

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 committed 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 much larger University of Wisconsin Foundation Endowment Fund.

In 2010, the UW Foundation marks its 65th birthday. It seems an appropriate time to reflect on the Foundation's proud history and unwavering purpose. We could not have compiled such a history or accomplished any of our objectives without you. This Personal Endowment Report not only provides information about the total endowment and your endowed fund(s), it also allows us to express our gratitude. Your endowment is an especially powerful vehicle for long-term investing to support people and programs at the University of Wisconsin-Madison.

Yes, we do have some endowed funds that were established almost 65 years ago. And, yes, proceeds from these funds continue to provide scholarships and fellowships as well as research, faculty and program support. In my two decades-plus at the UW Foundation, I have seen how the dependability of an endowment can motivate innovative thinking and produce amazing results. At the end of this report, you can read a moving story about a memorial endowment established in 1968 that has helped nearly 50 Law School students complete their educations. Most important, this fund will be helping students well into the future.

As I go about my duties as president, I am inspired by the ideal set forth in 1945 by the Foundation's first director, William J. Hagenah ('03 BL, '05 LLB Law): the hope "that the University will be permitted to continue as one of the leading universities of our country, and that the future sons and daughters of our state will be assured of educational opportunities at least equal to those of any other young people in the country." Your generosity and vision have made the UW-Madison one of the leading universities in the world. Today, our sons and daughters enjoy educational opportunities never imagined 65 years ago. Thanks to you and your endowment, their sons and daughters also will be able to participate in the Wisconsin experience and take their places as tomorrow's leaders.

It is my privilege to renew our pledge to accept your gifts gratefully, manage them responsibly and use them wisely.

Thank you.

ANDREW A. WILCOX
President
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 of the principal.

As the gifts grow in value on a total-return basis, they provide annual spendable income at the same time that the 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 last virtually forever.

Endowments are long-term accounts with a minimum balance requirement. The Foundation's endowment accounts are all pooled and invested as one portfolio.

Newly endowed funds or additions to existing funds are invested in the Foundation's Endowment Fund Pool. The 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 the units at the time of the investment. To preserve the endowment for perpetuity, only a portion of the pool's return is spent for the purpose designated by the donor.

For 2009, the spending rate was 4.75 percent of the pool's average market value over 12 quarters. Net returns in excess of the spending rate increase the market value of the Endowment Pool. The pool is invested over an infinite time horizon with the goal of maintaining the value in real terms, thus providing a steady flow of income.

Growth of the endowment principal comes from two areas: investment returns and additional gifts. For the endowment to exist in perpetuity, the investment return must outpace the two principal threats to growth: the

spending rate and inflation. To achieve this goal, 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, reviews the pool's investment performance, analyzes recommendations and proposals from professional investment managers and consultants, and determines the appropriate asset allocation formula. 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.

Investments in less-liquid private equity investments also are prudent to achieving further diversification benefits. Volatility and risk are expected within any one asset class; however, a well-diversified portfolio should offset those risks over a longer period of time.

We have witnessed markets move in unexpected directions during the past couple of years. Staff and the Investment Committee continue to engage in an ongoing process of reviewing its asset allocation targets, making desired changes and modeling the impact on expected long-term endowment performance. Staff has designed a portfolio committed to the Foundation's long-term objectives. While dramatic changes are unlikely to take effect, we remain committed to responsibly stewarding and honoring endowed gifts.

Asset allocations

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.

Beginning Market Value: The market value of your endowed gift as of December 31, 2008. The beginning market value does not include the Endowment Payout or the annual amount made available to be spent by the recipients of your gift, prior and up to December 31, 2008.

Ending Market Value: The market value of your endowed gift as of December 31, 2009. The ending market value does not include the Endowment Payout or the annual amount made available to be spent by the recipients of your gift, throughout the year of 2009.

Endowment Payout: The portion of the Endowment Pool's total return that is allocated to be spent for the fund's designated purpose. Currently, the formula to calculate this amount is 4.75 percent of the Endowment Pool's average market value over the last 12 quarters.

Book Value: The total of all gifts received since the inception of the fund; normally this amount cannot be spent unless specifically allowed by the donor in the memorandum of agreement establishing the fund. This amount will increase when gifts are added or when any of the spendable income is reinvested into the principal. This amount will decrease if spending from the principal is allowed and amounts spent exceed the appreciation of the fund.

It is important to remember when comparing these figures to other investment results (mutual fund returns, for example) that actual earnings (dividends and interest) are not reinvested into the Endowment Pool. They are used to supplement the quarterly income allocated to Endowment Fund participants.

