The Skillman Foundation

Financial Report
December 31, 2012

Contents

Report Letter	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Income, Expenses, and Changes in Unrestricted Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-16

plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
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"), which comprise the statement of financial position as of December 31, 2012 and 2011 and the related statements of income, expenses, and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees
The Skillman Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Skillman Foundation as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Notes 1 and 2, the 2012 and 2011 financial statements include investments whose fair values of $293,542,749 and $276,457,531, or 69 and 66 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 manager or the general partners. Our opinion is not modified for this matter.

Plante & Moran, PLLC

May 21, 2013

The Skillman Foundation

Statement of Financial Position

		December 31, 2012		December 31, 2011
Assets				
Cash and cash equivalents	$	8,689,440	$	13,413,215
Investments (Note 2)		428,215,890		413,410,767
Unsettled trades receivable		906,101		447,805
Dividend and interest receivable		285,803		368,443
Other assets:				
Federal excise tax		-		196,938
Other assets		1,886		12,332
Total assets	**$**	**438,099,120**	**$**	**427,849,500**
Liabilities and Net Assets				
Liabilities				
Accrued liabilities	$	1,148,763	$	958,631
Grants payable (Note 7)		2,530,000		5,225,000
Deferred excise taxes (Note 3)		1,113,892		643,999
Federal and state taxes payable		275,068		-
Total liabilities		5,067,723		6,827,630
Net Assets - Unrestricted		433,031,397		421,021,870
Total liabilities and net assets	**$**	**438,099,120**	**$**	**427,849,500**

See Notes to Financial Statements.

The Skillman Foundation

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
Income		
Interest income	$ 1,679,528	$ 1,702,771
Dividend income	1,339,126	2,889,093
Investment management fees	(987,352)	(694,319)
Net income	2,031,302	3,897,545
Grants and Expenses		
Grants and contributions	14,461,616	17,111,936
Administrative expenses	5,511,462	5,395,358
Federal excise and other taxes	1,016,605	232,970
Total grants and expenses	20,989,683	22,740,264
Excess of Grants and Expenses Over Income	(18,958,381)	(18,842,719)
Realized Gain (Loss) on Securities	9,610,269	(4,246,555)
Change in Unrealized Market Appreciation	21,357,639	4,250,711
Increase (Decrease) in Net Assets	12,009,527	(18,838,563)
Net Assets - Beginning of year	421,021,870	439,860,433
Net Assets - End of year	**$ 433,031,397**	**$ 421,021,870**

Statement of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 12,009,527	$ (18,838,563)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Net realized and unrealized gains on investments	(30,967,908)	(4,156)
Change in deferred excise tax payable	469,893	155,246
Changes in operating assets and liabilities that provided (used) cash:		
Dividend and interest receivable	82,640	(76,325)
Federal and state tax	472,006	52,642
Other assets	10,446	(4,328)
Accrued liabilities	190,132	87,495
Grants payable	(2,695,000)	(655,000)
Net cash used in operating activities	(20,428,264)	(19,282,989)
Cash Flows from Investing Activities		
Purchases of investments	(142,827,989)	(137,490,083)
Change in net unsettled trades	(458,296)	17,085,710
Proceeds from sale of investments	158,990,774	144,580,261
Net cash provided by investing activities	15,704,489	24,175,888
Net (Decrease) Increase in Cash and Cash Equivalents	(4,723,775)	4,892,899
Cash and Cash Equivalents - Beginning of year	13,413,215	8,520,316
Cash and Cash Equivalents - End of year	**$ 8,689,440**	**$ 13,413,215**

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, 2012 and 2011, the Foundation had commitments to contribute approximately $50,000,000 and $54,000,000, 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 fully insured by the Federal Deposit Insurance Corporation.

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 $329,524 and $415,317 for 2012 and 2011, 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 statement of financial position.

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 21, 2013, which is the date the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Publicly traded securities	$ 86,127,013	$ 99,329,874	$ 86,589,654	$ 86,890,593
Alternative investments:				
Hedge funds	95,179,902	108,477,292	101,586,951	113,314,209
Real estate	32,729,547	32,234,562	32,346,631	30,383,203
Private equity limited partnerships	84,255,177	118,462,159	72,438,052	99,575,505
Natural resources	39,368,065	34,368,736	36,235,003	33,184,614
Total alternative investments	251,582,691	293,542,749	242,606,637	276,457,531
U.S. Treasury notes	34,811,173	35,343,267	49,877,477	50,062,643
Total	$ 372,520,877	$ 428,215,890	$ 379,073,768	$ 413,410,767

