

How Endowments Work at Penn State

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Future

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What is an Endowment?

Endowments are gifts which are invested to provide stable, sustained revenue to support their intended purpose in perpetuity. Although distinct in purpose or restriction, individual endowments are comingled and invested together in Penn State's Long-Term Investment Pool (LTIP).

Parts of an Endowed Account

1. Endowment Principal Account
2. Endowment Spending Account

Endowment Process

Functions

Gift Recording & Acknowledgement

- Individual donor endowment created
- Gift assigned to endowments
- Unitized before participating in LTIP

- Gift pooled & comingled
- Invested according to Investment Policy



Gift Receipt



Endowment
Created



Long-Term
Investment Pool
(LTIP)

Units

Donor Relations

Corporate Controller

Office of Investment
Management

Functions

Units

Spending Rate
Established

Long-Term
Investment Pool
(LTIP)

Office of Investment
Management



Spending allocated
to each endowment and
funds made available

Endowment
Spending

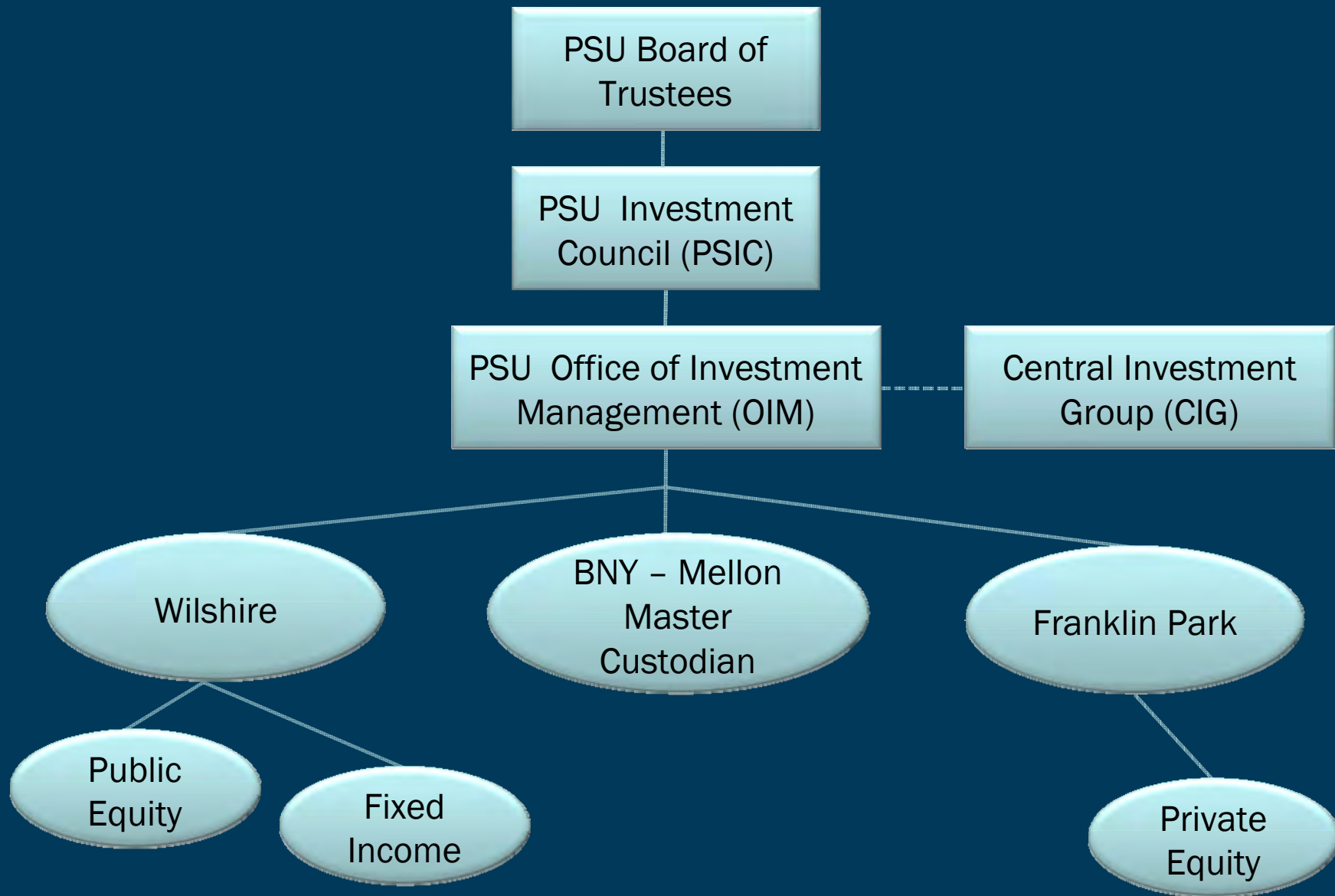
Corporate Controller



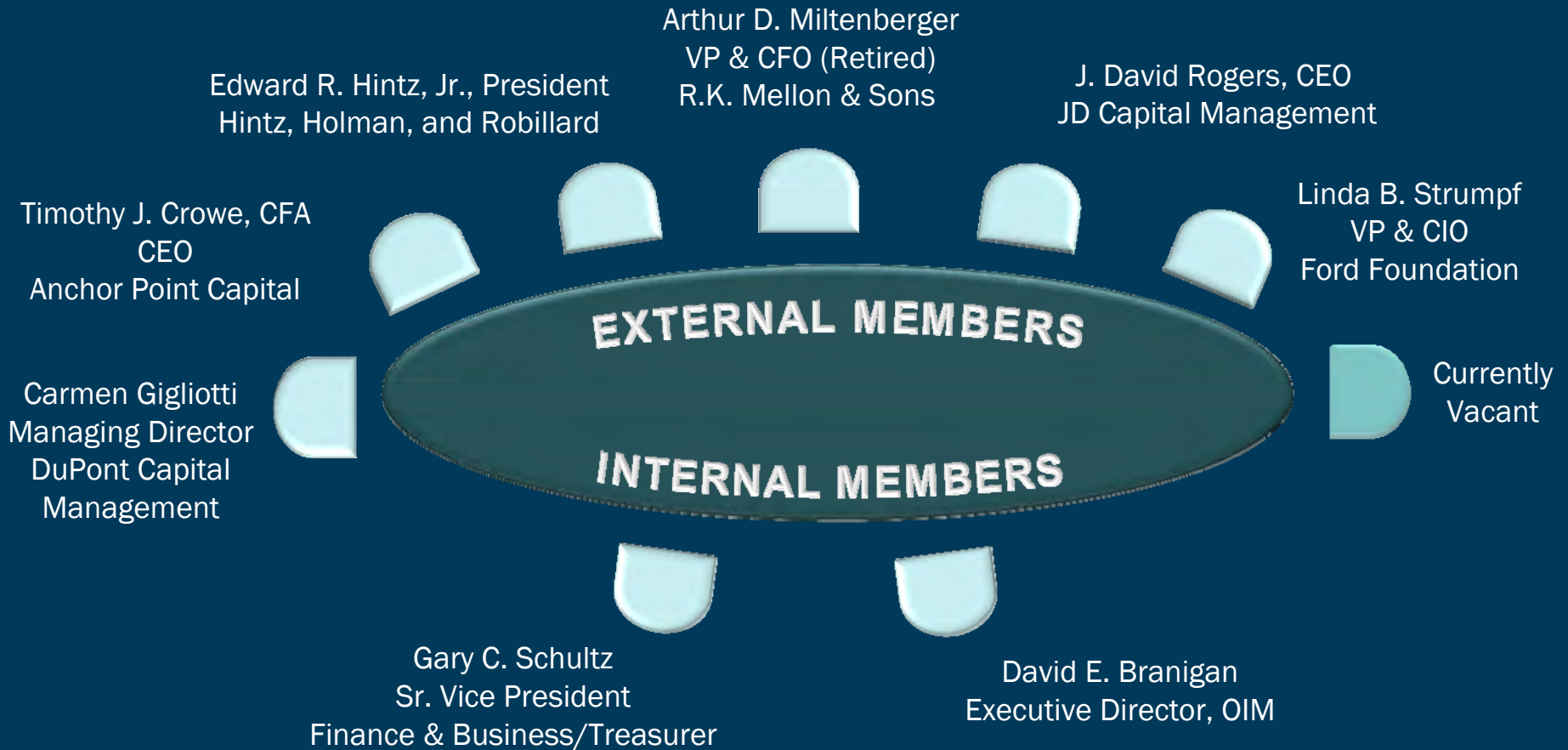
Scholarships
Faculty Support
Infrastructure

