portfolio construction used in the past.

Ohio State LTIP Asset Allocation  Given the perpetual nature of the University and its mission, the investment horizon is long-term. Our objective is to generate an optimal risk-adjusted total return such that we can fulfill our mission of consistently funding the University to assist in achieving its goals. The asset allocation of the LTIP was reconfigured at the end of fiscal 2009 in accordance with the updated investment policy and asset allocation. The underlying principles of the new asset allocation are to provide consistent positive returns to the University, which over time, provide exceptional long-term growth and capital appreciation.
Long Term Policy Targets and Asset Allocation as of June 30, 2011

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Range (%)</th>
<th>Exposures @ 6/30 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Exposure</td>
<td>10 - 50</td>
<td>37.0</td>
</tr>
<tr>
<td>Risk Reducers</td>
<td>25 - 50</td>
<td>31.5</td>
</tr>
<tr>
<td>Return Enhancers</td>
<td>10 - 25</td>
<td>17.6</td>
</tr>
<tr>
<td>Inflation Hedges</td>
<td>10 - 25</td>
<td>13.9</td>
</tr>
</tbody>
</table>

The asset class nomenclature used is a customized model that was developed by the staff that is segmented in the chart below and its results during the last fiscal year are described in the following paragraphs:

- **Market Exposure**: Global Equities of all types; Long-Only and Long-Short strategies
- **Risk Reducers**: Fixed Income strategies and Diversifying strategies to include Multi-Strategy Hedge Funds, Macro and Credit
- **Return Enhancers**: Buyouts, Venture Capital, Distressed Debt, and Opportunistic Credit strategies
- **Inflation Hedges**: Real Estate, Natural Resources, Infrastructure, and Commodities

**Market Exposure**

The Market Exposure allocation is designed to provide the portfolio with global equity exposure. The goal of the allocation is to generate an attractive risk-adjusted return from global equities over a full market cycle. The Market Exposure allocation can be broken down into two distinct portfolios. The first is a long-only global equity allocation and the second is a long/short global equity allocation.

The equity markets over the last twelve months performed strongly with the MSCI World Equity benchmark up +31.2%, the S&P 500 benchmark up +30.7% and the MSCI Emerging Market benchmark up +28.2%. Several drivers of equity performance during the fiscal year were strong corporate profits and the announcement of the second round of quantitative easing (QE2) by the Federal Reserve.

While equities had a record setting performance this past year, we had concerns that persisted throughout the year about the global economy, U.S. debt ceiling and QE2 ending. We were also concerned about high energy and commodity prices eroding incomes in the emerging markets and developed economies; the earthquake in Japan and its impact on the global supply chain; the debt crises in Europe; and global monetary and fiscal tightening restraining global growth. Given the potential risks to the global economy, we took a cautious stance and held a balanced portfolio of long-only and long/short strategies. While these concerns did not materially impact global equity returns during the past fiscal year, risk aversion has become prominent during the first quarter of the current fiscal year and equity markets have sold off post June 30. While I would like to believe we can have perfect timing, the market reminds us time and again that it is impossible. At this point, it is safe to say we were early versus wrong with our views.

The Market Exposure allocation was up +22.9% during the fiscal year. The long-only portfolio generated a +32.4% return while the return of the long/short portfolio was up +11.7%. In hindsight, holding only a long-only portfolio would have produced higher returns but we believed the potential downside of another recession warranted a lower risk profile within the allocation. Many of our long/short managers also had similar concerns and maintained a lower than average net exposure to the equity markets for most of the year.

One of the main factors of the lesser long/short equity performance was a high correlation within the equity markets. Long/short investors tend to do best when you have winning and losing stocks. When stocks are going up or down in one big group based on macro factors, it dramatically reduces our managers’ ability to generate alpha, or
uncorrelated returns, from their longs and shorts. While we were disappointed in the long/short portfolio performance for the year, we understand the factors contributing to the performance. These factors may persist longer but the odds are in our favor that correlations will fall and the macroeconomic environment will calm down over time. We have and will continue to make adjustments to our long/short book, but we still believe it is an important piece of our Market Exposure allocation.

In closing, our equity managers are tasked to identify the winners and the losers. While on the surface this concept sounds simple, the macroeconomic environment (e.g., risk on/risk off) over the last twelve months has tended to overshadow the business fundamentals. We believe the best use of our time is to focus on partnering with managers that can endure and succeed over many different markets. As we move forward, we plan on continuing the process of diversifying the portfolio from a strategy standpoint as well as a geographic perspective.

**Risk Reducers**

The Risk Reducer allocation is designed to provide diversification by generating a return that has a low correlation to global equity markets. The goal of the allocation is to generate attractive risk-adjusted returns from a portfolio of global bank debt, corporate debt, distressed debt, as well as arbitrage, volatility, and FX strategies over a full market cycle. The Risk Reducer allocation can be broken down into a global fixed income allocation and a diversifying portfolio of hedge funds.

The credit markets were positive over the course of the fiscal year with the Barclays U.S. Aggregate Index up +3.9%, the Barclays U.S. Govt./Credit Index +3.7% and the Barclays U.S. TIPS index up +7.7%. Several drivers of credit performance over the last year included strong credit fundamentals, favorable technicals, and global default rates remaining low.

