



# Annual Report—Fiscal 2010

During the fiscal year the portfolio returned 10.6 percent, which compares favorably to the benchmark's rise of 9.5 percent. All asset classes aside from real estate posted positive performance, with private equity and global equity generating the strongest returns, at 18.0 percent and 15.3 percent, respectively.

Several strategies employed within the portfolio contributed disproportionately to returns, while others detracted from performance. Here are some performance attribution highlights:

#### Factors That Added Value

- *Active management of global equities in developed markets.* Our managers generated phenomenal out performance of 5.4 percent.
- *Exposure to emerging markets.* The benchmark for emerging markets was 20.5 percent for the fiscal year, vs. 7.3 percent for the MSCI World Index. The Corporation's managers collectively returned 21.7 percent.
- Approximately one third of the Corporation's equity allocation is invested in emerging markets, which represents a significant overweight relative to emerging markets' global index representation.
- The Corporation's Brazilian equities manager performed exceptionally well, gaining 54.7 percent vs. 17.7 percent for the Bovespa, reaping the benefits not only of being in Brazil, but of terrific stock picking.
- *Leveraged buyouts returned 23.0 percent.* Managers wrote up valuations as portfolio companies' operational results improved and publicly traded comparables appreciated.

### Factors that Detracted Value

- *Real estate.* Private real estate partnerships lost 10.7 percent during the fiscal year. The ten year performance of private real estate still remains compelling, at 8.4 percent annualized, outperforming both the NCREIF Property Index, at 7.2 percent, and the Cambridge Associates Value-Added Index, at -2.1 percent.
- *The Corporation did not have direct exposure to Treasuries, TIPS or gold during the fiscal year.* All of these expensive assets became even more expensive during the year. As value-oriented investors, we continue to be patient and stay on the sidelines, holding a substantial allocation to cash as an interim substitute for Treasury bonds.
- *An overweight to frontier equities in Africa and the Middle East.* This region lagged far behind emerging markets as a whole, despite attractive fundamentals. This part of the world has been in turmoil recently, but in our judgment, these markets represent extraordinarily good value going forward.
- *Lack of credit exposure.* High-yield bonds generated stellar performance during the fiscal year as spreads narrowed; however, the Corporation does not have a specific allocation to high yield. The Corporation does have a reasonably sized investment in residential mortgage backed securities (RMBS), which performed very well, but more high-yield and distressed credit exposure would have been beneficial.

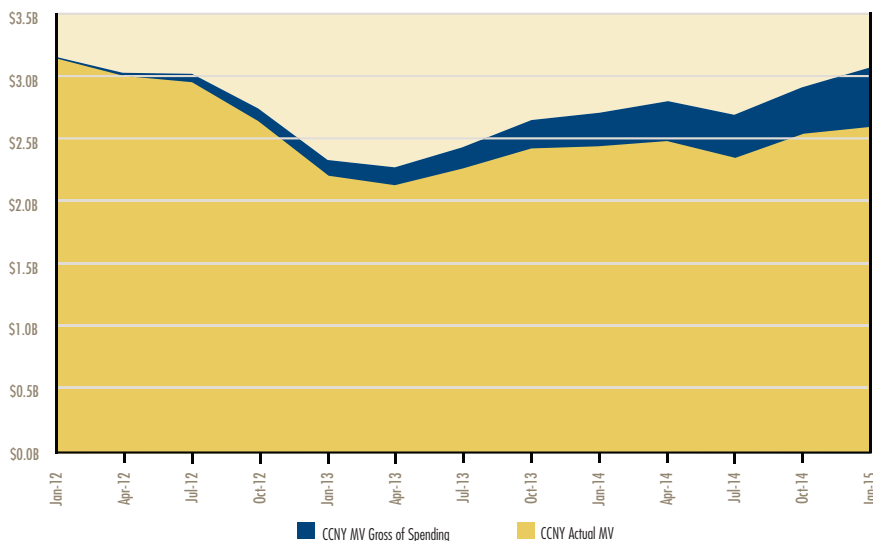
## 2008 Through 2010— The Financial Crisis and Its Aftermath: A Perspective