A summary of changes in cash and investments during the years ended December 31, 2012 and 2011 is shown below:

	Cash and Cash Equivalents	Publicly Traded Securities	Alternative Investments	U.S. Treasury Notes
January 1, 2011 - Market value	$ 8,520,316	$ 111,716,220	$ 263,501,555	$ 45,279,014
Add (deduct) changes during the year ended December 31, 2011:				
Purchases	410,375,368	52,972,413	41,419,210	43,098,458
Sales and maturities - At cost	(405,480,552)	(74,546,863)	(36,913,005)	(37,368,863)
Change in unrealized market appreciation	(1,917)	(3,251,177)	8,449,771	(945,966)
December 31, 2011 - Market value	13,413,215	86,890,593	276,457,531	50,062,643
Add (deduct) changes during the year ended December 31, 2012:				
Purchases	429,135,068	28,348,880	67,579,609	46,899,499
Sales and maturities - At cost	(433,858,468)	(28,810,026)	(58,603,554)	(61,967,299)
Change in unrealized market appreciation	(375)	12,900,427	8,109,163	348,424
December 31, 2012 - Market value	$ 8,689,440	$ 99,329,874	$ 293,542,749	$ 35,343,267

Note 3 - Excise and Other 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.

Note 3 - Excise and Other Taxes (Continued)

The Foundation's excise tax expense as of December 31, 2012 and 2011 is comprised of the following:

	2012	2011
Current excise and other taxes	$ 547,000	$ 78,000
Deferred excise tax	470,000	155,000
Total tax expense	$ 1,017,000	$ 233,000

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements, except for the estimated liability recorded for pass-through UBI from investments in partnerships. 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 2009.

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 for the years ended December 31, 2012 and 2011, and increases the postretirement liability for use for future premiums of current employees. In addition, current postretirement health care expenses for current retirees are taken against this liability as it has already been expensed. The Foundation had accrued postretirement benefits of $607,952 and $556,209 as of December 31, 2012 and 2011, 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, 2012 and 2011 totaled $308,871 and $315,698, respectively.

Note 6 - Lease Commitments

The Foundation leases its office space under a lease agreement that expires in July 2016. The lease agreement requires monthly payments based on increasing rates per square foot each year.

The future minimum lease payments are as follows:

Years Ending December 31		Amount
2013		$ 349,954
2014		357,645
2015		365,336
2016		237,381
	Total	$ 1,310,316

Rent expense for 2012 and 2011 was $342,262 and $332,418, respectively.

Note 7 - Grants for Charitable, Educational, and Other Authorized Purposes

Grants are recognized as an expense at the time of formal approval by the board of trustees.

The following summarizes the changes in grants payable as of December 31:

	2012	2011
Grants payable - Beginning of year	$ 5,225,000	$ 5,880,000
Grants approved	14,132,092	16,696,620
Payments made	(16,827,092)	(17,351,620)
Grants payable - End of year	$ 2,530,000	$ 5,225,000

Grant commitments outstanding at December 31, 2012 are scheduled for payment as follows: $2,045,000, $185,000, $150,000, and $150,000 for 2013, 2014, 2015, and 2016, respectively.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities 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.

Note 8 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2012 and 2011 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 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 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. 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.

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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	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, 2012
Money market mutual funds	$ 8,689,440	$ -	$ -	$ 8,689,440
Publicly traded securities - Domestic	18,863,444	7,509,713	660,492	27,033,649
Publicly traded securities - Foreign	21,544,198	50,752,027	-	72,296,225
U.S. Treasury notes	7,138,029	28,205,238	-	35,343,267
Hedge funds	-	-	108,477,292	108,477,292
Private equity	-	-	118,462,159	118,462,159
Real estate	7,921,515	-	24,313,047	32,234,562
Natural resources	-	-	34,368,736	34,368,736
Total	$ 64,156,626	$ 86,466,978	$ 286,281,726	$ 436,905,330

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2011

	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, 2011
Money market mutual funds	$ 13,413,215	$ -	$ -	$ 13,413,215
Publicly traded securities - Domestic	16,647,749	11,890,144	1,230,827	29,768,720
Publicly traded securities - Foreign	18,047,262	39,074,611	-	57,121,873
U.S. Treasury notes	21,248,351	28,814,292	-	50,062,643
Hedge funds	-	-	113,314,209	113,314,209
Private equity	126,764	-	99,448,741	99,575,505
Real estate	6,814,164	-	23,569,039	30,383,203
Natural resources	-	-	33,184,614	33,184,614
Total	$ 76,297,505	$ 79,779,047	$ 270,747,430	$ 426,823,982

