



# **2017 ENDOWMENT FINANCIAL REPORT**

UNIVERSITY OF WISCONSIN FOUNDATION



# PRESIDENT'S MESSAGE

## **GREETINGS,**

We at the UW Foundation, a division of the Wisconsin Foundation and Alumni Association, take great pride in advancing the mission of UW–Madison. We know that a healthy university is good for our students, Wisconsin, and the world. We are so grateful for donors like you who support the university through endowed funds.

In 2017, we raised a total of \$472.7 million in new gifts and pledges. And thanks to the generosity of thousands of alumni and friends, we surpassed the 75 percent mark in our goal to raise \$3.2 billion by the end of 2020 through the All Ways Forward comprehensive campaign. Your ongoing support enhances our world-class institution in an ever-changing environment. The campaign has helped to bring in more than \$275 million to support students and \$309 million to support faculty chairs and professorships. Those gifts will have a direct and significant effect on the Wisconsin Experience forever.

We are committed to maximizing the impact of your gifts through prudent investment management. In 2017, the endowment portfolio returned 17.1 percent after external manager fees through investing in a mix of public and private equities and fixed-income securities. Considering recent trends in interest rates and market conditions, we believe that we are positioned well.

We are grateful for your continued involvement. Through your philanthropic support, you are helping to shape the future of this great university. *Thank you.*

## **ON, WISCONSIN, AND ALL WAYS FORWARD!**

**MICHAEL KNETTER**

President and CEO

Wisconsin Foundation and Alumni Association

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 percent of the 2017 budget.





# INVESTMENTS PERSPECTIVE

## DEAR FRIENDS,

Global markets had a strong year in 2017, and investment performance for the stock and bond markets exceeded most expectations. As the year began, uncertainty about how the new federal administration would seek to exert influence on trade, taxation, and monetary policy was on investors' minds. Worries about North Korean aggression were weighed against compelling positive news regarding continued declining unemployment rates, good economic growth, and moderate inflation. As the year progressed, it was increasingly apparent that the combination of positive economic activity and ample investor liquidity was driving outsized returns across most asset classes. The year-end passing of U.S. tax reform contributed to push business and consumer confidence even higher. Most investment years are not this robust; it was a very good year for our endowment portfolio.

The endowment portfolio — focused on a long-term, perpetual, and globally diversified investment strategy — returned 17.1 percent for the year, while our policy benchmark returned 17.8 percent. The public-equity portfolio outperformed its benchmark while the real estate portfolio matched its benchmark. The private-equity and fixed-income portfolios contributed to the aggregate positive return while trailing their respective benchmarks. The total endowment portfolio returned 8.7 percent for the five-year period ending December 31, 2017, outperforming the performance of its benchmark return of 8.5 percent, annualized.

Thank you for the investment you have made in the University of Wisconsin. The endowed funds you have established continue to provide a significant source of income to the university to further its mission. We are proud to work with generous donors who have created a meaningful philanthropic legacy that supports the university in perpetuity.

## ALL WAYS FORWARD!

### **JULIE VAN CLEAVE, CFA**

Chief Investment Officer

Wisconsin Foundation and Alumni Association

# ENDOWMENTS AT THE UNIVERSITY OF WISCONSIN FOUNDATION

## *A BASE FOR PERPETUAL SUPPORT*

A cornerstone of private giving throughout the history of higher education, an endowment is based on initial gifts of substantial size that distribute annual income generated by investment. This income is used by the university to fulfill the purpose specified in the fund. Endowments not only serve as dependable and relatively predictable resources to help address new opportunities or meet recurring costs 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, the fund is invested to provide both spendable income and long-term appreciation of the principal (although depreciation is possible).

The 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 the long term.

The Foundation's spending policy for 2017 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 short 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 members, 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 current return objective, also reviewed annually by the Foundation's board of directors, is to achieve an annualized return of 6.5 percent over a complete market cycle (typically a five- to 10-year period).

## **WHAT IS AN ENDOWED FUND?**

An endowed fund is a permanent, self-sustaining source of income. 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.



Just as important as maximizing total return is the objective of minimizing risk. The Foundation manages this goal by diversifying broadly across major asset classes, a plan that historically has been shown to minimize investment risk and 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 philanthropic gifts received. In addition to the ongoing responsibility to monitor the asset allocation targets and 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 gifts received so that their impact is meaningful and transformative for many years to come.

# PROFILES IN PHILANTHROPY

*THE TOPITZES FAMILY SCHOLARSHIP HELPS KATELYN PECHA GET A START IN LIFE.*



When Nick '66 and Judith '63, MSW'65 Topitzes considered how to support UW–Madison, they came to a simple conclusion: what the UW needs most is more need-based aid for its students.

