

MANAGEMENT OF THE ENDOWMENT

FISCAL YEAR 2014 REPORT / 12.2014

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ENDOWMENTS AT THE UNIVERSITY OF ILLINOIS

Of all forms of private giving, an endowment offers perhaps the most influential of investments in higher education by building a permanent financial foundation for the University, creating living legacies that span generations.

In an endowment fund, the principal amount remains intact and invested to create a source of income in perpetuity, while only a portion of the investment earnings is spent. The rest of the earnings are channeled back into the fund, so that the endowment grows over time.

In this way, an endowment becomes a long-term source of funding for whatever a donor wishes to achieve with his or her philanthropy. Donors may set up restricted gifts to fund a specific interest/area or unrestricted gifts that allow the University to address its greatest needs at any given time.

A strong endowment increases the University's ability to more readily predict one of its revenue streams, acting as a potential buffer for political or economic fluctuations. Because an endowed fund continues in perpetuity, an endowed gift has both an immediate and continuing impact on the University.

The total U of I endowment is typically made up of many smaller endowment funds and the U of I

Foundation holds such gifts permanently as principal. The Foundation then manages these endowments to produce earnings that support designated U of I programs, faculty, students, facilities, etc. across the University and its three campuses in Urbana-Champaign, Chicago, and Springfield.

Our team of professionals has extensive knowledge in matters of taxation, investments, estate planning and financial management, especially as they relate to the benefits associated with charitable giving. We often continue to work with donors and their legal and financial advisors as needed throughout a donor's lifetime, without cost or obligation.

Let us help you implement giving strategies that fulfill your personal long-term vision. Contact the Foundation at 217.333.0810 if you'd like to learn more about creating your own endowment fund. Individual questions about an established endowment account may be directed to the Foundation's Gift Administration Office at 217.333.0675 or GiftAdmin@uif.uillinois.edu. ■

FOUNDATION ENDOWMENT POOL POLICY

The U of I Foundation endowment pool is a commingled pool of assets in which nearly all endowed funds established through private gifts are invested. Each endowment owns a number of units in the pool. The value of each unit at the time the funds are invested in the pool determines how many units an individual fund owns. In other words, the endowed fund buys units in the pool much as one buys shares in a mutual fund.

To minimize the cost of administration, the minimum amount required to establish a separate, permanent endowment account within the Foundation is \$25,000. Lesser amounts are sometimes accepted with the understanding that the fund will grow to a minimum \$25,000 level within a reasonable period, usually within three to five years.

The Investment Policy Committee of the Foundation's board of directors oversees the management of the endowment fund and is responsible for setting and monitoring the strategic asset allocation or policy portfolio. The Foundation's full-time professional investment team, led by the chief investment officer (CIO), is responsible for the day-to-day implementation of the strategic asset allocation and for investment manager selection and execution.

The Foundation's endowment pool investment policy uses the concept of total-return. The total portfolio is broadly diversified across major

asset classes in order to minimize investment risk and enhance investment performance.

The goal of the endowment pool's investment program is to preserve the real value or purchasing power of endowment assets over an infinite time horizon. The investment program seeks to achieve "inter-generational equity" (the equitable balance between current spending and future support) such that any university funding initiative will receive the same financial support in the future as it does today.

If income is not sufficient to cover budgeted expenditures, the amounts are taken from accumulated gains of the pool. If total return exceeds the amount expended, the excess remains in the pool and increases the market value of each account.

The market value of the units in the pool is calculated at the end of each month. Gifts received during the month purchase units at the value determined at the end of that month. On the first day of the following month, the endowed funds are placed into the pool.

The U of I and its Foundation adhere to the same fiscal year: July 1-June 30. Funds added to the pool after July 1 receive a prorated distribution based on the number of months the funds occupy the pool during the endowment's first fiscal year. Thus, all funds attain equal financial standing regardless of how long they have been in the pool. ■

POOLED ENDOWMENT POLICY PORTFOLIO (ADOPTED 6.30.13)

GLOBAL EQUITY	38%	ALTERNATIVES	52%
U.S. Equity	18%	Marketable Strategies	
Non-U.S. Equity Developed	12%	Credit/Absolute Return/Distressed	15%
Non-U.S. Equity Emerging ¹	8%	Hedged Equity	15%
		Private Assets	
GLOBAL FIXED INCOME	10%	Private Equity ²	10%
Credit	2%	Real Assets ³	12%
Inflation-Protected Bonds	4%		
Sovereign Bonds	4%		

¹ Includes up to 2.5% in dedicated Frontier Market Equity strategies

² Includes LBO, Mezzanine, M&A, Growth Equity, International PE, and Venture Capital

³ Includes private real estate (non-campus), energy, and natural resources (oil and gas, timber, and agriculture)

ENDOWMENT PERFORMANCE: FISCAL YEAR 2014 (AS OF 6.30.14)

COMPARISON TO BENCHMARKS IN YEARS	ONE	THREE*	FIVE*	TEN*
UIF Endowment Pool Total Return (net of fees)	15.1%	9.5%	12.4%	6.8%
Total Portfolio Benchmark Performance	17.6%	10.6%	13.6%	8.1%
Budgeted Spending Percentage	5.5%	5.6%	5.8%	5.7%
Purchasing Power Loss (CPI)	2.1%	1.8%	2.0%	2.3%
Minimum Net Required Return	7.6%	7.4%	7.8%	8.0%

*Three-, five- and ten-year annualized returns expressed in percent per year

In fiscal year 2014, 4.00% of the six-year moving-average market value was distributed for the educational purposes specified in the individual fund agreements between the Foundation and donors. An additional 1.45% of the six-year moving-average market value was designated as an administrative fee to support Foundation operations.

ENDOWMENT POOL MARKET VALUES AND ANNUAL RETURNS

2004-2014