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Years Ended December 31, 2012 and 2011

	Publicly Traded Securities	Hedge Funds	Private Equity	Real Estate	Natural Resources
Balance at January 1, 2011	$ 2,284,300	$ 120,188,794	$ 87,544,238	$ 21,533,700	$ 27,992,168
Activity for 2011:					
Total realized and unrealized gains (losses) included in income	44,240	(6,039,624)	14,059,870	1,522,681	840,288
Purchases	-	13,174,041	9,094,188	2,952,930	8,667,771
Sales	(1,097,713)	(14,009,002)	(11,249,555)	(2,440,272)	(4,315,613)
Ending balance at December 31, 2011	1,230,827	113,314,209	99,448,741	23,569,039	33,184,614
Activity for 2012:					
Total realized and unrealized (losses) gains included in income	(33,156)	6,162,329	9,160,138	1,351,115	(1,360,855)
Purchases	16,940	25,856,030	27,446,718	982,567	5,288,578
Sales	(554,119)	(36,855,276)	(17,593,438)	(1,589,674)	(2,743,601)
Ending balance at December 31, 2012	$ 660,492	$ 108,477,292	$ 118,462,159	$ 24,313,047	$ 34,368,736

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. 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.

Note 8 - Fair Value Measurements (Continued)

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.

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between levels during the years ended December 31, 2012 and 2011.

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.

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

Investments Held at December 31, 2012

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Event-driven (b)	$ 11,745,823	$ -	Quarterly, semiannually, and annually	60-90 days
Equity market neutral (c)	24,027	-	Monthly	45 days
Directional equity (d)	27,506,087	-	Monthly, quarterly, semiannually, and annually	30 - 90 days
Fixed income (e)	21,434,218	-	Monthly, quarterly, and annually	7-90 days
Managed futures (f)	4,694,834	-	Daily	Daily
Multi-strategy (g)	20,320,743	3,714,249	Quarterly and annually	45-90 days
Fund of hedge funds (h)	23,412,051	-	Quarterly and annually	90-95 days
Real estate hedge funds (i)	13,242,774	-	Quarterly and annually	45-60 days
Real estate private equity (j)	11,070,273	469,656	N/A	N/A
Natural resources hedge funds (k)	11,302,226	-	Monthly and annually	30-90 days
Natural resources private equity (l)	23,066,509	17,139,192	N/A	N/A
Private equity - Domestic (m)	77,503,384	11,826,990	N/A	N/A
Private equity - International (m)	40,958,777	16,492,229	N/A	N/A
Total	$ 286,281,726	$ 49,642,316		

Note 8 - Fair Value Measurements (Continued)

Investments Held at December 31, 2011

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Convertible arbitrage (a)	$ 3,259,878	$ -	Quarterly	45 days
Event-driven (b)	11,743,069	-	Quarterly, semiannually, and annually	60-90 days
Equity market neutral (c)	5,037,734	-	Monthly	45 days
Directional equity (d)	21,257,566	-	Monthly, quarterly, semiannually, and annually	30-90 days
Fixed income (e)	27,814,494	-	Monthly, quarterly, and annually	7-90 days
Managed futures (f)	5,097,859	-	Daily	Daily
Multi-strategy (g)	17,070,501	3,724,813	Quarterly and annually	45-90 days
Fund of hedge funds (h)	23,263,935	-	Quarterly and annually	90-95 days
Real estate hedge funds (i)	12,460,983	-	Quarterly and annually	45-60 days
Real estate private equity (j)	11,108,056	1,405,724	N/A	N/A
Natural resources hedge funds (k)	11,397,880	-	Monthly and annually	30-90 days
Natural resources private equity (l)	21,786,734	14,681,260	N/A	N/A
Private equity - Domestic (m)	66,312,447	26,909,818	N/A	N/A
Private equity - International (m)	33,136,294	7,540,115	N/A	N/A
Total	$ 270,747,430	$ 54,261,730		

(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.

(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.

Note 8 - Fair Value Measurements (Continued)

(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 mispriced 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.

(j) **Real Estate Private Equity** - This asset class seeks to generate returns predominately through the identification of undervalued or mispriced 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 mispriced 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.

(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.

Note 9 - Fair Value of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Short-term Financial Instruments - The fair values of short-term financial instruments, including cash equivalents, prepaid expenses, unsettled trades receivables, dividend and interest receivables, and accrued liabilities approximate the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

Investments - Investments are recorded at fair value in the accompanying financial statements. Fair value is determined based on the fair value measurement principles described in Note 8.