



2018 ENDOWMENT FINANCIAL REPORT

UNIVERSITY OF WISCONSIN FOUNDATION



PRESIDENT'S MESSAGE

GREETINGS,

At the Wisconsin Foundation and Alumni Association, we are driven by the conviction that the education and research being done at our public research university are vital to solving society's most pressing problems. We take great pride in working with alumni and donors to advance UW–Madison because we know that a thriving university benefits Wisconsin and the world.

Thanks to your generosity, we raised a total of \$400.3 million in new gifts and pledges and transferred more than \$279 million from WFAA to UW–Madison in 2018, including \$129.4 million from the endowment. The endowment market value was \$2.8 billion at year-end, despite a challenging fourth quarter. Thousands of alumni and friends have supported the All Ways Forward campaign to date, helping us pass the 90 percent mark toward our goal to raise \$3.2 billion by the end of 2020.

Endowed funds are among the UW's most important sources of philanthropic support. We are committed to maximizing the perpetual impact of your gifts through prudent investment management, and we continue to believe that our investment policies and strategy provide the framework to add value above benchmark returns in a cost-conscious manner.

We are deeply grateful for your continued support of the university. Your gifts are changing the lives of students, faculty, and countless people across the globe who benefit from the UW's excellence.
Thank you.

ON, WISCONSIN!

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 make up the third-largest revenue source for the university — 15 percent of the 2018–19 budget.



INVESTMENTS PERSPECTIVE

DEAR FRIENDS,

As 2018 unfolded, investors lost confidence in the positive global economic momentum and were reminded that volatility and market headwinds can quickly emerge. Market-influencing factors included rising trade tensions, the continuing impact of global populism, and a gradual rise in U.S. interest rates, each of which affected the markets. The backdrop was not all negative, as unemployment remained near a 50-year low, boosting growth in wages and overall consumer income. Inflation continued on a slow and steady path, and oil prices remained attractive. The endowment portfolio reacted to these broad challenges in the markets, but its long-term performance and positioning continues to reflect the Foundation's core investment goals, and we are optimistic looking ahead.

Given the negative fourth quarter, the endowment portfolio, which is focused on a globally diversified investment strategy, returned -3.65 percent for the year, which is ahead of WFAA's policy benchmark (-3.97 percent). The public-equity, real estate, and fixed-income portfolios all registered returns ahead of their respective asset-class benchmarks for the year. The private-equity portfolio, while registering an absolute positive return, earned a lower return compared to its asset-class benchmark. The severe market action in the fourth quarter significantly impacted the five-year return for investors. The total endowment portfolio returned 4.60 percent per year for the five-year period ending December 31, 2018, compared with the benchmark return of 4.66 percent, annualized.

As always, I am sincerely grateful for the investment you have made in the University of Wisconsin. Our team is focused on prudently managing the university's endowed funds so the desired positive impact will continue in perpetuity. Our work is guided by a sense of honor that generous, philanthropic donors such as you care deeply about UW-Madison.

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 also are 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 pool.

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 fund 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 2018 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 5- to 10-year period).

WHAT IS AN ENDOWED FUND?

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



ALL IN THE FAMILY

ENDOWED PROFESSORSHIPS EXTEND A CENTURY OF TIES BETWEEN THE THOMPSON FAMILY AND UW-MADISON.

Jim Thompson's connection to UW-Madison runs so deep it's nearly genetic. For four generations, the Thompson family has renewed its Badger ties with degree after degree. Fueled by gratitude and inspiration, Jim and the Thompson family have financially supported a variety of UW causes and endowed two faculty positions: the Howard and Judith Thompson Professorship in the Wisconsin School of Business and the Karen Thompson Medhi Professorship in the College of Engineering.

"My dad was a professor at the university," Jim says, "and I believe that faculty are the most important element to the success of the UW. When you have great faculty, great staff, you attract great students, do great research, and inspire great facilities."