PERFORMANCE

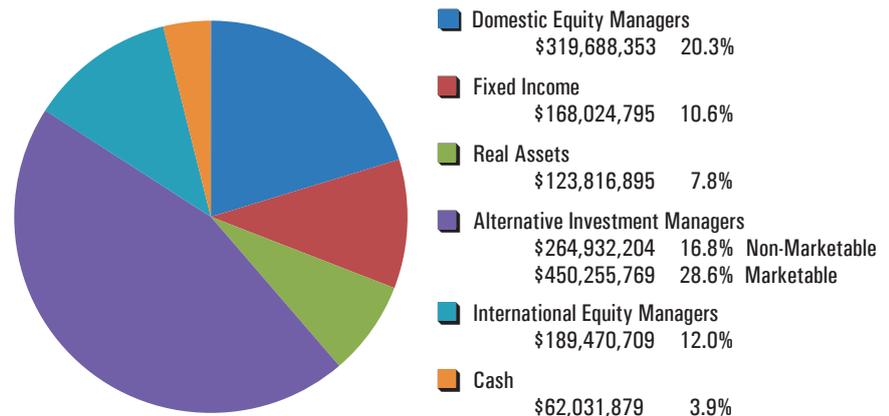
AVERAGE ANNUAL TOTAL RETURNS

| | |
|-------------|---------|
| 1 Year | = 11.2% |
| 3 Years | = -1.5% |
| 5 Years | = 4.0% |
| 10 Years | = 2.5% |
| Inception** | = 9.7% |

**Date of inception 1/1/84

ASSET ALLOCATION AS OF DECEMBER 31, 2009

TOTAL ENDOWMENT FUND ASSETS: \$1,578,220,604



Copies of the complete audit are available upon request. The UW Foundation complies with all applicable federal and state reporting requirements.

From the Baltics to Bascom— a journey, a dream, a legacy

1907. Russia on the eve of the Communist revolution. It was not an especially safe or hopeful time. From their village outside of Minsk, the Shapiro family began the long journey to America. Like many immigrants, the Shapiros—father, mother and four children, including infant Max—had simple dreams: the opportunity to work hard, eat regularly, worship freely and give back to the country that offered them a home.

The family arrived in Chicago when Max was still a tyke. Armed with an eighth-grade education, Max went to work as a Western Union bicycle messenger, but his passion for learning lasted a lifetime. “Neither of our parents finished high school,” said Max’s daughter, Donna Resek. “But we understood by how they lived and by the things they valued that education was important. They never missed a teacher conference.”

“There were always books in our home—history and biography. Dad was self-educated, a voracious reader and an excellent speaker,” added Ron Shapiro (’63 BS L&S), Max’s son. “He felt lucky to be an American and never missed a chance to vote.”

Max Shapiro lived to see his two children graduate from college, Donna from the University of Wisconsin-Milwaukee and Ron from the University of Wisconsin-Madison. Ron’s wife and high school sweetheart, Beth (’64 BS Social Work), is a Badger alumna as well. In 1967, the children of Max Shapiro as well as other family members recognized his pursuit of knowledge by endowing the Shapiro Memorial Scholarship in the Law School to help law students with financial need.

To date, awards from the fund have totaled five times the original endowment, providing financial assistance to nearly 50 students. Periodically the fund is allowed to grow so that subsequent awards make a meaningful difference for students facing three years of law school expenses. The Shapiro Memorial Scholarship has been a source of student support for more than 40 years. Thanks

to the power of an endowment, this support will continue for generations to come.

“While he was a very successful businessman, we know Dad aspired to be an attorney,” explained Shapiro. “He had a presence and the command of language that we believe would have made him a successful attorney had he been able to pursue his goals.”

“Of course, in his work he knew many lawyers,” continued Resek, “but he also thought very logically. He was an average guy who did more than his share and made the best of his life, but his career would have been very different had he been educated.”

Max Shapiro’s business career began at Chicago’s famous Goldblatt’s Department Store in the automotive and hardware department, where he eventually rose to become a buyer.

For 25 years, he gained experience and confidence until, in 1948, he and his brother, Norton, opened their first automotive supply store in Racine, Wisconsin. They were good businessmen who understood the American obsession with do-it-yourself car repair. A store in Waukesha was followed by a store in Milwaukee. Midwest Tire and Auto Stores eventually grew to 27 successful locations with Max and Norton Shapiro at the helm.

With great pride, Max Shapiro moved his family to their own home in Whitefish Bay, Wisconsin. All five of his grandchildren graduated from college, three from the UW-Madison, one from Purdue and one from UW-Milwaukee. Michael Shapiro, son of Ron and Beth, and Max’s grandson, received his law degree from the UW-Madison.

Today, tomorrow or decades from now, a student will walk up Bascom Hill to a Law School class, a moot court team meeting or a midnight study session. It’s a short journey compared to the miles from Minsk to Milwaukee. Thanks to the love of his family, Max Shapiro’s dream will be fulfilled with each student honored to receive his scholarship.

—Merry Anderson



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