



2014 Endowment Financial Report

President's Message

Greetings,

Thanks to support from friends such as you, the University of Wisconsin-Madison continues to retain its status as one of the top 20 universities in the world. In addition to generating life-changing research and world-class teaching and learning environments, the university invests in the next generation of problem-solvers. UW-Madison is continuing to navigate through new fiscal realities that rely less on public funding and more on private support.

Perhaps the greatest example of the long-term power of private support is the endowed fund. Once established, endowed funds continue to make an impact year after year. The increasing need for UW-Madison to rely on private support makes your endowment even more critical to the university — and our responsibility to keep you informed even more important.

This year is one of transition for us. Historically, we have delivered gift-impact reports bundled with your annual financial report. This is the first year in which we will separate those reports. Enclosed here is the 2014 endowment financial report on your endowed fund(s). Moving forward, the UW Foundation will work closely with schools and colleges across campus to coordinate stewardship.

During this transition year, we will continue to refine and enhance our reporting process. Our goal is to provide you with robust and timely endowment financial reports that include a comprehensive picture of your philanthropy at UW-Madison.

To protect and steward your gifts, and to help facilitate the university's success, we at the UW Foundation are committed to:

- earning your confidence and trust by reporting regularly on the financial status of your endowed funds
- illustrating the impact of your gifts on the continued successes of UW-Madison
- managing risk and opportunities by maintaining a globally diversified investment portfolio
- guarding the resources of the UW Foundation to provide a predictable funding stream that helps to ensure the long-term financial health of the university
- attracting new partners to our effort in order to help safeguard the enduring success of your philanthropy

As always, I invite your comments, questions, and suggestions. I am grateful for your investment and confidence in the university and the UW Foundation. *Thank you.*

On, Wisconsin!

Michael M. Knetter
President and CEO



The UW Foundation invests its endowment to create a base of perpetual support for UW-Madison. Private gifts and grants make up the second-largest revenue source for the university — 17% of the 2014 budget.

Investments Perspective

Dear Friends,

In 2014 we witnessed big events at home and abroad. Many of these events had large geopolitical and economic ramifications, such as Russia's decision to engage Ukraine militarily, which led to far-reaching economic sanctions. Also impacting our interconnected world was the Ebola crisis, which primarily affected West Africa but raised travel and health concerns throughout the world. As the year neared a close, it was obvious that the dramatic downturn of oil prices was also upsetting the balance among various global economies.

Viewed from a positive perspective, the U.S. economy continued to grow and perform well, especially when compared to those of other large countries. The strength of the U.S. dollar reflected economic confidence in the United States relative to other countries. Interestingly, a long-awaited rise in interest rates never materialized, thus continuing a central bank-led environment of monetary policy designed to stimulate economic growth.

The endowment portfolio, focused on a long-term perpetual and globally diversified investment strategy, returned 5.9 percent for the year, while the corresponding policy benchmark returned 4.8 percent during the same period. Outperformance was driven by factors including an overweight to equities compared to fixed-income investments, as well as relative outperformance of the bond portfolio. In addition, strong returns in the private markets, including private equity and real estate, contributed to positive overall performance. Since the adoption of a new investment policy statement and resulting portfolio guidelines in January 2011, the endowment portfolio has outperformed its benchmark by returning 8.4 percent versus 7.7 percent, annualized.

The University of Wisconsin holds a special place in all of our hearts. The philanthropic gifts you have made continue to play an incredibly meaningful role in advancing the teaching, research, and outreach missions of the university. There are never enough ways to express our collective appreciation for your investment, but we remain committed to prudently and carefully investing the gifts that you have entrusted to the Foundation.

Julie Van Cleave, CFA
Chief Investment Officer
University of Wisconsin Foundation

Endowments at the University of Wisconsin Foundation

A Base for Perpetual Support

A cornerstone of private giving throughout the history of higher education, endowments are based on initial gifts of substantial size that distribute annual earnings generated by investment. Endowments not only serve as dependable and relatively predictable resources to help meet new or recurring expenses as they arise, but they are also sustained in perpetuity. They are gifts that truly last forever.

Endowed funds held by the UW Foundation are managed as long-term investments. The Foundation's individual endowment funds are all combined and invested as one portfolio.

The Foundation's endowment pool operates much like a mutual fund. Each endowed fund owns a number of units in the pool. The number of units that each fund owns is determined by the value of those units at the time of investment. To preserve the endowment's value in perpetuity, it is invested to provide both spendable income and long-term appreciation of the principal (although depreciation is possible).