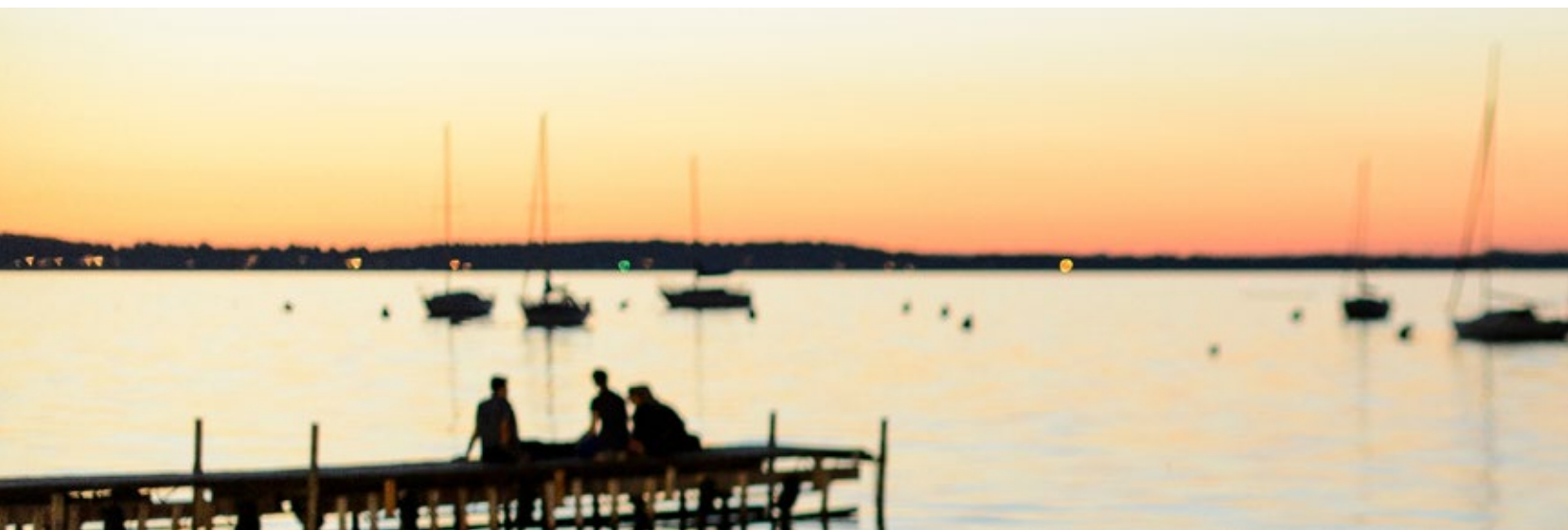
The business school professorship honors Howard's service to UW-Madison, where he was a longtime member of the faculty and chaired the finance department. It's held by Professor Oliver Levine, who teaches corporate finance. The professorship in engineering honors Jim's sister Karen, who passed away in 2014. She was one of the first women to earn a doctorate in industrial and systems engineering at the UW. Professor Wendy Crone is the inaugural Medhi Professor. She teaches engineering mechanics and engineering physics courses, and her current focus is on bioengineering.



Wendy Crone

*Karen Thompson Medhi Professor
College of Engineering*

"One of the phenomenal things about professorships is the flexibility they provide to deploy funding in ways that make the most sense to my research and to meet the gaps that other funding — NIH funding — doesn't provide. I've been able to use [Medhi Professorship] funds to support undergraduate researchers in my lab."





Top row, left to right: Jim, Ann, Karen T. Medhi, John
Bottom row, left to right: Linda, Howard, Judith, Daniel

The Thompson family's links to UW–Madison are nearing a century in length. They began when Jim's grandmother, Isabel Feistl '27, enrolled to study math. She met and married law student Laurence Gram LLB'28. Their daughter Judith '56 married her classmate (and high school sweetheart) Howard '56, MS'58, PhD'64. Howard and Judith saw all five of their children — and a growing collection of grandchildren — collect UW degrees:

Jim Thompson '85, MS'87, PhD'91
Linda Thompson Schultz MS'83

Karen Thompson Medhi PhD'87
Ann Thompson '94, MS'96
John Thompson '95

Daniel Thompson '17
Madeline Braun x'21

Jim's degrees are in electrical and computer engineering, and his education led to a long and successful career with computer and telecommunications technology company Qualcomm, where he is the chief technology officer. Along with his employer, Thompson has helped to support a variety of computer, engineering, and entrepreneurial programs at the UW. But the professorships are more personal — they'll keep the Thompson family's UW legacy growing in tandem with the strength of the university.

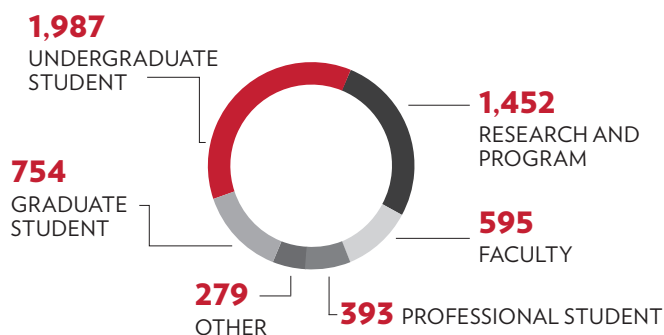


2018 ENDOWMENT SNAPSHOT

Faculty support is a major area of emphasis for All Ways Forward, the comprehensive campaign for UW–Madison. Currently the UW Foundation manages more than \$66.4 million in endowed faculty funds. The endowment generated more than \$29.6 million for faculty support in 2018.

