

A REPORT ON
ENDOWMENTS
FROM THE
UNIVERSITY
OF WISCONSIN
FOUNDATION

ENDOWMENT REPORT



To our donors

For all you have done, thank you.

You are a crucial part of the future for the University of Wisconsin-Madison. In my year and a half as president and CEO of the UW Foundation, it has become even more clear how elemental private support will be in sustaining the University as a world leader in higher education in the coming years.

Endowed funds like yours bear fruit year after year and will impact the lives of students and the research and programs generated by the University far into the future. In 2011, the combined endowments held at the UW Foundation produced more than \$82 million in income to be spent in support of the University. We provide this 2011 report on your endowed fund(s) with gratitude for the investment you have made.

The role of great public research universities in the world has never been more important. In addition to generating life-changing research, the UW-Madison will educate a significant number of our future leaders in science, business, government, education, journalism and more.

Today, the University faces one of its most difficult financial times in history. Its challenges are not unique – public universities around the country are working to adapt to new fiscal realities that include less public funding and more reliance on tuition and private support.

UW-Madison is well positioned to deal with this changing economic landscape due in large part to the generosity of you and others who already support the University and the potential to engage a larger number of our alumni and friends in the University's mission. To meet these challenges, University leadership, the Wisconsin Alumni Association and the UW Foundation are committed to working together more closely in advancing the mission of this great institution.

The following pages describe the UW Foundation's investment strategy and performance. You also will find a snapshot of how your specific fund(s) are performing.

As always, we remain committed to

- Earning your confidence and trust by reporting regularly on the impact of your gifts,
- Managing risk and opportunities by maintaining a diversified investment portfolio,
- Guarding the resources of the UW Foundation to ensure the long-term financial health of the University through a predictable funding stream, and
- Attracting new partners to support the University, bolstering and building upon our past investments.

I invite your comments, questions and suggestions.

Once again, thank you. 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. 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 2011 was calculated by taking 4.5 percent of the pool's average market value over the most recent 16 quarters. 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 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 has been shown to minimize investment risk and to enhance investment performance.

On January 1, 2011, the Foundation adopted a new investment policy index, which was the culmination of efforts by both internal investment staff and the Investment Committee. 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.

Staff and the Investment Committee remain focused on responsibly stewarding and investing the philanthropic gifts received. In addition to the ongoing commitment to monitoring the asset allocation targets and annually reviewing the expected long-term return expectation, the Foundation is vigilant about lowering costs related to the 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.

* The return objective was revised to 7.75 percent in February 2012 by the Board of Directors.

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 quarterly to ensure the portfolio’s investment and diversification objectives are met.

Investment Performance

Annualized for Periods Ending 12/31/2011

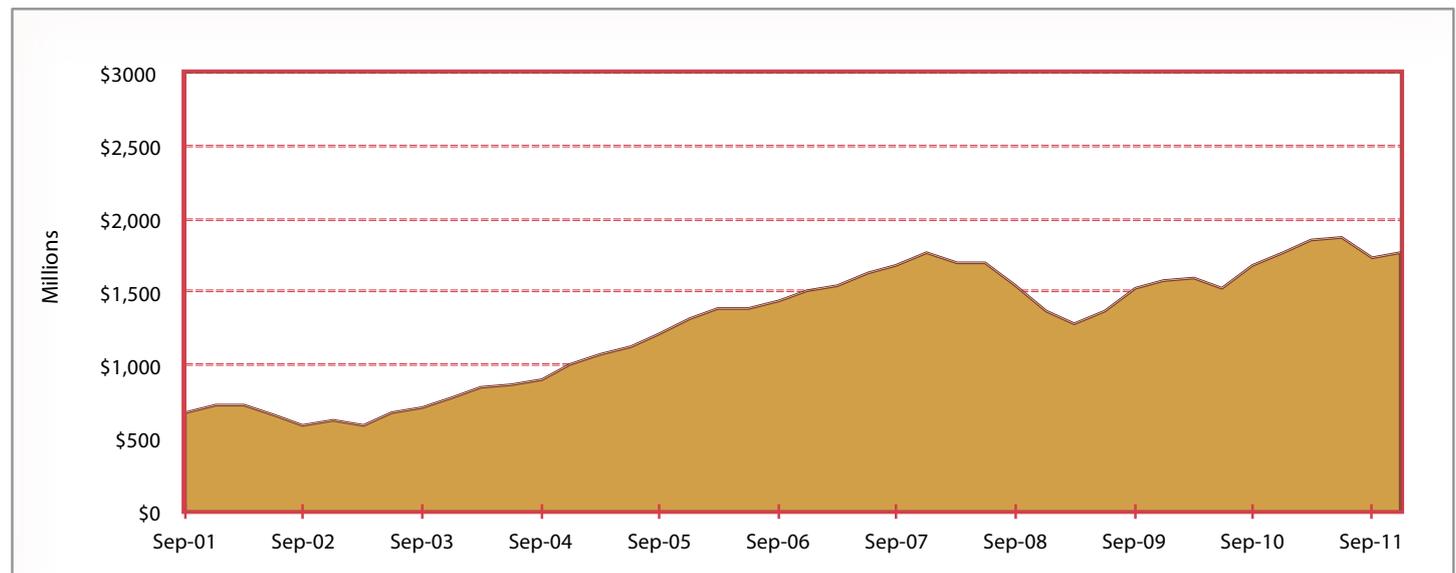
	1 Year	3 Years	5 Years	10 Years	Incep. 1/1/84
Net Return	0.02%	7.5%	1.31%	4.84%	9.24%

