

A REPORT ON  
ENDOWMENTS FROM  
THE UNIVERSITY  
OF WISCONSIN  
FOUNDATION

# ENDOWMENT REPORT



## University of Wisconsin Foundation

In 1945, a small group of University of Wisconsin volunteers established a gift and bequests council. The purpose was to encourage the growing practice of making gifts to the University. These efforts were formalized with the creation of the University of Wisconsin Foundation as the University's official fundraising organization.

While the state of Wisconsin provides significant support for the University, private assistance has contributed to the growth of the University over the years. However, in recent years, the financial burden has shifted. State funding now provides only the means for a basic education. Supplemental support from the private sector is necessary for the University to maintain the educational opportunities that ensure academic excellence.

As a private, non-profit, tax-exempt Wisconsin corporation that raises, invests and distributes funds for the benefit of the UW-Madison, the Foundation receives thousands of gifts each year from alumni, corporations, foundations, faculty and staff, and other friends of the University. These funds go to work across campus, supporting programs and providing otherwise unavailable resources. Gift dollars help support scholarships and fellowships, library collections, endowed faculty positions, equipment, state-of-the-art laboratories and buildings, and numerous other areas designated by donors. An independent organization, the UW Foundation works closely with University administration and faculty to match academic needs with private support.

The University of Wisconsin Foundation is commitment to maintaining long-term authentic relationships with donors through exceptional stewardship practices.

## University of Wisconsin-Madison

The University of Wisconsin-Madison has long been recognized as one of the country's great universities. A public, land-grant institution, UW-Madison offers a complete spectrum of liberal arts studies, professional programs and student activities. Many of its programs are hailed as world leaders in instruction, research and public service.

A clause in the Wisconsin Constitution decreed that the state should have a prominent public university. In 1848, Nelson Dewey, Wisconsin's first governor, signed the act that formally created the University of Wisconsin. The University has grown into a large, diverse community, with about 40,000 students enrolled each year.

Throughout its history, UW-Madison has sought to bring the power of learning into the daily lives of its students through innovations such as residential learning communities and service-learning opportunities. Students also participate freely in research, which has led to life-improving inventions ranging from more fuel-efficient engines to cutting-edge genetic therapies.

Students, faculty and staff are motivated by a tradition known as the "Wisconsin Idea," first started by UW President Charles Van Hise in 1904, when he declared that he would "never be content until the beneficent influence of the university [is] available to every home in the state." The Wisconsin Idea permeates the University's work and helps forge close working relationships among university faculty and students, and the state's industries and government. In recent decades, the borders of the University have expanded to the borders of the nation, the world and beyond.

# To our donors

*This endowment fund report has two distinct parts. The first part describes the performance of all endowed funds when pooled together. The second part is the report prepared specifically for your fund. It can be found in the back pocket of this booklet. As you read the first report, bear in mind that your particular fund is part of the larger University of Wisconsin Foundation Endowment Fund.*

## What endures

**W**hen I joined the UW Foundation last fall, I did so with the knowledge that private support will play an increasingly important role in maintaining the University of Wisconsin-Madison as a world-class institution in the years ahead. 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. I am pleased to enclose the 2010 report on your endowed fund(s) and am grateful for your investment in the University.

In addition to generating life-changing research, the UW-Madison is educating our future leaders in science, business, government, communication and the arts. At the same time, we are adapting to new fiscal realities that rely less on public funding and more on private support. This makes your endowment even more important to the University and our responsibility to keep you informed more critical.

With the continued effective engagement of our alumni and friends and collaboration with our campus partners and the Wisconsin Alumni Association, I am confident the UW-Madison will remain one of the world's great universities. To help facilitate the University's success, we at the UW Foundation will continue to:

- Earn your confidence and trust by reporting regularly on the impact of your gifts.
- Manage risk and opportunities by maintaining a diversified investment portfolio.
- Guard the resources of the UW Foundation to ensure the long-term financial health of the University by providing a predictable funding stream.
- Continue to attract new partners to our effort to support the university, ensuring greater and enduring success of our past investments.

I invite your comments, questions and suggestions.

Thank you and On Wisconsin.

Michael M. Knetter  
President and CEO  
University of Wisconsin Foundation

# Endowments at the University of Wisconsin Foundation

**A** cornerstone of private giving throughout the history of higher education, endowments are based on initial gifts of substantial size that in turn provide annual earnings generated by investment.