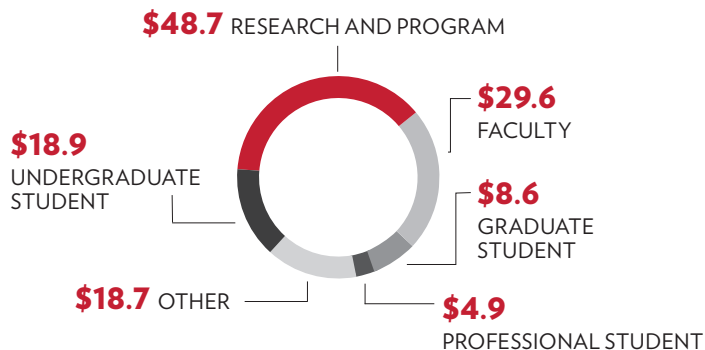
TOTAL NUMBER
OF ENDOWED FUNDS

5,460



TOTAL DOLLARS
TRANSFERRED TO
UW-MADISON FROM
THE ENDOWMENT IN 2018

\$129.4
MILLION



TOTAL NUMBER
OF ENDOWED FUNDS
ADDED IN 2018

245



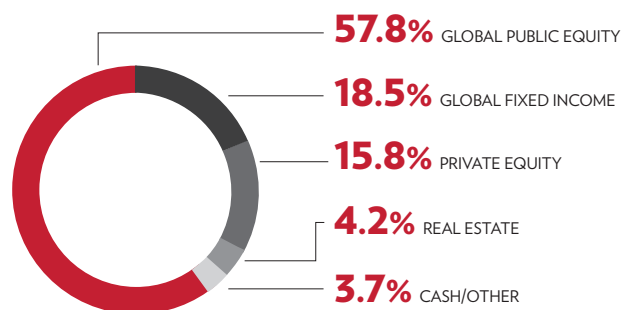
ASSET ALLOCATION AND INVESTMENT PERFORMANCE

INVESTMENT PERFORMANCE*

Annualized for periods ending December 31, 2018

1 YEAR	-3.7%
3 YEARS	6.2%
5 YEARS	4.6%
10 YEARS	7.3%
INCEPTION (6/30/84)	8.8%

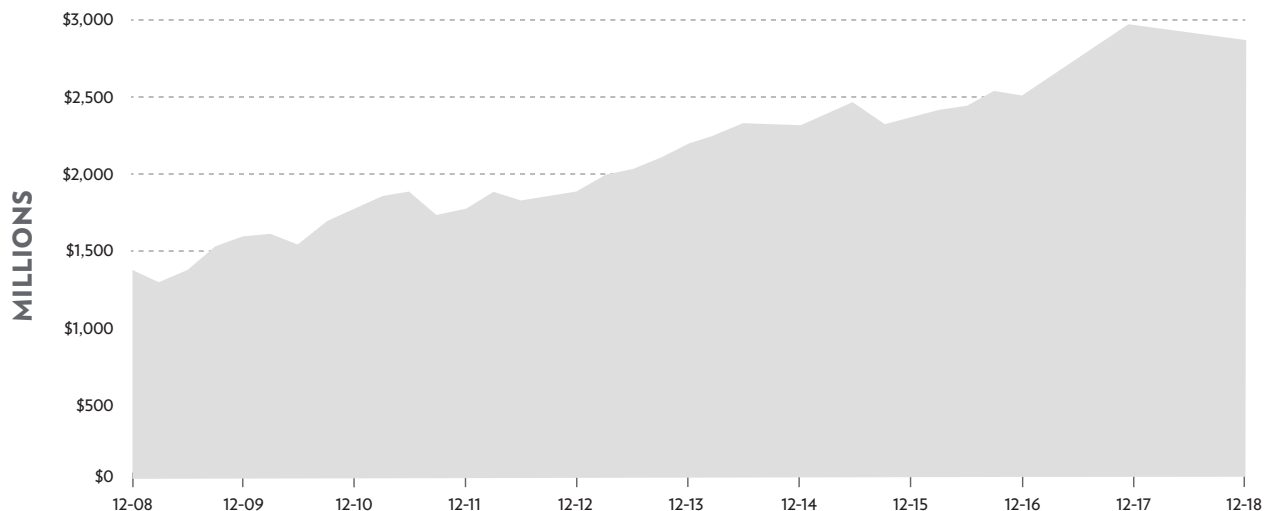
ASSET ALLOCATION AS OF DECEMBER 31, 2018



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

\$2,832,991,326 as of December 31, 2018



*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.

FREQUENTLY ASKED QUESTIONS, CONTINUED

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

When a gift is made to establish an endowment fund, 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. Because of 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.

For questions about investments, contact David Golden at 608-308-5212 or david.golden@supportuw.org.





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