Funds Disbursed

Administrative Units



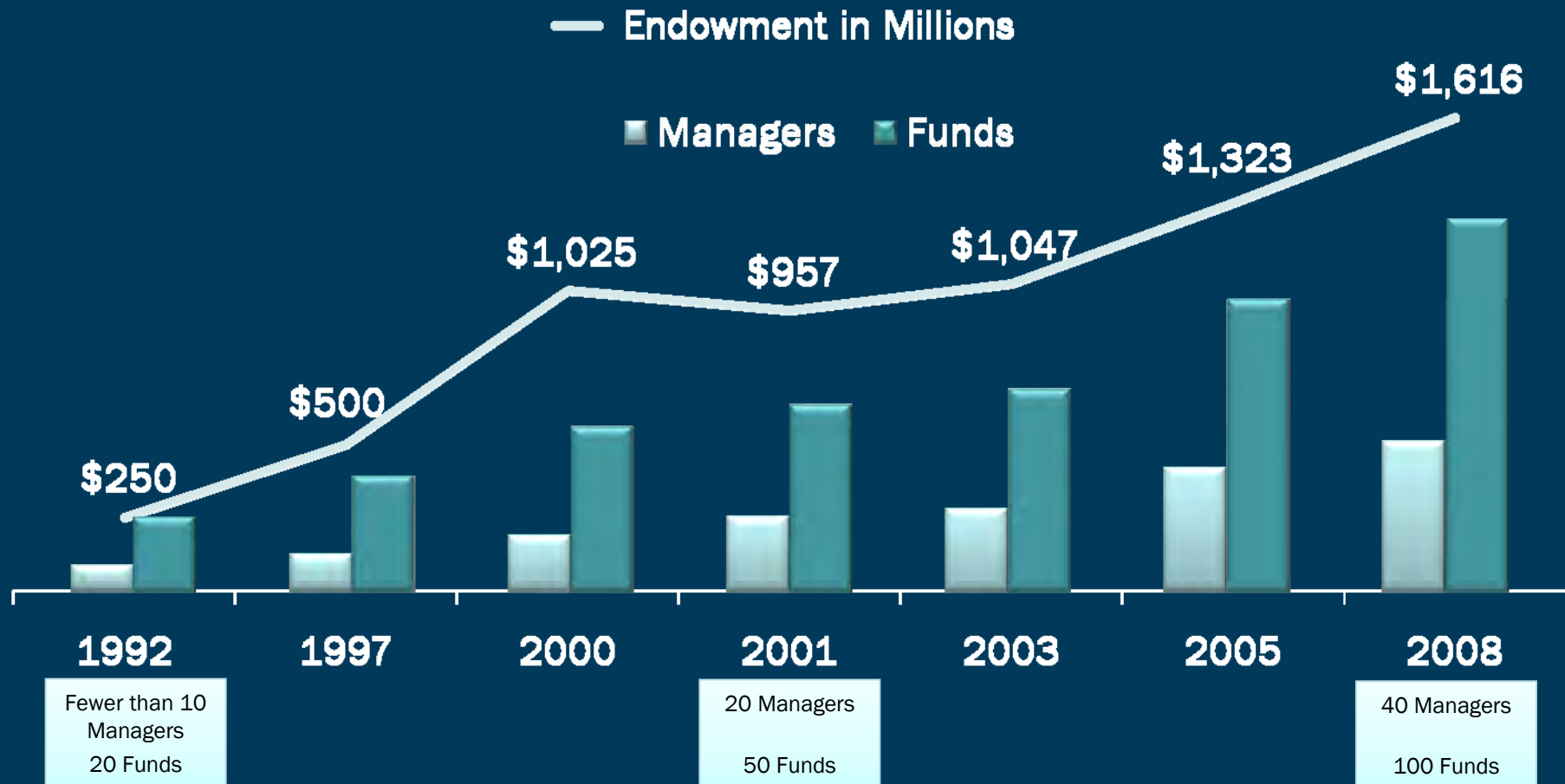
Penn State's Investment Council: 7 - 9 Members



