

Report on Investments

Annual Report—Fiscal 2008

During the fiscal year ending September 30, 2008, the Corporation's market value declined by 9.9 percent, from \$3.07 billion to \$2.63 billion. In light of the severe market downturn beginning in January 2008, and the ravages of September 2008 when Lehman Brothers was forced into bankruptcy and Fannie Mae and Freddie Mac were put into government receivership, this result is disappointing but not surprising. With the world equity market down 25.6 percent for this twelve-month period, as measured in dollars, a loss of "only" 10 percent appears respectable. The Corporation's diversification helped protect capital, as allocations to high-quality fixed income securities (8.5%), cash (1.5%) and absolute return strategies (25.0%) returned 11.2, 3.5 and -2.1 percent, respectively, for the fiscal year. The Corporation's equity portfolio is largely responsible for the poor results, as global equities, including

emerging markets, were down 24.6 percent for the twelve months ending September 30, 2008. Outperformance of the global equity benchmark by 2.6 percent provided little consolation for this severe erosion of value.

Investments in private assets—private equity and private real estate—helped the portfolio modestly during the fiscal year, returning -2.9 and 2.2 percent, respectively. However, we expect private valuations to decline severely going forward as they are marked-to-market by the general partners, so there is no comfort in these short-term results. The Corporation's performance by asset class is shown above right.

The Corporation's charter directs its trustees to establish an investment policy that is designed to preserve the endowment in perpetuity, maintaining purchasing power net of spending over a long time horizon. While the

Carnegie Corporation of New York
Fiscal Year Performance
Period Ending September 30, 2008

Composite	-9.9%
Developed Markets	-24.7%
Emerging Markets	-24.6%
Fixed Income and Cash	10.4%
Absolute Return	-2.1%
Private Equity	-2.9%
Private Real Estate	2.2%
Benchmarks:	
S&P 500	-30.0%
MSCI World	-25.6%
MSCI Emerging Markets	-32.9%
Barclays Capital US Aggregate	3.7%
60% MSCI World/40% Barclays US Agg	-13.9%

Corporation clearly did not meet this goal during the fiscal year, over the past one and two decades it has done quite well in this regard because of strong investment results, low inflation and reasonable levels of spending. During

the past decade, for example, the Corporation grew at a real rate of 3.2 percent, despite spending almost \$1 billion. Over the past twenty years, results are comparable, at 3.0 percent real growth. These results are described in detail in the table below.

Poor results over the past several months have caused the institutional investment community to question whether investments in alternative assets have been beneficial. The Corporation's portfolio speaks loudly and conclusively on this point: alternatives have added enormous value. Witness the returns by asset class for the decade ending September 30, 2008, in which bonds, as measured by the Barclays Capital US Aggregate Index, beat stocks on an annualized basis, at 5.2 versus 3.1 percent for the S&P 500 and 4.3 percent for the MSCI World Equity Index. As portrayed by the data, on the next page, alternative asset classes—absolute return, private equity and private real estate—generated positive double-digit annualized returns. One pleasant surprise is the robust result of emerging markets equity, in which the MSCI Emerging Markets Index returned 14.8 percent per annum, which is the

68

Historical Returns, Spending and Market Value (\$MM)
As of September 30, 2008

	1 Year	10 Years	20 Years
Annualized Return	-9.9%	11.2%	11.7%
Spending %	5.3%	4.7%	5.2%
Net of Spending	-14.3%	6.2%	6.1%
Annualized Inflation	4.9%	2.9%	3.1%
Real Growth	-18.3%	3.2%	3.0%
Beginning MV	\$ 3,070	\$ 1,440	\$ 806
Ending MV	\$ 2,630	\$ 2,630	\$ 2,630
Total Spending	\$ 152	\$ 969	\$ 1,596

Carnegie Corporation of New York
Annualized Performance
Ten Years Ending September 30, 2008

Composite	11.1%
Developed Markets	8.1%
Emerging Markets	16.7%
Fixed Income (including cash)	6.5%
Absolute Return	11.3%
Private Equity	20.9%
Real Estate	15.1%
Benchmarks:	
S&P 500	3.1%
MSCI World	4.3%
MSCI Emerging Markets	14.8%
Barclays Capital US Aggregate	5.2%
60% MSCI World/40% Barclays US Agg	4.6%

highest among all the investable world public indices. Yet the Corporation's emerging markets portfolio did even better, at 16.7 percent per annum, thanks to early commitments to frontier markets in Africa, where public equities are highly inefficient and attractively valued.

Post Fiscal Year Results

The ravages of massive global deleveraging, the fragile banking system in the United States and Europe and the subprime housing market collapse caused world markets to decline sharply in October and beyond. The Corporation's marketable portfolio suffered a loss of 10.9 percent in October alone, with equities dropping 19.7 percent. Consequently, the Corporation's assets are substantially impaired relative to the fiscal year end valuations. Despite liquidity pressures on the portfolio due to budgeted spending for grants and capital calls for private

investments, we plan to stay the course to the best of our ability. It is heartening to keep in mind the results of the past two decades decade, in which the Corporation's assets have grown in real terms, providing strong support for our mission, "to promote the advancement and diffusion of knowledge and understanding." Fiscal 2009 is proving to be extremely challenging, a year in which no country, sector or individual is immune from the global financial crisis. Despite the short-term stress on the portfolio due to severe market declines, we plan to stay the course. The Corporation's twenty year track record of success has been generated by diversification, superior manager selection, a value orientation and a long investment horizon, an approach that we expect to continue for the next several decades.