As these gifts grow in value over time, they provide annual spendable income while the related principal continues to appreciate. Endowments serve not only as dependable and relatively predictable resources to help meet new or recurring expenses as they arise, they also are sustained in perpetuity. They are gifts that truly last forever.

Endowments held by the University of Wisconsin Foundation are long-term accounts or funds. The Foundation's endowment accounts are all pooled and invested as one portfolio.

The Foundation's endowment pool operates much like a mutual fund. Each endowed gift owns a number of units in the pool. The number of units each fund owns is determined by the value of those units at the time of investment. To preserve the endowment's value for perpetuity, only a portion of the pool's total return is spent for the purpose designated by the donor.

For the first half of 2010, the spending rate was 4.75 percent of the pool's average market value over the most recent 12 quarters. Effective July 1, 2010, this spending rate changed to 4.50 percent of the pool's average market value over 16 quarters. This change is a result of the annual review of the spending plan by the Foundation's board of directors.

Growth of each endowment account comes from two areas: investment returns 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 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 UW Foundation staff, along with the Investment Committee of the Foundation's board of directors, continuously reviews the pool's investment performance, analyzes recommendations from professional investment managers and consultants, and determines an appropriate asset allocation. The return objective is to achieve an annualized return of 8 percent over a complete market cycle (typically a 5- to 10-year period).

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

By investing in both traditional and alternative investments, 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.

Markets can move in unexpected directions. Staff and the Investment Committee attempt to mitigate the effects of these actions by engaging in an ongoing process of reviewing asset allocation targets, making desired changes and modeling the related impact on expected long-term endowment performance. Staff has designed a portfolio committed to achieving the Foundation's long-term return objectives. This is part of our commitment to responsibly steward and honor endowed gifts.

## Asset allocation and performance

The asset allocation target for the University of Wisconsin Foundation Endowment Fund is 20 percent domestic equities, 13 percent international equities, 10 percent fixed income, 12 percent real assets, 30 percent marketable alternatives and 15 percent non-marketable alternatives. These targets have been established by the Foundation's board of directors and are reviewed frequently to ensure investment and diversification objectives are met.

### PERFORMANCE

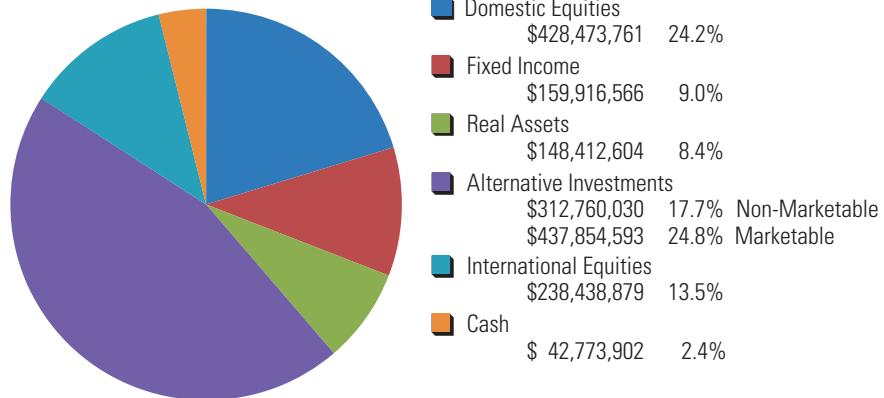
#### AVERAGE ANNUAL TOTAL NET RETURNS

|             |         |
|-------------|---------|
| 1 Year      | = 11.7% |
| 3 Years     | = -1.7% |
| 5 Years     | = 4.0%  |
| 10 Years    | = 3.1%  |
| Inception** | = 9.8%  |

\*\*Date of inception 1/1/84

### ASSET ALLOCATION AS OF DECEMBER 31, 2010

TOTAL ENDOWMENT FUND ASSETS: \$1,768,630,335



*It is important to point out comparisons of the above returns to other investments may not always be appropriate. The Endowment Pool's asset mix includes long-term components that influence short-term results and values. The above returns also are prior to assessment of the Foundation's expense recapture fee of 1% per year.*

# A Badger visionary—and she cooked, too.

Hattie Goessling was really pretty conventional. Born in 1876, she and her sister helped their parents work a large farm “up north” near Crystal Lake, Wisconsin. They didn’t have a phone; Alexander Graham Bell was still inventing it. She could, however, read ‘Tom Sawyer,’ first published that year. Hattie was four years from retirement when she earned her University of Wisconsin-Madison degree in 1929. She had already devoted her life to teaching before she arrived on campus. Thanks to the power of an endowment, she continues to help students today.

