The Skillman Foundation

Financial Report

December 31, 2010

Contents

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
The Skillman Foundation

We have audited the accompanying financial statements of The Skillman Foundation (the "Foundation") as of December 31, 2010 and 2009 and for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Notes 1 and 2, the 2010 and 2009 financial statements include investments whose fair values of $263,501,556 and $225,523,199, or 60 and 53 percent, respectively, of net assets have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Skillman Foundation at December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 10, 2011

The Skillman Foundation

Statement of Financial Position

	December 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 8,520,316	$ 42,907,041
Investments (Note 2)	420,496,789	410,983,218
Unsettled trades receivable	17,533,515	-
Securities lending collateral (Note 2)	-	1,604,869
Dividend and interest receivable	292,118	587,641
Other assets:		
Program-related investment (Note 6)	-	350,000
Federal excise tax	249,580	641,222
Other assets	8,004	161,127
Total assets	**$ 447,100,322**	**$ 457,235,118**
Liabilities and Net Assets		
Liabilities		
Accrued liabilities	$ 871,136	$ 799,301
Grants payable	5,880,000	11,272,060
Liabilities under securities lending agreements (Note 2)	-	1,604,869
Deferred excise taxes (Note 3)	488,753	-
Unsettled trades payable	-	20,343,650
Total liabilities	7,239,889	34,019,880
Net Assets - Unrestricted	439,860,433	423,215,238
Total liabilities and net assets	**$ 447,100,322**	**$ 457,235,118**

The Skillman Foundation

Statement of Income, Expenses, and Changes in Unrestricted Net Assets

	Year Ended December 31, 2010	Year Ended December 31, 2009
Income		
Interest income	$ 2,093,186	$ 12,116,934
Dividend income	2,587,141	966,990
Investment management fees	(1,036,601)	(978,043)
Net income	3,643,726	12,105,881
Grants and Expenses		
Grants and contributions	21,869,107	21,494,718
Administrative expenses	5,057,757	4,720,110
Federal excise and other taxes	524,343	10,010
Total grants and expenses	27,451,207	26,224,838
Excess of Grants and Expenses Over Income	(23,807,481)	(14,118,957)
Realized Gain (Loss) on Securities	785,190	(8,795,170)
Change in Unrealized Market Appreciation	39,667,486	24,565,536
Increase in Net Assets	16,645,195	1,651,409
Net Assets - Beginning of year	423,215,238	421,563,829
Net Assets - End of year	**$ 439,860,433**	**$ 423,215,238**

See Notes to Financial Statements.

The Skillman Foundation

Statement of Cash Flows

	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities		
Increase in net assets	$ 16,645,195	$ 1,651,409
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net realized and unrealized gains on investments	(40,452,672)	(15,770,366)
Changes in operating assets and liabilities that provided (used) cash:		
Dividend and interest receivable	295,523	547,211
Program-related investment	350,000	100,000
Federal excise tax	391,642	21,485
Other assets	153,123	48,376
Accrued liabilities	71,835	(435,427)
Deferred excise tax payable	488,753	-
Grants payable	(5,392,060)	1,966,100
Net cash used in operating activities	(27,448,661)	(11,871,212)
Cash Flows from Investing Activities		
Purchases of investments	(290,343,046)	(213,374,976)
Change in net unsettled trades	(37,877,165)	51,164,917
Proceeds from sale of investments	321,282,147	177,578,611
Net cash (used in) provided by investing activities	(6,938,064)	15,368,552
Net (Decrease) Increase in Cash and Cash Equivalents	(34,386,725)	3,497,340
Cash and Cash Equivalents - Beginning of year	42,907,041	39,409,701
Cash and Cash Equivalents - End of year	**$ 8,520,316**	**$ 42,907,041**

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization Purpose - The Skillman Foundation (the "Foundation") was established in 1960 as a private, nonoperating foundation. The Foundation is committed to providing resources to improve the lives of children in metropolitan Detroit by improving their homes, schools, and neighborhoods. It distributes funds primarily to not-for-profits in counties that are deemed appropriate in the opinion of the board of trustees.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting, which includes recognition of dividends, interest, and expenses as earned and incurred. Investment transactions are reported on a trade-date basis.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments - Investments in marketable securities, including hedge funds, are carried at quoted fair market value whenever available. Private equity limited partnerships, including natural resources and real estate limited partnerships, are valued based on available partner capital account balances as reported by the partnerships to the Foundation as of December 31. Where limited partnerships do not have readily determinable market values as of December 31, the Foundation uses partner capital account balances as of September 30, adjusted for capital contributions and distributions during the period from October 1 through December 31. The partnership valuations necessarily involve assumptions and methods that are reviewed by the Foundation. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity, real estate, and natural resources limited partnerships' estimated values may differ materially from the values that would have been used if a ready market for the securities existed.