The Corporation reached its peak asset value of just over \$3.1 billion at the end of the fourth quarter of 2007. Asset growth had been exceptional during the previous five years, driven by investment returns of 19.3 percent per annum, benefiting from what was in retrospect a frothy capital markets environment. The arrival of the capital markets crisis in the early fall of 2008 created severe declines in asset values—by March 2009 the value of the Corporation’s assets had dropped to a nadir of \$2.1 billion. Fortunately equity markets stabilized and rebounded, generating a return of approximately 18.5 percent on an annualized basis from April 2009 through September 30, 2010, resulting in a fiscal year-end market value of \$2.5 billion.

Total assets as of September 30, 2010 were \$0.6 billion below the December 2007 peak, yet during this three-year period the Corporation spent \$0.4 billion on its program and administrative expenses. Thus, as of September 30, the Corporation had recovered all but \$200 million of its assets lost during the financial crisis. Subsequent performance has been strong; as of December 31, we estimate that the Corporation had recovered all but \$100 million, as illustrated in the chart below.<sup>1</sup>

<sup>1</sup> The “CCNY MV Gross of spending” is a hypothetical market value that assumes all Corporation assets held as of December 31, 2007 remained invested during the subsequent three years (i.e., there was no spending).

Carnegie Corporation of New York  
Historical Market Value



## A Longer Term View

Overall, we are pleased with performance during fiscal 2010 and with the recovery since the financial crisis. Ultimately, however, it is not productive to focus on short-term performance. The Corporation's mandate is to "do real and permanent good" in perpetuity, with an investment policy aimed at preserving the purchasing power of the Corporation's assets net of spending over long periods of time. The chart below shows results for 1-, 10-, 25- and 50-year periods ending September 30, 2010.

During each of these periods, assets have grown in both nominal and real terms. Put another way, investment results have beaten inflation net of spending outflows, keeping the Corporation on track to fulfill its mission of perpetuity. Over the past 50 years, the Corporation has spent over \$2.3 billion on program initiatives and internal administration while assets have grown at 0.6 percent each year in real terms. The chart below shows the Corporation's assets relative to inflation since 1960.

The Corporation's fiscal-year-end portfolio value of \$2.5 billion is well ahead of the inflation-adjusted 1960 value of \$1.9 billion, despite cumulative spending of \$2.3 billion during this half-century. As the Corporation celebrates its centennial year, we suspect that Andrew Carnegie would be proud of this achievement.

Since we cannot be sure what the future will bring, we work to construct the Corporation's portfolio in such a way that it will do well in a wide range of scenarios, improving the probability that the Corporation's investments will compound at a rate that preserves purchasing power net of spending. This is always a great challenge, but it is one on which we are intensely focused.

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### Historical Returns, Spending and Market Value (SMM) As of September 30, 2010

	1 Year	10 Years	25 Years	50 Years
Annualized Return	10.6%	7.9%	11.4%	9.7%
Spending %	5.8%	4.9%	5.2%	5.0%
<b>Nominal Change in MV</b>	4.2%	2.8%	6.2%	4.7%
Annualized Inflation	1.1%	2.3%	2.8%	4.1%
<b>Real Return</b>	<b>3.1%</b>	<b>0.4%</b>	<b>3.3%</b>	<b>0.6%</b>
Beginning MV	\$ 2,429.1	\$ 1,928.1	\$ 565.1	\$ 255.8
Ending MV	\$ 2,531.3	\$ 2,531.3	\$ 2,531.3	\$ 2,531.3
Total Spending	\$ 143.5	\$ 1,053.0	\$ 1,943.4	\$ 2,325.6

\* Spending includes grants, administrative expenses and excise tax, but excludes UBIT and investment office expenses.