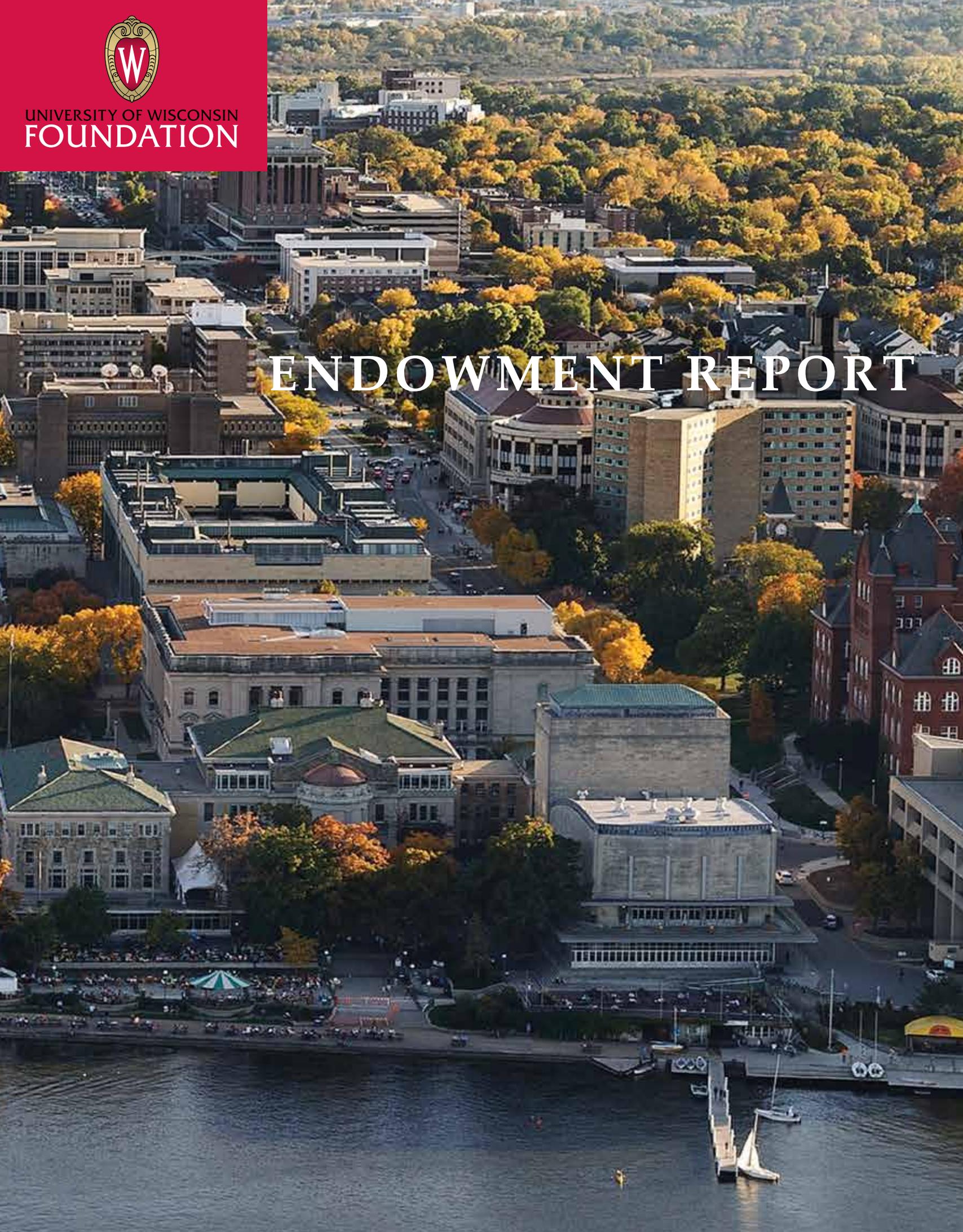




UNIVERSITY OF WISCONSIN
FOUNDATION

ENDOWMENT REPORT



To our donors

Private support continues to play an increasingly important role in maintaining the University of Wisconsin-Madison as one of the world's top institutions of higher learning. 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 am pleased to enclose the 2012 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. At the same time, we are adapting to new fiscal realities that rely less on public funding and more on private support. This makes your endowment even more important to the university and our responsibility to keep you informed more critical.