Asset Allocation as of December 31, 2011



Growth of Endowment

Endowment Value as of December 31, 2011 \$1,768,468,780



* It is important to point out that 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.

Scholarship fund spans the generations

This gift has lasted longer than cake and flowers.

When Kurt F. Wendt retired as dean of the University of Wisconsin-Madison College of Engineering in 1971, colleagues, friends and family saluted the occasion by contributing to an endowed scholarship fund. Forty-one years later, the legacy of those pooled gifts can be seen in the more than 70 students who have benefitted from the Kurt F. Wendt Scholarship Award.

In addition to his 44 years of teaching, research and service in the College, Wendt was chairman of the Campus Planning Committee for many years. "He oversaw a huge building expansion," said Richard Wendt ('54 BBA Bus), one of the late Kurt and Adelaide Wendt's three sons. "When he retired, it was said that he presided over the creation of more than 50 percent of the square footage on campus at the time."

Through the endowment he helped create and support, Kurt Wendt assured that tradition of building would continue well after his death in 1982. The Wendt Scholarship Award endowment has grown steadily through a stream of relatively modest gifts and earnings accumulated through the Pooled Endowment Fund.

"I've given to it pretty much every year, for about 40 years now," said Richard Wendt, who lives in Columbus, Ohio, and is retired from a career at Nationwide Insurance. "They've awarded a couple of scholarships a year for some time now. It's a great legacy for him, and it's wonderful for the students."

One of the current Wendt Scholarship recipients is Aaron Swander, a senior from Cloquet, Minnesota.

He is majoring in engineering physics and physics, and he is part of a research group focused on next-generation quantum computing.

"This scholarship on one level helps me afford college," he said. "In a more meaningful way, it says, 'You're doing some great work; keep it up.' It's really nice for students who put in the time and effort to know that they're doing the right thing."

Kurt Wendt earned his degree from the College in 1927. He spent his entire career on campus, starting as an instructor and working his way up the ladder to become dean in 1953. He forged an international reputation as an expert in materials testing, particularly the long-term properties of concrete. He and Adelaide also modeled the power of giving, if in a quiet way.

"They taught us by example," Richard Wendt said. "They were active church members, and they supported various philanthropic causes. It's just what people did, as you were able. My mom had been a Methodist minister's daughter, so she understood the idea of giving, and so did Dad. They ingrained that in me and both of my brothers."

Thanks to the Wendt Scholarship Endowment, those lessons will benefit students for generations to come.

"The fact that Professor Wendt's acts were focused on helping future generations of students showed a commitment beyond the present day," Swander said. "He had a vision to support students who could one day help society."

Investments perspective

For the 2011 calendar year, the Endowment portfolio's net return was 0.02 percent, comfortably outpacing the UW Foundation Policy Benchmark return of -1.8 percent. There was tremendous volatility in the financial markets, and this was especially true during the second half of 2011. Particularly challenging were the international equity markets that are a component of the Global Public Equity portfolio. Although performance for public equities was negative for the year, the portfolio's overweight to domestic equities led to significant attribution for the portfolio as a whole. Fortunately, both the Private Equity and Real Estate portfolios produced positive returns, thus contributing to an essentially flat year from a performance perspective.

