



ENDOWMENT REPORT

President's message

Thanks to support from friends like you, the University of Wisconsin-Madison continues to retain its status as one of the top 20 universities in the world, according to the Academic Ranking of World Universities by Shanghai's Jiao Tong University.

You play an important role in maintaining this vibrant, world-class institution. 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 have enclosed the 2013 report on your endowed fund(s) and am grateful for your investment and confidence in the university.

In addition to generating life-changing research, the university's future depends upon its ability to invest in the next generation of problem solvers. We are adapting to new fiscal realities that rely less on public funding and more on private support. This makes your endowment even more critical to the university and our responsibility to keep you informed even more important.

With increased engagement of our alumni and friends and a closer 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 help ensure the long-term financial health of the university by providing a predictable funding stream.
- Attract new partners for our effort, to help safeguard greater and enduring success of our past investments.

As always, I invite your comments, questions and suggestions.

Thank you and On, Wisconsin!

Michael Knetter
President and CEO
UW 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. 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 managed as long-term investments. The Foundation's individual 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, 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 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 Foundation's spending policy for 2013 distributed 4.5 percent of the endowment's average market value over the previous 16 quarters. Since endowment portfolio performance fluctuates in the near-term, the use of a 16-quarter moving average helps stabilize the income stream. The spending plan is reviewed annually by the Foundation's Board of Directors. 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, 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).

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 has been shown to minimize investment risk and to enhance investment performance.

By investing in both public and private 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.

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 annually reviewing of the current long-term expected return. The Foundation remains committed to a cost-conscious investment operation. The focus continues to be placing the utmost emphasis on investing gifts received so that their impact is meaningful and transformative for many years to come.

What is an endowment fund?

An endowment fund is a permanent, self-sustaining source of funding.

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

Asset allocation and investment performance

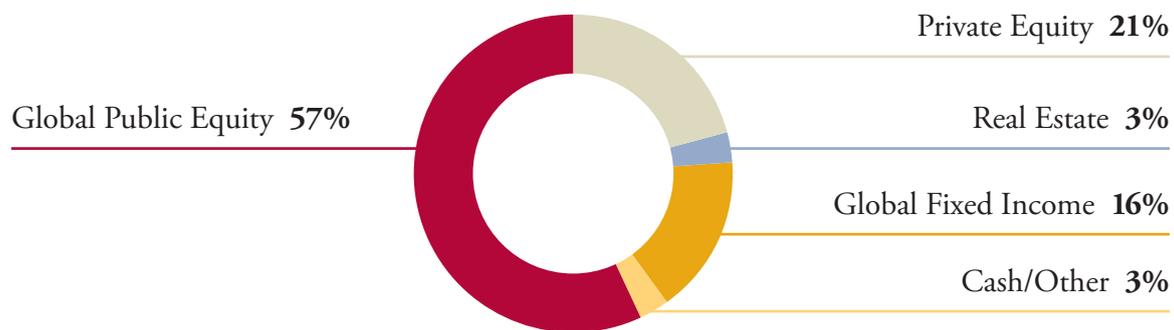
The University of Wisconsin Foundation's Endowment Portfolio's current asset allocation is shown in the graph and data below. The asset allocation strategy has

been established by the Foundation's Board of Directors and is reviewed at least quarterly to ensure the portfolio's investment and diversification objectives are met.