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 ensure the long-term financial health of the university by providing a predictable funding stream.
- Continue to attract new partners for our effort, ensuring greater and enduring success of our past investments.

I invite your comments, questions and suggestions.

Thank you and 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 2012 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 7.75 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 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.

Asset Allocation and Investment Performance

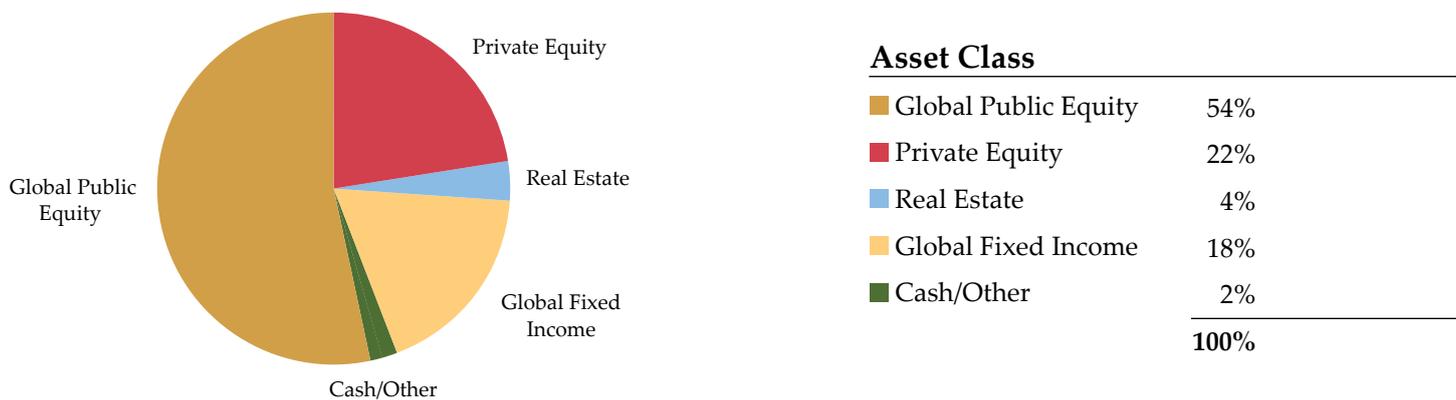
The University of Wisconsin Foundation's Endowment Portfolio's current asset allocation is shown in the graph and data below. The asset allocation strategy has been established by the Foundation's Board of Directors and is reviewed at least quarterly to ensure the portfolio's investment and diversification objectives are met.