The Foundation's Investments operation is committed to continually analyzing the entire investments function with the goal of improving aspects where appropriate. Working with the Investment Committee, a revised Investment Policy Statement was written and recently adopted. In fact, a new investment policy index was implemented effective January 1, 2011, after staff and the Investment Committee identified an asset allocation model given the expected long-term performance of the world's global capital markets. This changed the model by which staff invests the Endowment portfolio, and those who have received an Endowment Report or read other Foundation materials in the past will likely notice the investment information is presented in a different manner.

Staff continues to seek low-cost investment opportunities in efficient markets such as those within the Global Public Equity portfolio while devoting attention to quality non-marketable alternative investments that make up the Private Equity and Real Estate portfolios. The Endowment's Global Fixed Income portfolio provides a measure of protection, while the Global Macro Overlay portfolio contains investments meant to contribute to overall performance while generally offering non-correlated returns.

Please allow me to express the gratitude of the entire UW Foundation for the difference your endowed funds make to the students, faculty and the research programs on the University of Wisconsin campus. Thank you for the philanthropic gifts and financial commitment you have invested in the University.

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

Frequently Asked Questions

What is the endowment fund payout? How much of the payout is available to be spent on the fund's designated purpose?

The endowment fund payout represents the portion of the endowment pool's total return that is allocated to the Income Available to Spend portion of the fund. All of the amounts allocated to this portion of the fund, plus any unspent accumulated payout from prior allocations, are available to be spent in support of the fund's designated purpose(s).

How are the endowment fund payout and the market value of the endowment fund related and how does market volatility affect them?

Endowment funds are invested on a total return basis; this means they are invested to provide both spendable income and long-term appreciation of the principal (although depreciation is possible). The endowment fund payout is a portion of the total return of the pool. Thus, when the payout is calculated quarterly and distributed to the Income Available to Spend portion of each fund, this amount is then deducted from the total return of the 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 also is affected. Short-term market volatility has a minimal effect on the endowment fund payout, while longer term market volatility will ultimately affect the amount allocated. The method used to calculate the endowment payout is based on a 16-quarter average market value in order to smooth the income stream to the funds. This method of income allocation, along with our emphasis on diversification, tempers the effect of short-term market volatility and levels the effect of long-term volatility.

What is the book value of an endowment fund?

When a gift is made to establish an endowment at the University of Wisconsin Foundation, it is invested in the Foundation's endowment pool. The gift value, or value of the proceeds if the gift is non-cash, is invested in the endowment pool and becomes the book value of the endowment fund. The book value can increase with additions to the fund or decrease if the fund allows principal to be spent.

(over)

Why would the book value be different from the original gift value?

There can be many reasons why a difference exists between the gift value and the book value of the endowment fund. The primary reasons may include:

- A gift earns income before it is invested in the endowment pool.
This income is typically invested with the original gift into the endowment pool, thus increasing the book value of the fund over the original gift value.
- Income is reinvested into the principal of the fund.
Some donors desire to increase the value of their endowment fund through the reinvestment of the endowment payout amount. When doing this, less income, or in some cases, no income, is available for immediate spending. Ultimately, the reinvestment of income should produce growth to benefit future recipients.
- Current awards are made from the original gift.
In some cases, a donor desires an immediate award be made in support of the fund's purpose. If the donor authorizes this expenditure, this reduces the amount of the investment into the endowment pool and thus the book value.
- Proceeds from a non-cash gift may differ from the donor's gift value.
When the Foundation receives a non-cash gift, our policy is to try to receive a value, upon the sale of the item, as close to the gift value as possible. The Foundation does incur expenses related to the sale of non-cash items. These expenses are deducted from the proceeds of the item. Thus, the net proceeds amount may be higher or lower than the gift value. These net proceeds are invested into the endowment fund. Therefore, the book value is different from the gift value.

Who should I contact if I have further questions?

- For questions about UW Foundation investment policies, contact David Golden at 608-263-0376 or david.golden@supportuw.org.
- For questions about UW Foundation accounting activity, contact Jennifer DeKrey at 608-263-0374 or jennifer.dekrey@supportuw.org.
- For general questions about your fund, contact the Foundation staff member listed on the business card included with your 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.