At December 31, 2010 and 2009, the Foundation had commitments to contribute approximately $57,000,000 and $75,000,000, respectively, in additional capital under the terms of various agreements covering private equity and limited partnership agreements.

Realized and unrealized gains and losses in investments represent the difference between the original cost of the investments and sales proceeds (realized) or the fair market value at the end of the year (unrealized). Cost is determined on a first-in, first-out basis.

Concentration of Credit Risk Arising from Deposit Accounts - The Foundation maintains cash balances at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Grants - Grants are recognized as an expense at the time of formal approval by the board of trustees. Conditional grants, if any, are expensed when such conditions are substantially met.

The Foundation's total net grants include grantmaking expenses of $536,937 and $371,792 for 2010 and 2009, respectively, that support the Foundation's major initiatives and grantmaking goals. These expenses include grant and program evaluations as well as communications, community meetings, and roundtables.

The Foundation matches gifts of cash and securities made by current and retired employees and trustees of up to $15,000 annually per person on a two-to-one basis up to a maximum match of $30,000. Matching grants are made only to public-supported charities as listed in IRS Publication 78, *Cumulative List of Organizations*.

Risks and Uncertainties - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 10, 2011, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Publicly traded securities	$ 108,164,105	$ 111,716,220	$ 103,639,589	$ 94,260,181
Alternative investments:				
Hedge funds	98,949,005	120,188,794	94,645,866	107,893,265
Real estate	32,177,138	27,776,355	29,233,434	22,473,351
Private equity limited partnerships	72,924,058	87,544,238	71,176,731	71,050,236
Natural resources	34,050,232	27,992,168	31,260,233	24,106,347
Total alternative investments	238,100,433	263,501,555	226,316,264	225,523,199
U.S. Treasury notes	44,147,881	45,279,014	90,608,808	91,199,838
Total	$ 390,412,419	$ 420,496,789	$ 420,564,661	$ 410,983,218

A summary of changes in cash and investments during the years ended December 31, 2010 and 2009 is shown below:

	Cash and Cash Equivalents	Publicly Traded Securities	Alternative Investments	U.S. Treasury Notes
January 1, 2009 - Market value	$ 39,409,701	$ 100,773,167	$ 201,362,442	$ 57,280,878
Add (deduct) changes during the year ended December 31, 2009:				
Purchases	718,974,103	26,414,988	55,836,787	131,123,201
Sales and maturities - At cost	(715,477,895)	(65,013,899)	(28,564,907)	(92,793,843)
Change in unrealized market appreciation	1,132	32,085,925	(3,111,123)	(4,410,398)
December 31, 2009 - Market value	42,907,041	94,260,181	225,523,199	91,199,838
Add (deduct) changes during the year ended December 31, 2010:				
Purchases	721,370,730	72,952,134	62,808,625	154,582,287
Sales and maturities - At cost	(755,759,128)	(68,427,618)	(51,024,456)	(201,043,214)
Change in unrealized market appreciation	1,673	12,931,523	26,194,188	540,102
December 31, 2010 - Market value	$ 8,520,316	$ 111,716,220	$ 263,501,556	$ 45,279,013

Note 2 - Investments (Continued)

Securities Lending

During 2010, the Foundation ended participation in a board-authorized securities lending arrangement with one of its custodians who is an agent in the program. The securities lending arrangement authorized the custodian to lend securities held to third parties. The custodian obtained cash or acceptable securities as collateral. All loans were initially collateralized at 102 percent of loaned securities.

At December 31, 2010 and 2009, the fair value of securities loaned was $0 and $1,604,869, respectively. The fair value of the collateral held at December 31, 2009 was the same value as the securities loaned, which consisted of U.S. and foreign equity securities.

Note 3 - Excise Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As a private foundation, the Foundation is subject to an excise tax on net investment income, including realized gains as defined in the Tax Reform Act of 1969.

The Foundation's excise tax expense as of December 31, 2010 and 2009 is comprised of the following:

	2010	2009
Current	$ 36,000	$ 10,000
Deferred	489,000	-
Total excise tax expense	$ 525,000	$ 10,000

The deferred excise tax represents the tax on unrealized gains on investment securities.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years prior to 2007.