“When we went to school, a student could get a summer job and earn enough money to pay for the next year’s tuition,” Nick says. “That just isn’t true anymore. Kids need to have money if they’re going to go to the university, and education is what will help them improve in life.”

The two created the Nicholas and Judith Topitzes Family Fund, leveraging the Nicholas Match to institute a need-based scholarship to support a Wisconsin high school graduate attending UW–Madison.

Both Nick and Judith are Wisconsin natives, and both come from modest means. “Our parents valued education,” Judith says. “And what the UW gave us is more than just a career. It’s about lifelong learning. My education prepared me to be a lifelong learner. When

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“What the UW gave us is more than just a career. It’s about lifelong learning. My education prepared me to be a lifelong learner. When I had just graduated and had my MS, I thought I knew everything, but what the UW really taught me was how to keep learning in a changing world.”

— Judith Topitzes

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I had just graduated and had my MS, I thought I knew everything, but what the UW really taught me was how to keep learning in a changing world.”

One of this year’s Nicholas and Judith Topitzes Family Scholarship recipients is Katelyn Pecha x’19, a first-generation college student from Slinger, Wisconsin. Pecha has held several jobs and internships during her time on campus — working with the Wisconsin Union and the College of Letters & Science — and she’s in ROTC. She’s studying community and nonprofit leadership, but when she graduates, she’ll be a human resources officer in the army in addition to whatever career she pursues. She hopes to work in higher education so that she can spread to others the benefits she’s received from people like Nick and Judith.

“This scholarship has meant a lot as I’m forging my path through school and finding a career,” Pecha says. “My financial burden has been relieved, thanks to their generosity. I hope that one day I can give back in the same way.”



Bryce Richter, University Communications





CAMP RANDALL

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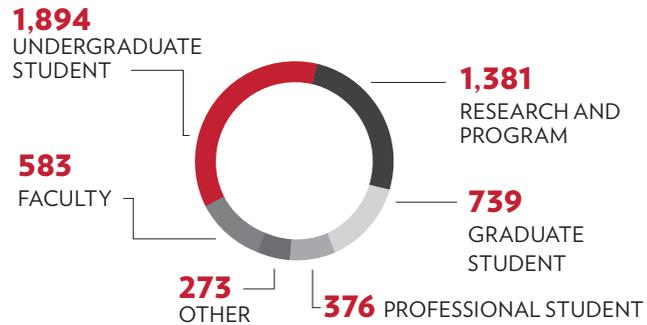
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# 2017 ENDOWMENT SNAPSHOT

Student support is a major area of emphasis for All Ways Forward, the comprehensive campaign for UW–Madison. Currently the UW Foundation manages more than \$446 million in endowed scholarship funds. The endowment generated more than \$30 million for student support in 2017.

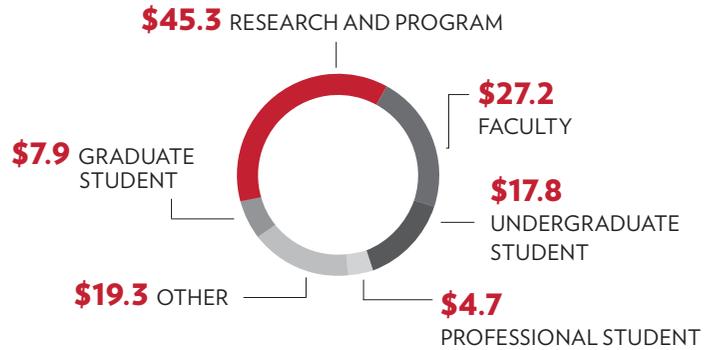
TOTAL NUMBER OF ENDOWED FUNDS

**5,246**



TOTAL DOLLARS TRANSFERRED TO UW-MADISON FROM THE ENDOWMENT IN 2017

**\$122.2**  
MILLION



TOTAL NUMBER OF ENDOWED FUNDS ADDED IN 2017

**229**



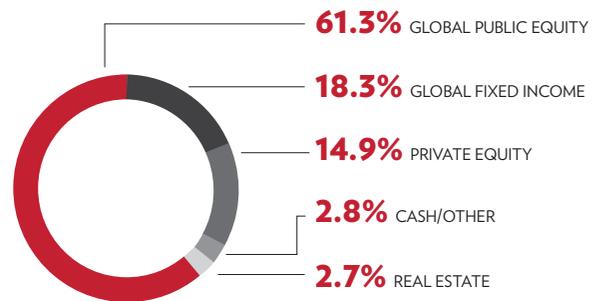
# ASSET ALLOCATION AND INVESTMENT PERFORMANCE