Growth of each endowment account comes from two areas: investment returns (less annual distributions) and additional gifts. For the endowment to exist in perpetuity, the investment return must outpace two primary threats to growth: the spending rate and inflation. To achieve this goal, investment of the endowment pool uses a total return concept, in which principal appreciation and income growth are expected to preserve the "purchasing power" of the endowment pool over a long-term horizon.

The Foundation's spending policy for 2014 distributed 4.5 percent of fund value, utilizing a quarterly distribution method that includes a 16-quarter moving average of unitized market values as its base. Because endowment pool performance fluctuates in the near term, the use of a 16-quarter moving average helps to stabilize the income stream. The spending plan is reviewed annually by the Foundation's Board of Directors. Foundation staff, along with the Investment Committee of the Board of Directors, continually review the pool's investment performance, analyze recommendations from professional investment managers, and determine an appropriate asset allocation. The return objective, also reviewed annually by the Foundation's Board of Directors, is to achieve an annualized return of 7.1 percent over a complete market cycle (typically a 5- to 10-year period).

What is an endowed fund?

An endowed fund is a permanent, self-sustaining source of funding. Endowed assets are invested, and each year, a portion of the value of the fund is paid out to support the fund's purpose. Any earnings in excess of this distribution are used to build the fund's market value. In this way, an endowed fund can grow and provide support for its designated purpose in perpetuity. When an endowed fund is established, a permanent legacy of support is created for the University of Wisconsin-Madison.

Endowments at the University of Wisconsin Foundation

Just as important as maximizing total return is the objective of minimizing risk. The Foundation pursues this goal by diversifying broadly across major asset classes, a plan that historically has been shown to minimize investment risk and to enhance investment performance.

By investing in both public and private markets, the Foundation seeks to achieve further diversification benefits. Volatility and risk are expected within any one asset class. However, a well-diversified portfolio is designed to offset those risks over a longer period of time.

Foundation staff and the Investment Committee remain focused on responsibly stewarding and investing the philanthropic gifts received. In addition to the ongoing responsibility to monitor the asset allocation targets and to annually review the current long-term expected return, the Foundation remains committed to a cost-conscious investment operation. The focus continues to be on placing the utmost emphasis on investing the gifts received so that their impact is meaningful and transformative for many years to come.



Jeff Miller/University Communications

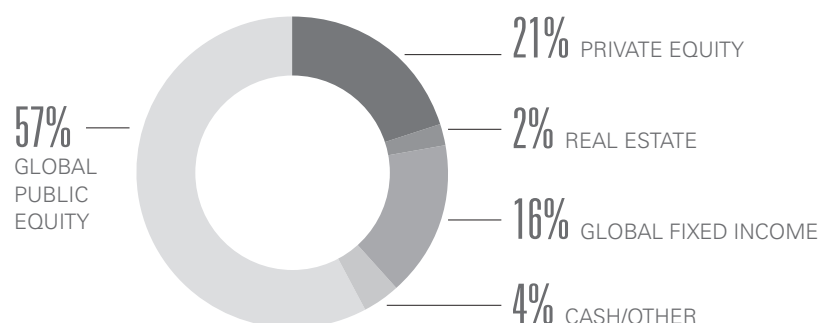
Asset Allocation and Investment Performance

Investment Performance*

Annualized for periods ending December 31, 2014

1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPT. (6/30/84)
5.9%	11.4%	9.1%	6.5%	9.4%