Note 4 - Postretirement Benefits

The Foundation provides healthcare benefits for retired employees. The Foundation's employees may become eligible for these postretirement employee benefits. Net periodic postretirement healthcare cost was $67,507 and $1,836 for the years ended December 31, 2010 and 2009, respectively.

Note 5 - Defined Contribution Plan

The Foundation sponsors a defined contribution 401(k) plan for all eligible full-time employees. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. The Foundation makes contributions to the 401(k) plan based upon eligible compensation.

Contributions to the plan for the years ended December 31, 2010 and 2009 totaled $292,862 and $278,716, respectively.

Note 6 - Program-related Investment

At its September 15, 2004 meeting, the board of trustees approved a program-related investment loan in the amount of $500,000 to Junior Achievement of Southeastern Michigan. The proceeds of this loan were used to create Finance Park, a six-week financial literacy program for 8th grade students. The note bears no interest and will mature on November 1, 2011. The first three payments, due in 2008, 2009, and 2010, were waived. At December 31, 2010, the Foundation wrote the asset to $0 to reflect the likelihood that the final payment, due in 2011, will not be collected.

Note 7 - Fair Value Measurements

Accounting standards require certain assets and liabilities to be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation’s assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 2009 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. Significant Level 3 inputs include most recently audited financial statements, tax returns, including K-1s, and performance reports from independent sources.

Note 7 - Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
Assets				
Money market mutual funds	$ 8,520,316	$ -	$ -	$ 8,520,316
Publicly traded securities - Domestic	26,150,891	15,759,894	2,284,300	44,195,085
Publicly traded securities - Foreign	39,893,874	27,627,261	-	67,521,135
U.S. Treasury notes	21,112,532	24,166,481	-	45,279,013
Hedge funds	-	-	120,188,794	120,188,794
Private equity	-	-	87,544,238	87,544,238
Real estate	6,242,655	-	21,533,700	27,776,355
Natural resources	-	-	27,992,169	27,992,169

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Assets				
Money market mutual funds	$ 42,907,041	$ -	$ -	$ 42,907,041
Publicly traded securities - Domestic	39,678,889	10,199,089	5,083,188	54,961,166
Publicly traded securities - Foreign	19,651,496	19,647,519	-	39,299,015
U.S. Treasury notes	20,003,005	71,196,833	-	91,199,838
Hedge funds	-	-	107,893,265	107,893,265
Private equity	-	-	71,050,236	71,050,236
Real estate	4,890,691	-	17,582,660	22,473,351
Natural resources	-	-	24,106,347	24,106,347
Equity securities - Loaned	1,604,869	-	-	1,604,869
Liabilities - Collateral held under securities lending agreement	$ 1,604,869	$ -	$ -	$ 1,604,869

Note 7 - Fair Value Measurements (Continued)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Years Ended December 31, 2010 and 2009

	Publicly Traded Securities	Hedge Funds	Private Equity	Real Estate	Natural Resources
Balance at January 1, 2009	$ 9,270,918	$ 91,511,684	$ 66,568,753	$ 18,748,472	$ 20,797,445
Activity for 2009:					
Total realized and unrealized losses included in income	299,802	2,605,435	(5,256,692)	833,189	(292,223)
Purchases	9,531,131	20,160,894	19,570,581	4,389,726	8,718,854
Sales	(14,018,663)	(6,384,748)	(9,832,406)	(6,388,727)	(5,117,728)
Ending balance at December 31, 2009	5,083,188	107,893,265	71,050,236	17,582,660	24,106,348
Activity for 2010:					
Total realized and unrealized gains (losses) included in income	(36,304)	11,191,097	12,850,209	1,549,930	1,451,853
Purchases	-	29,000,000	10,220,036	2,430,755	3,285,876
Sales	(2,762,584)	(27,895,568)	(6,576,243)	(29,645)	(851,908)
Ending balance at December 31, 2010	$ 2,284,300	$ 120,188,794	$ 87,544,238	$ 21,533,700	$ 27,992,169

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Foundation's real estate, natural resource funds, limited partnerships, hedge funds, and publicly traded securities, designed to resemble institutional collective fund investments, are categorized as Level 3 investments. The Foundation estimates their fair value based on income information provided by the general partners and fund managers as well as third-party reports including audit reports, interim financial statements, listing of underlying investments, tax returns, and performance reports.