Investment Performance

Annualized for Periods Ending 12/31/2012

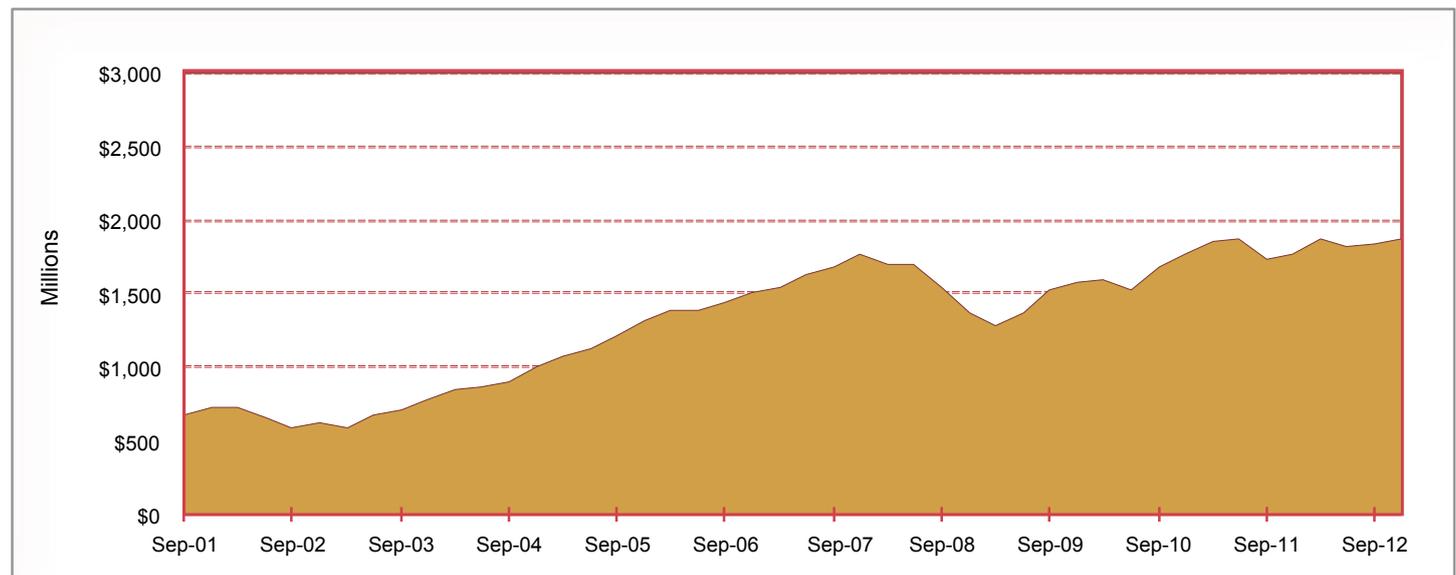
	1 Year	3 Years	5 Years	10 Years	Incep. 6/30/84
Net Return	11.9%	7.7%	1.2%	7.8%	9.3%

Asset Allocation as of December 31, 2012



Growth of Endowment

Endowment Value as of December 31, 2012 \$1,870,572,245



* 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.

Desire to help fuels stem cell research

For Professor Laura Kiessling, carbohydrates have nothing to do with bread or breakfast cereal. The Laurens Anderson Distinguished Professor of Biochemistry studies the biological roles of glycans, or carbohydrates attached to fats and proteins.

All cells on earth decorate themselves with a thick, complex coat of these carbohydrate structures, which play an important role in cell development, immune system function and disease, Kiessling said. In manipulating the coats, Kiessling discovered a better way to grow and improve the quality of stem cells, opening new doors for treating tuberculosis, which affects a third of the world's population. Another line of research could lead to new drug therapies for diseases such as leprosy.

James Chieh-Hsia Mao ('58 MA ALS, '64 PhD ALS), who lives outside Philadelphia, endowed the professorship in honor of his mentor because he is grateful for the education he received at the University of Wisconsin-Madison. He also believes science will improve lives. "I think I'm very lucky," James Mao said. "As far as I have enough money, why don't I give some to help people?"

The professorship, named after the man who introduced her to carbohydrates, gives Kiessling flexibility as state and federal dollars shrink. "These sorts of contributions now can have so much more effect than they would have even 10 years ago," she said.

The professorship funds allow her to hire a post doc for research and administrative assistance for a chemistry-biology training grant that supports students across campus. Her cutting-edge research also spills over into her classes, where students learn to use the tools of biology and chemistry.

Mao's desire to help also lives on in the students, including Caroline Davis (2007 PhD ALS), who received the Mao Wisconsin Distinguished Graduate Fellowships from another fund he endowed. The fellowship allowed Davis to attend a major research conference, where she was inspired to explore new areas of science and network with other researchers.