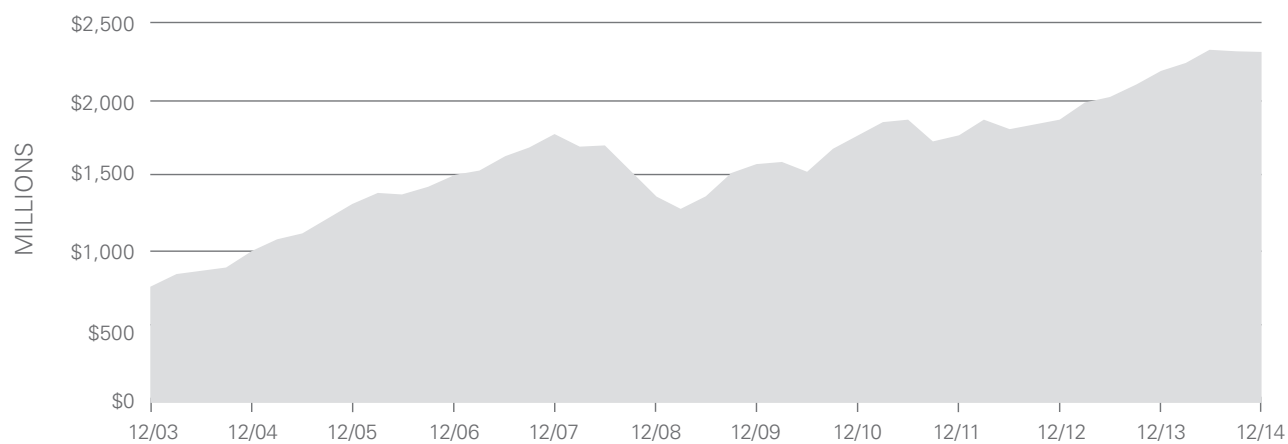
Asset Allocation as of December 31, 2014



The University of Wisconsin Foundation Endowment Portfolio's current asset allocation is shown in the graph at the left. The asset allocation strategy has been established by the Foundation's Board of Directors and is reviewed at least quarterly to ensure that the portfolio's investment and diversification objectives are met.

Growth of Endowment Portfolio

\$2,318,538,096 as of December 31, 2014



*Net of external manager fees

Frequently Asked Questions

What is the spend plan allocation? How much of the allocation is available to be spent on the fund's designated purpose?

The spend plan allocation represents the portion of the endowment pool's total return that is allocated to the spendable income portion of the fund. All of the amounts allocated to this portion of the fund, plus any unspent accumulated prior allocations, are available to be spent in support of the fund's designated purpose.

How are the spend plan allocation and the market value of the endowment related to each other, and how does market volatility affect them?

Endowed funds are invested on a total return basis. This means that they are invested to provide both spendable income and long-term appreciation of the principal (although depreciation is possible). The spend plan allocation is a portion of the total return of the pool. Thus, when the payout is calculated quarterly and distributed to the spendable portion of each fund, this amount is then deducted from the total return of the pool. The remaining net return amount, either positive or negative, is allocated to increase or decrease the market value of the fund. As the market value of the fund appreciates or depreciates in response to market volatility, the quarterly income allocated to the fund is also affected. Short-term market volatility generally has a minimal effect on the endowment fund payout, while longer-term market volatility will ultimately affect the amount allocated. The method used to calculate the spend plan allocation is based on a 16-quarter average market value in order to smooth the spend plan allocation. This method of income allocation, along with the emphasis on diversification, tempers the impact of short-term market fluctuations and levels the effect of long-term volatility.

What is meant by book value?

When a gift is made to establish an endowed fund at the University of Wisconsin Foundation, it is invested in the Foundation's endowment pool. The gift value, or value of the proceeds if the gift is not cash, is invested in the endowment pool and becomes the book value of the endowed fund. The book value can increase with additions to the fund or decrease if the fund allows principal to be spent.

Continued



Frequently Asked Questions

Why would the book value be different from the original gift value?

There can be many reasons why a difference exists between the book value and the gift value of the endowed fund. The primary reasons include:

- **Income is reinvested into the principal of the fund.**
Some donors want to increase the value of their endowed funds through reinvestment of the spend plan allocation. When doing this, less income (or in some cases, no income) is available for immediate spending. Ultimately, the reinvestment of income should produce growth to benefit future recipients.
- **Current awards are made from the original gift.**
In some cases, a donor wants an immediate award to be made in support of the fund's purpose. If the donor authorizes this expenditure, it reduces the amount of the investment into the endowment pool and thus the book value.
- **Proceeds from a noncash gift may differ from the donor's gift value.**
When the Foundation receives a noncash gift, the policy is to sell the item and try to receive a value as close to the gift value as possible. The Foundation does incur expenses related to the sale of noncash items. These expenses are deducted from the proceeds of the sale. Thus, the net proceeds amount may be higher or lower than the gift value. These net proceeds are invested into the endowed fund. Therefore, the book value is different from the gift value.

Whom should I contact if I have further questions?

- For questions about UW Foundation investment policies, contact David Golden at 608-263-0376 or david.golden@supportuw.org.
- For general questions about your fund, contact Brian Hettiger at 608-265-5893 or brian.hettiger@supportuw.org.



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