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Note 7 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

Investments Held at December 31, 2010

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Convertible arbitrage (a)	$ 3,477,642	$ -	Quarterly	45 Days
Event-driven (b)	12,741,432	-	Quarterly, semiannually, and annually	60 - 90 Days
Equity market neutral (c)	4,363,160	-	Monthly	45 Days
Directional equity (d)	21,417,688	-	Monthly, quarterly, semiannually, and annually	30 - 90 Days
Fixed income (e)	33,194,174	-	Monthly, quarterly, and annually	7 - 90 Days
Managed futures (f)	5,598,825	-	Daily	Daily
Multi-strategy (g)	16,894,267	-	Quarterly and annually	45 - 90 Days
Fund of hedge funds (h)	24,785,911	-	Quarterly and annually	90 - 95 Days
Real estate hedge funds (i)	12,408,984	-	Quarterly and annually	45 - 60 Days
Real estate private equity (j)	9,124,716	3,400,334	N/A	N/A
Natural resources hedge funds (k)	7,211,493	-	Monthly and annually	30 - 90 Days
Natural resources private equity (l)	20,780,674	18,173,653	N/A	N/A
Private equity - Domestic (m)	57,179,004	18,467,431	N/A	N/A
Private equity - International (m)	30,365,231	16,857,052	N/A	N/A
Total	$ 259,543,201	$ 56,898,470		

Investments Held at December 31, 2009

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Convertible arbitrage (a)	$ 3,152,374	$ -	Quarterly	45 Days
Event-driven (b)	9,282,799	-	Quarterly and annually	60 - 90 Days
Equity market neutral (c)	7,801,872	-	Monthly	5 - 45 Days
Directional equity (d)	22,417,034	-	Monthly, quarterly, semiannually, and annually	30 - 90 Days
Fixed income (e)	14,256,647	-	Monthly and annually	7 - 9Days
Managed futures (f)	5,035,647	-	Daily	Daily
Multi-strategy (g)	14,247,838	-	Quarterly, semiannually, and annually	45 - 90 Days
Fund of hedge funds (h)	36,782,242	-	Quarterly and annually	90 - 95 Days
Real estate hedge funds (i)	10,892,174	-	Quarterly and annually	45 - 60 Days
Real estate private equity (j)	6,690,487	5,732,083	N/A	N/A
Natural resources hedge funds (k)	5,217,404	-	Monthly and annually	30-90 Days
Natural resources private equity (j)	18,888,944	22,853,000	N/A	N/A
Private equity - Domestic (k)	59,342,590	28,844,962	N/A	N/A
Private equity - International (k)	11,707,644	17,111,182	N/A	N/A
Total	$ 225,715,696	$ 74,541,227		

Note 7 - Fair Value Measurements (Continued)

(a) Convertible Arbitrage - The strategy traditionally involves purchasing convertible bonds and convertible preferred stock, and selling short some or all of the equity (stock) exposure embedded in the convertible security. The degree to which the manager sells short equity depends on the manager's assessment of the level of equity risk in the convertible security, as well as a fundamental analysis of the prospects for the issuing company. The resulting portfolio can have exposure to volatility (through the embedded option in the convertible security) and to credit (through the embedded income-producing bond or bond-like security within the convertible security). Some managers also hedge credit risk by using credit default swaps to "insure" against default of the issuer.

(b) Event-driven - This strategy involves taking a long or short position in any security (stock, bond, loan) of a corporation that is undergoing some corporate "event." Events include merger, acquisition, spin-off, bankruptcy, and restructuring. For instance, in a merger or acquisition, event-driven managers usually buy the stock of the company that is being acquired, and sell short the stock of the company that is acquiring, a trade which makes money if and when the two companies consummate their merger. In other types of corporate events such as bankruptcy, event-driven managers usually use the bankruptcy to purchase the bonds or loans of the bankrupt company in order to profit from the company's restructuring, either through price appreciation of the security purchased, or through actively working with the company to restructure.

(c) Equity Market Neutral - The strategy involves buying stock long and selling stock short in equal proportions (measured any of many ways such as dollar exposure, beta-adjusted exposure, etc.) in order to produce a portfolio that is neutral with regard to market direction, resulting in a portfolio that is exposed to the difference between the longs and shorts, regardless of market direction. Managers make decisions on which stocks to buy long and which to sell short by using any number of multiple styles, including computer models to model the fundamental health and technical stock movement of companies, and traditional fundamental analysis of a company's value and growth prospects.

(d) Directional Equity - The strategy is similar to the Equity Market Neutral strategy, except the managers do not balance long and short positions. This results in a portfolio that does have some market exposure, but far less than traditional long-only portfolios of stocks.

(e) Fixed Income - This strategy is similar to Directional Equity except that managers use fixed-income securities.