These are the fruits of a life that began in fear after Mao Zedong won the Chinese Civil War. The founding of the People's Republic of China led to a systematic, often violent purging of capitalism, culture and tradition. James Mao, whose family worked for the Nationalist Party of China, fled with his grandfather to Taiwan. He came to America by boat, arriving in Chicago with \$25 and knowing little English. He worked in a restaurant until he started his master's program in agronomy at the UW-Madison. Anderson accepted him into a doctoral biochemistry program to study plant chemistry, and Mao spent his career at Abbott Laboratories in Illinois. "I was very lucky," he said, "first of all coming to Madison; second of all going to Abbott Laboratories."



Professor Laura Kiessling, left, and alumna Caroline Davis are linked by gifts from James Mao. Kiessling, who investigates carbohydrates to find new ways to treat diseases, holds the Mao-funded Laurens Anderson Professorship, and Davis, who works at Promega Corporation in Madison, received the Mao Distinguished Graduate Fellowship.

Investments perspective

There were certainly a number of headlines in 2012 that might have foretold of a disappointing economic market environment for the year. Stories focusing on the relatively weak U.S. economic recovery dovetailed with near constant reminders of a persistently high domestic unemployment rate. These headlines ran parallel to the much chronicled year-long struggle of the U.S. Congress to address the fiscal cliff situation and led many to suggest a challenging year for the financial markets was possible. The news from around the world wasn't much better as the ongoing European debt crisis, along with its resulting political instability, did not provide much confidence in the international markets. In light of these challenges, however, the equity markets were buoyed, in part, by policies from central banks around the globe meant to stimulate the world's economies. The U.S. Federal Reserve, the European Central Bank and the Bank of England all continued to engage in aggressive policy interventions in the hopes of fostering economic growth.

Against this backdrop, the Endowment portfolio returned 11.9 percent for the year. This return was largely attributed to the portfolio's overall asset allocation that is designed around a policy mix of 75 percent equities and 25 percent of fixed income. In particular, the Global Public Equity and Private Equity portfolios both experienced double digit returns. Together, these two portfolios made up almost three-quarters of the Endowment portfolio at year-end. In addition, the Global Fixed Income portfolio performed strongly as well relative to its benchmark and historical returns. Whether viewed from an absolute or from a historical perspective, this overall performance was indeed welcomed. As always, the Foundation concentrates on the long-term and since its inception in June 1984, the Endowment portfolio's annualized net return was 9.3 percent at year-end.

During the year, the Investments Team completed its transition of the Endowment portfolio to more accurately reflect the investment policy that was implemented on January 1, 2011. This policy represents how the Foundation invests its assets across the global capital markets with a focus on both expected return and an acceptable risk level. Among the specific steps that were taken was a reduction in the overall number of hedge funds in the portfolio as well as a continued commitment to seek broad exposure to the global equity markets through low-cost investment vehicles while simultaneously seeking active managers capable of outperforming as well. In late 2012, the Foundation's Board of Directors formally approved a change in the long-term expected rate of return from 7.75 percent to 7.1 percent. While the methodology used to establish the long-term return expectation is far from an exact science, the Investment Committee, at least annually, conducts a process utilizing a historic performance review, an investment management survey focusing on expectations and forecasts along with other criteria to arrive at its consensus.

Let me close by again expressing my gratitude for the gifts that make such a difference to the University of Wisconsin. We face enormous challenges as we look to the future of our university. Much is unknown. One thing we know for sure is that private support is a critically important part of the equation leading to excellence. Thank you for your help in creating a brighter future for our 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 Geoffrey M. McCloskey, CPA, at 608-890-2603 or geoff.mccloskey@supportuw.org.
- For general questions about your fund, contact the Foundation staff member listed on the business card included with your report.

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

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

*Cover photo by Jeff Miller, UW Communications, University of Wisconsin-Madison
Photo of Kiessling and Davis by Steve Milanowski*