Hattie Goessling graduated from Plymouth High School and enrolled in Oshkosh Normal School—now the University of Wisconsin-Oshkosh—where she became certified as a home economics teacher. Hattie’s career path was predictable for a woman with ambition but limited opportunities. But she had a mind of her own and also felt a responsibility toward women and young people whose lives were less conventional and more challenging than hers.

In the years before World War I, Wisconsin state law required that every child under the age of 16 with a labor permit and not attending regular school must attend a continuation, or vocational, school. Students were taught manual skills and how to apply for a job. Hattie was committed to the success of these students, especially the young women, and helped organize the vocational school system in Wisconsin. She was eventually appointed principal of Fond du Lac Girls Vocational School and was a popular speaker on the importance of career preparation for women.

A lifelong learner, Hattie finally earned her degree from the University of Wisconsin-Madison in 1929—the eve of the Depression. With so many people unemployed, the responsibility for supporting families often fell to women.

Although she was nearing retirement, Hattie began teaching adult classes for unemployed women to give them the education and skills they needed to survive.

Hattie Goessling retired in 1933 but she was not finished introducing new ideas to her Wisconsin neighbors. In 1937, she treated attendees at the National Cheese Institute Food Festival in Sheboygan, Wisconsin to the first serving in the state of a cheese dish called “Wisconsin Rabbit,” the local version of the classic Welsh rabbit.

In 1960, at the age of 83, Hattie died in her childhood Plymouth home. Her will was brief and specific. Beyond some small stock gifts to friends, she designated that her money go to the UW Foundation to be given to a “bright and capable young man or woman in the field of Nutrition.

“I hope,” she added, “the Foundation will work as hard as I did for this money.”

According to Hattie’s obituary in the February 12, 1960 *Sheboygan Press*, she left no survivors. She did leave the UW Foundation securities valued at \$30,000 to establish the Hattie B. Goessling Nutritional Science Scholarship Fund. The fund has grown to nearly \$355,000 and provides more than \$17,000 in annual income for scholarships. To date, the School of Human Ecology has awarded hundreds of scholarships in various amounts usually to several students each semester.

Hattie Goessling believed in hard work, helping her neighbors help themselves and sharing what she knew and what she had. In short, she was a pretty conventional Badger.

And yes, Hattie, the Foundation is still working as hard as you did.

—Merry Anderson

# Investments perspective

**F**or the year, the Endowment's net return was 11.7%, which exceeded the long-term return objective of 8%. Strong performance within the U.S. Equity and Private Equity portfolios contributed to this outperformance. While we have always exercised great prudence to adhere to a long-term investment policy, we were nonetheless pleased with how the Endowment performed for the year. The difficult market environment experienced just a few years ago, along with the continuation of uncertain economic conditions, gives us a greater sense of appreciation for the challenges of investing the Endowment to achieve long-term performance.

If you are familiar with any of the investment materials the Foundation produces, you are well-versed in the philosophy that drives our Endowment investment decisions. The commitment to investing endowed gifts in perpetuity so that they produce a meaningful impact both today and for many years to come never wavers. Yet, the continued evolution of the Endowment requires us to re-evaluate the portfolio and implement any necessary adjustments. The Endowment invests in a variety of vehicles that seek to capture the performance of the global capital markets while creating a portfolio that takes into account an appropriate level of risk and attempts to dampen volatility.

This past year has been one of positive change for the investments team as we embarked on a project to substantially improve our operational systems that will allow for enhanced risk-management capabilities. In addition, we hired an experienced investment professional to assume responsibility of the Endowment's allocation to public equities and certain private equity investments, including oil and gas partnerships. Viewed from a historical perspective, we continue to move away from a model of investing largely dependent on recommendations by outside consultants, to one in which bringing the expertise in-house affords the intimate knowledge necessary to best manage the Endowment's investments.

As always, thank you for your engagement with the University of Wisconsin and for directing a portion of your philanthropic gifts to benefit this great institution.

Thomas P. Olson, CFA  
Chief Investment Officer  
University of Wisconsin Foundation



1848 University Ave.  
P.O. Box 8860  
Madison, WI 53705-8860  
608-263-4545  
[supportuw.org](http://supportuw.org)