Note 7 - Fair Value Measurements (Continued)

(f) Managed Futures - A strategy that takes long and short positions in exchanged-traded futures contracts on commodities and financial assets such as stock market indices and government bonds. In many ways, Managed Futures is similar to Global Macro, but with additional benefits of being able to include fundamental changes and movements in large and small commodity markets. Managed Futures managers can also take advantage of upward and downward trends in markets, by taking long and short positions in different futures contracts. The decision on which futures contracts to buy long and which to sell short can be made by using any of multiple styles, including using computer models and traditional fundamental analysis.

(g) Multi-strategy - A hedge fund strategy that involves a combination of any other strategies. Multi-strategy managers add value both by their successful management of each of the underlying strategies, but also in the relative allocation to different strategies in their fund.

(h) Fund of Hedge Funds - This asset class seeks to generate returns through diversified portfolios of hedge funds and hedge fund strategies. It should be expected that this asset class will have varying levels of exposure to all of the various hedge fund strategies previously identified. The investments in this asset class will be made in securities of offshore corporations and will have an identifiable, although thinly traded, market for liquidity.

(i) Real Estate Hedge Funds - This asset class seeks to generate returns predominately from the identification of mis-priced securities based on fundamental analysis of more liquid, real estate-related assets globally. The bulk of the exposure would be expected to be in publicly traded REITs, preferred stock, common equity, convertible bonds or notes, or other debt securities backed by real estate-related assets or companies. It is expected that the underlying net exposure to real estate-related assets may vary over time, with both long and short positions in securities based on the managers' perceived intrinsic value of a specific security or underlying real estate asset. Some securities may also be used to hedge other market risks or interest rate risks related to specific positions. This asset class overall is expected to be more liquid than private investments in real estate or real estate partnerships.

Note 7 - Fair Value Measurements (Continued)

(j) Real Estate Private Equity - This asset class seeks to generate returns predominately through the identification of undervalued or mis-priced real estate assets or real estate-related companies. Investments would be expected to be made through either public or private equity securities, convertible notes or warrants, or other acquired or originated debt securities. The exposure within this asset class would be expected to be predominately long-only exposure, and will generally be maintaining a long exposure to direct real estate assets or real estate-related companies and securities. Additionally, it is not expected that these assets would be held as marketable securities with an active or easily identifiable market; however, the asset class overall would be expected to generate some level of current income. This exposure is obtained primarily through investments in long-dated limited partnership vehicles and is considered illiquid.

(k) Natural Resources Hedge Funds - This asset class seeks to generate returns predominately through the identification of undervalued and overvalued publicly traded equities of companies in the precious metals, industrial metals, energy, and minerals mining industries. These funds will have both long and short positions in these equities, as well as in hedges using mining industry and commodity-linked securities such as exchange-traded funds. The funds may also invest in derivative securities to replicate exposure to energy and agricultural commodities. It is expected that these funds will have widely varying net exposure to the equity markets, depending on managers' assessment of valuation relative to the economic cycle. Due to the high historical volatility of these investments relative to the broad equity market, it is expected that this asset class will have at least the volatility of the broad U.S. equity market.

(l) Natural Resources Private Equity - This asset class seeks to generate returns predominately through the identification of undervalued or mis-priced assets or companies engaged in the exploration, production, transportation, or related services in natural resources such as oil, natural gas, timber, land, minerals, or precious metals, etc. Investments would be expected to be made through either public or private equity securities, convertible notes or warrants, or other acquired or originated debt securities. The exposure within this asset class would be expected to be predominately long-only exposure, and will generally be maintaining a long exposure to companies or assets engaged in the basic materials sector. Additionally, it is not expected that these assets would be held as marketable securities with an active or easily identifiable market; however, the asset class overall would be expected to generate some level of current income. This exposure is obtained primarily through investments in long-dated limited partnership vehicles and is considered illiquid.

Note 7 - Fair Value Measurements (Continued)

(m) Private Equity Domestic and International - Investments in private equity are typically made through limited partnership structures and are illiquid in nature. Investments are typically made in unlisted companies (companies that are not traded on public exchanges) or in some cases listed companies are purchased and taken private. Private equity encompasses a broad array of strategies and securities. Buyout, growth equity, and venture capital strategies purchase equity in private companies at different stages of the company's life cycle. Other strategies, such as mezzanine or special situations, will invest in debt, preferred equity, or other parts of a company's capital structure. Investments may be in any sector of the economy or geography in the world, though funds will typically specialize in specific industries and regions.