## INVESTMENT PERFORMANCE\*

Annualized for periods ending December 31, 2017

1 YEAR	17.1%
3 YEARS	7.1%
5 YEARS	8.7%
10 YEARS	4.9%
INCEPTION (6/30/84)	9.2%

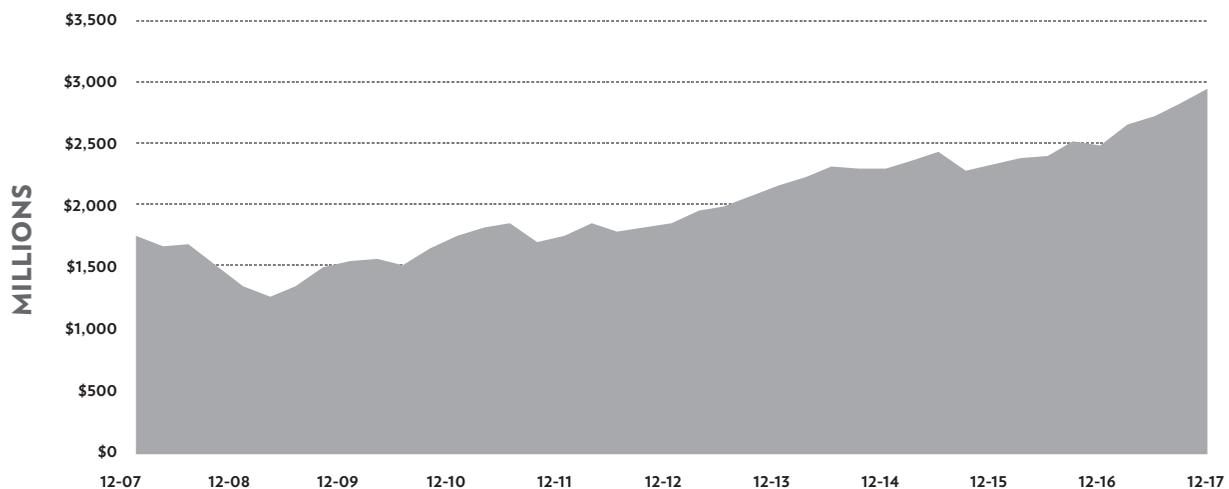
## ASSET ALLOCATION AS OF DECEMBER 31, 2017



The University of Wisconsin Foundation endowment portfolio's current asset allocation is shown in the graph above. 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

\$2,965,194,356 as of December 31, 2017



\*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 as spendable income. Amounts allocated to this portion of the fund, plus any unspent accumulated prior allocations, are available to be spent by UW-Madison in support of the fund's designated purpose.

The spend plan, a policy set by the Foundation's board of directors, mandates that a percentage of each endowed fund be made available regularly according to the donor's wishes. The spend plan currently distributes 4.5 percent of the endowment's average market value over the previous 16 quarters.

Because endowment portfolio performance will fluctuate in the short term, the spend plan smooths the income stream, helping the university with annual budgeting and organizational planning.

## **How are the *spend plan allocation* and the market value of the endowment fund 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 endowment pool. Thus, when the payout is calculated quarterly and distributed to the spendable income portion of each fund, this amount is then deducted from the total return of the endowment 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, but longer-term volatility will ultimately affect the amount allocated. This method of income allocation, along with the emphasis on diversification, tempers the effect of short-term market volatility.

*Continued*

# FREQUENTLY ASKED QUESTIONS, CONTINUED

## What is meant by a fund's *endowment book value*?

When a gift is made to establish an endowment, it is invested in the Foundation's endowment pool. The gift value, or the value of the proceeds if the gift is not cash, is invested in the endowment pool and becomes the *book value*, also called *principal*, of the endowment fund.

## Why do stock gifts appear as *other additions* and not *gift additions*?

When the Foundation receives gifts of stock, the securities are sold soon after the receipt of the shares. After the Foundation sells the stock, the net proceeds are deposited into the appropriate account within the fund. Due to market fluctuation and broker sale costs, the proceeds will differ (either higher or lower) from the initial gift value for which the donor is receipted.

## WHOM SHOULD I CONTACT IF I HAVE FURTHER QUESTIONS?

For general questions about your fund, contact Brian Hettiger at 608-308-5464 or [brian.hettiger@supportuw.org](mailto:brian.hettiger@supportuw.org).

For questions about investments, contact David Golden at 608-308-5212 or [david.golden@supportuw.org](mailto:david.golden@supportuw.org).





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