Role and Responsibilities of the Penn State Investment Council

- Establishing investment objectives, appropriate risk levels, and policies.
- Making asset allocation decisions, including types of assets, target ranges for asset classes, and approving new asset classes.
- Approving the selection of new external investment managers.
- Establishing and monitoring endowment spending policies in consultation with the Office of Investment Management.
- Evaluating investment performance of the pooled endowment over the long term.

Investment Office Progression 1992 (Endowment at \$250M) to Present



Endowment Objectives

- Preserve and grow the real (inflation adjusted) purchasing power of the assets through a prudent long term strategy.
- Attain a real total return (net of management fees) that at least equals a rate of 5.25% over the long term.

Endowment Spending Guidelines

“An additional objective is to provide a relatively predictable, stable, and constant (in real terms) stream of revenues in line with endowment spending needs.”

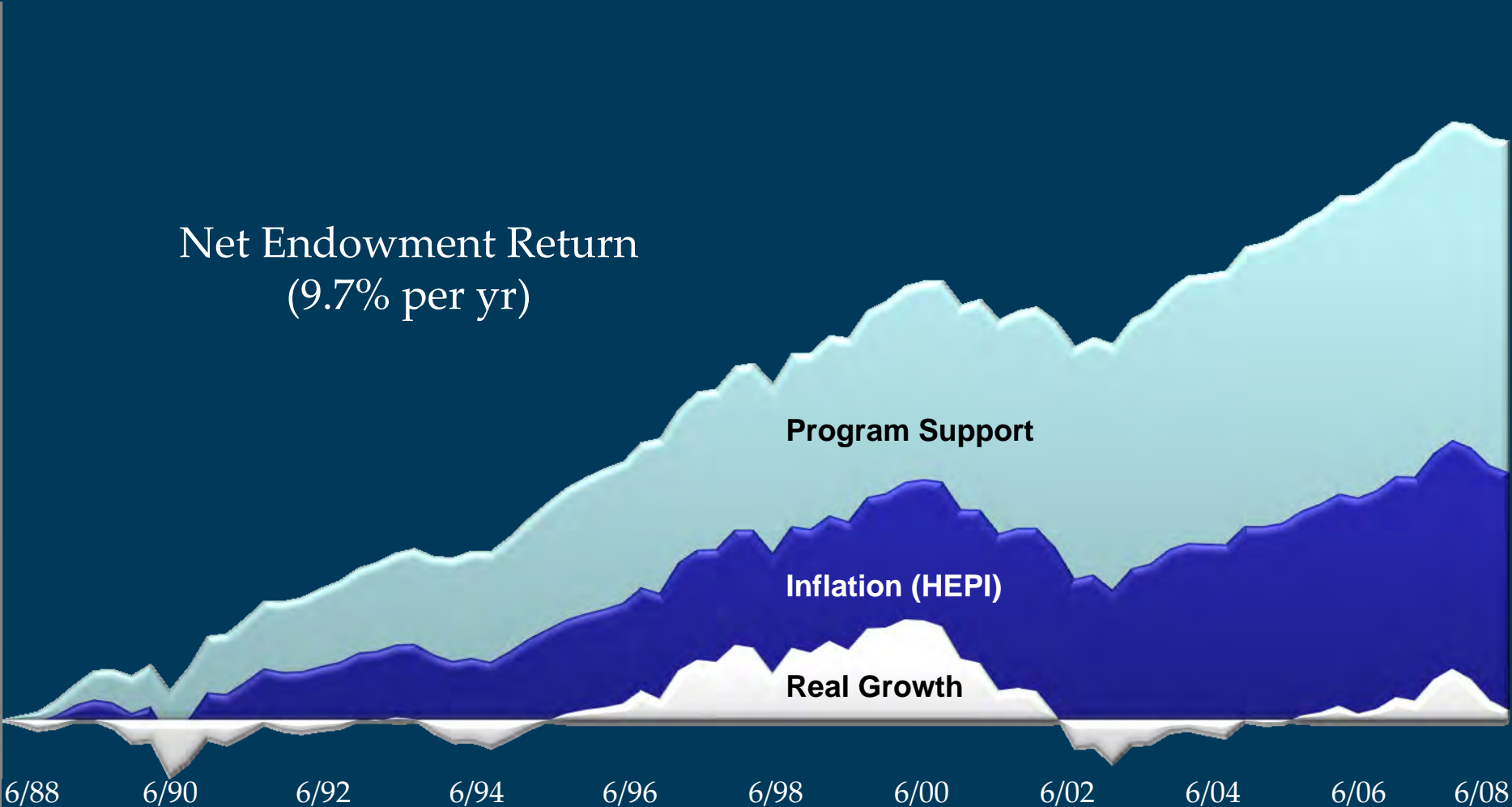
Penn State Investment Council

Investment Policies, Objectives, and Guidelines

Spending

- Approximately 4.8% of a five-year rolling average of beginning market value.
- Based on assumed 9% gross return, $\frac{1}{2}$ allocated for spending and the remainder retained for inflation protection and administrative expenses.
- Through gradual reductions spending will be reduced to 4.5% of a five-year rolling average.