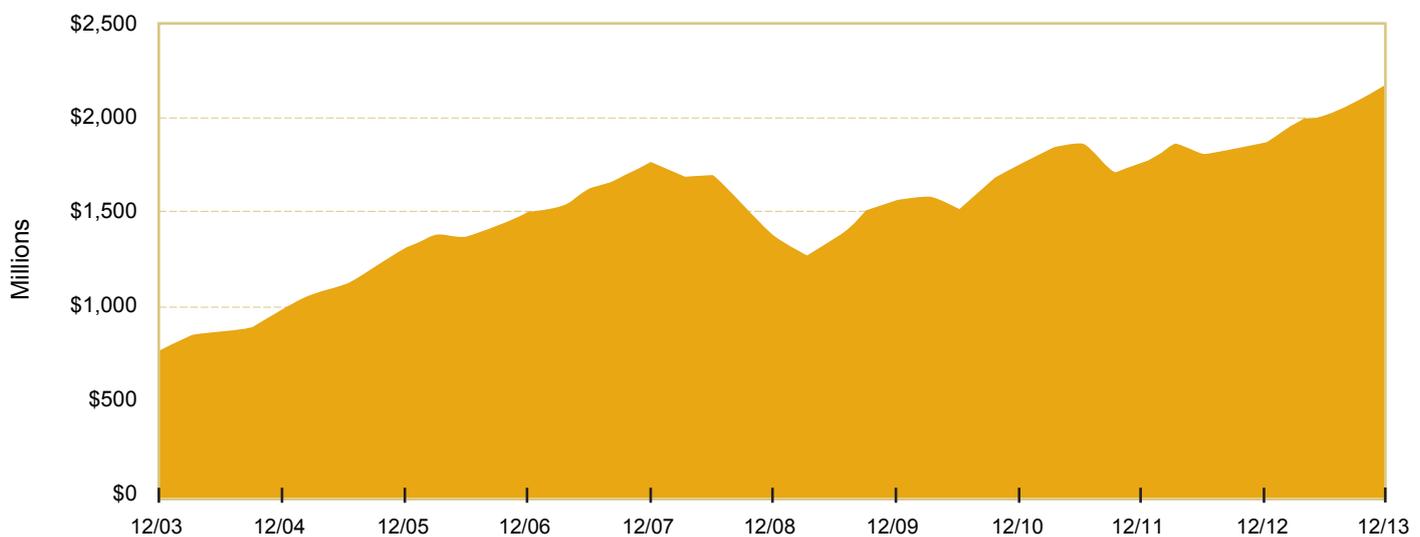
Investment Performance* Annualized for periods ending December 31, 2013

	1 Year	3 Years	5 Years	10 Years	Incep. 6/30/84
NET RETURN	16.5%	9.2%	10.1%	7.2%	9.6%

Asset Allocation As of December 31, 2013



Growth of Endowment Endowment value as of December 31, 2013 \$2,191,856,879



*Performance is reported net of internal and external investment management fees but prior to assessment of the Foundation's expense recapture fee of 1% per year.

Alumnus built a legacy of generosity

In recent years, one of Andrew Johnson's greatest pleasures in life was to read letters of gratitude from College of Engineering undergraduates who received Great People Scholarships. "Every time he got a letter, he was exuberant about it, and he was happy to do so much good for those students," says Johnson's son, Robert.

Andrew passed away in fall 2013, leaving behind a legacy that includes generous need-based scholarships for engineering students. His support of UW-Madison undergraduates reflects the education that helped him move from a farm in central Wisconsin to high-ranking jobs at Caterpillar Inc. "He started out with nothing, and ended up as a chief engineer at Caterpillar," Robert says. "Basically, his engineering degree served him very well."

Robert says the metallurgical engineering degree his father earned in 1947 paid off tremendously, but the experience of working his way through college, including a stint in the Army, was tough. That's why the more than \$415,000 Andrew Johnson gave to UW-Madison between 2011 and 2013 has gone toward entirely need-based scholarships. "He wanted to make it easier for students with less means to focus on their education rather than to worry about money," Robert says.

In just two short years, Andrew's contribution has yielded scholarship awards of \$3,000 each for nine students in fields including biomedical engineering, chemical engineering, electrical engineering, engineering mechanics, and industrial engineering. The fund is set up to run in perpetuity, so it will continue to provide awards and to benefit numerous students well into the future.

Because Andrew spent his entire post-college career at Caterpillar, working there from 1947 to 1982, the company also matched some of his contributions. "One thing he talked about was that when he worked at Caterpillar, he always had very good people who worked for him," Robert says.

He once asked his father how to handle an employee who responds to a request with, "I can't do that." Andrew Johnson told his son, "I never heard that from any of my people."

Robert, who went into the sciences himself (he now is an adjunct faculty member in the School of Life Sciences at Arizona State University, where he researches ants), portrays his father as a man with a very broad view of his own success and that of others. "Since he grew up in the Depression, he lived very frugally, but was happy to fund this scholarship and be generous to others," Robert says.

*By Scott Gordon
University of Wisconsin-Madison
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The glass atrium of the new Engineering Centers Building reflects images of the older Mechanical Engineering Building and taller Engineering Research Building.

Photo by Jeff Miller

Investment questions:

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

Feedback on this Personal Endowment Report: supportuw.org/surveys/endowment



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