The Risk Reducer allocation was up +7.3% during the fiscal year. The global fixed income portfolio generated a +5.7% return while the diversified hedge fund portfolio was up +7.9% return. The hedge fund allocation can be broken down further into multi-strategy managers, single strategy managers and macro-oriented managers. The multi-strategy and single strategy managers performed the best while our macro managers struggled during the year. Since the end of the fiscal year, market sentiment has reversed and risk assets have performed poorly. The leadership within the allocation has also shifted in favor of our macro managers. While our macro managers were a drag to overall performance last fiscal year, they have shown their worth to the portfolio in the current fiscal year.

Currently, we are being cautious with the risks in the portfolio and are leaning heavily on our most trusted managers. We believe maintaining a well-diversified hedge fund portfolio in addition to the global fixed income allocation will provide a solid foundation to help compound returns over time.

**Return Enhancers**

The Return Enhancer allocation adds a measured amount of higher risk and higher return exposures to the portfolio by way of illiquid strategies. These strategies include leveraged buyouts, venture capital, distressed debt, and opportunistic credit. This piece of the portfolio produced a 15% return for the fiscal year compared to its benchmark return of 21%. In general, returns in this portion of the portfolio will be lumpy and will not likely track the benchmark on an annual basis. For example, in FY2010, this segment produced a 36% return, led by the distressed and opportunistic strategies. During the same period, the benchmark return was 21%. Given the young age of the portfolio and the amount of unfunded commitments, the portfolio is performing above expectations in the short-term. The strongest performers in this portfolio were secondary funds and buyout strategies (24% and 17.7% respectively). Distressed and opportunistic strategies, which account for about half of the portfolio, cooled off from the previous year and delivered approximately 14% combined in FY2011. For the private equity market, leveraged
buyout funds were the standout for the period, producing returns of greater than 20%. Buyout funds make up approximately 75%-80% of the benchmark.

As the public markets continued to recover during the period, private equity companies increased earnings growth and were able to continue to take advantage of the recovery in the credit markets. This has led to increases in valuations, continued debt refinancing and a more consistent flow of realizations. While the short-term market performance was strong and the private equity market has improved, challenges still remain. There is still a substantial amount of capital to invest from existing funds, fundraising for new funds is taking longer to complete and competition has increased acquisition demand and pricing. Fund managers that are patient and have the skill set to add value and work through challenges are well positioned to navigate the current market environment.

**Inflation Hedge**

The Inflation Hedge portfolio adds exposures that should perform well in times of inflationary pressures and/or currency devaluation. This segment had strong performance for the fiscal year with a return of 28.3% versus the benchmark of 9.3%. All components (Real Estate, Infrastructure, Natural Resources and Commodities) were positive contributors.

Despite concerns about a sluggish global economic recovery and the surprise release of 60MM barrels of crude oil from strategic reserves, oil prices rose from $72 in July to over $96 through the end of June providing a welcomed tailwind to our natural resource partnerships that earned 59.6% for the fiscal year. Conversely, commodity managers were very challenged during the year as volatility was high and performance was mildly positive at 2.5%.

The current environment remains challenging for most real estate investments made prior to 2008 as high unemployment and economic uncertainty have kept rents and valuations depressed in many regions of the country with the exception of select prime urban markets. Our real estate portfolio experienced a strong year with a return of 26.5% as real estate debt and non-U.S. investments were the key return drivers. Infrastructure investments, led by power generation, transmission and pipelines, were solidly positive during the year providing a 30.5% gain to the portfolio.

**OHIO STATE LTIP PERFORMANCE COMPARED TO INFLATION** The table below outlines annualized returns for various periods ending June 30, 2011

<table>
<thead>
<tr>
<th></th>
<th>ONE-YEAR</th>
<th>THREE-YEAR</th>
<th>FIVE-YEAR</th>
<th>TEN-YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal LTIP Return</td>
<td>16.8%</td>
<td>1.1%</td>
<td>2.3%</td>
<td>3.6%</td>
</tr>
<tr>
<td>GDP Deflator</td>
<td>3.5%</td>
<td>1.0%</td>
<td>2.1%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Real LTIP Return</td>
<td>13.3%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

**OHIO STATE LTIP PERFORMANCE COMPARED TO BENCHMARKS** The Investment Office evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate to their particular strategy and to their specific asset grouping. The IWG reviews LTIP performance against the composite benchmark return, which represents a blend of the benchmark returns for each asset grouping, weighted by the strategic allocations for that group. In the table below, actual performance, net of management fees, is compared to the composite benchmark for periods ended June 30, 2011. Prior to June 30, 2009 the benchmarks used for this chart was a 60% S&P 500/40% Barclays Aggregate Fixed Income Index. Post June 30, 2009, the benchmarks used are the Board of Trustee-approved benchmarks customized for our asset allocation.
Net Investment Returns for the 1, 3, 5, and 10 Year Periods ended June 30, 2011

INDIVIDUAL ASSET CLASS PERFORMANCE  The performance of our asset groupings for the twelve months ended June 30, 2011, relative to each grouping’s benchmark, is illustrated in the graph below:

Asset Group Returns vs. Policy Benchmarks: One Year (%)

Given that we face many uncertainties globally and challenges here at home, we believe that the principles of diversification and risk management have never been more important to follow. Our team is working hard to help grow the financial resources of “Buckeye Nation”.

Jonathan D. Hook  
Vice President & Chief Investment Officer