Endowment Purchasing Power Cumulative Returns Since June 1988



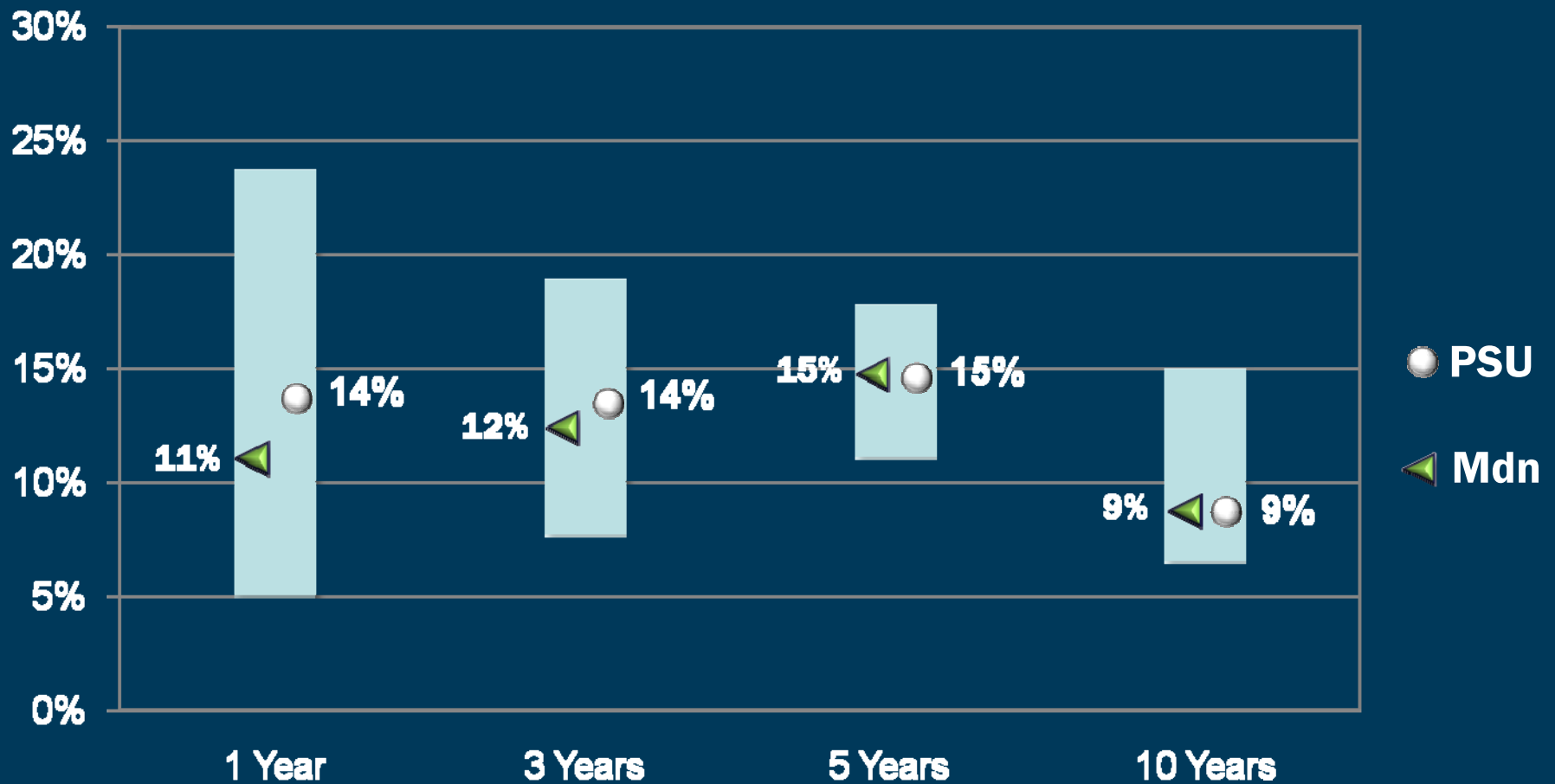
June 1988 = Baseline 100

Asset Mix vs Long Term Goal



PSU Endowment vs Peer Benchmark

Annualized Net Returns through December 31, 2007



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Peer Benchmark Group

Big Ten

- Illinois
- Indiana
- Iowa
- Michigan
- Michigan State
- Minnesota
- Northwestern
- Ohio State
- Purdue
- Wisconsin

Other Public Schools

- Delaware
- Maryland
- North Carolina
- Pittsburgh
- Rutgers
- Virginia
- Virginia Tech
- West Virginia

Endowment Per Student

Institution	Endowment Size (In 1,000's)	Total Student Population	Endowment per Student
U of Minnesota	\$2,804,511	114,554	\$24,482
Purdue	\$1,786,578	56,210	\$31,784
Ohio State	\$2,338,112	59,091	\$39,568
PSU	\$1,590,000	70,295	\$22,619
Princeton	\$15,787,201	7,085	\$2,228,257
Yale	\$22,530,194	11,358	\$1,983,641
Harvard	\$34,634,911	19,514	\$1,774,875

Source: NACUBO 2007 Survey

When Does an Endowed Account Become Active?

Guidelines must be signed AND the book value of the endowment principal must reach the minimum endowment level before the account is activated and made available for spending.

- Interest income will revert to the principal until the account is activated.
- If a commitment is being pledged over a period of time, the account may become active prior to the pledge being fulfilled. This does not negate the pledge commitment.

EXCEPTION: Trustee Matching Scholarships are activated immediately, and the trustee match and any income allocation are immediately available for awarding.

Basic Stewardship: What to Expect

- Copy of executed guidelines, endowment certificate, and letter from President
- Receipt and acknowledgement letter
- Endowment Report publication and personal Financial Report for each fiscal year
- Communication from beneficiaries of their philanthropy
- Opportunities to interact with beneficiaries
- Membership in University recognition societies*

* minimum requirements must be met for membership

How YOU Can Be Involved

- Phone or send thank-you notes acknowledging recent gifts in coordination with development staff.
- Invite or encourage donors to attend a University event/function.
- Host a donor reception or dinner.
- Report details or donor contact to development staff.

Contacts

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