2007 endowment report
UNIVERSITY OF PUGET SOUND
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For More Information

If you have questions or comments about University of Puget Sound’s endowment funds or would like to receive information about how you can support the University of Puget Sound, please contact:

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Puget Sound's endowment was created through the generosity of donors who requested that their gifts be invested in perpetuity to provide resources to support the university’s mission. The purpose of the endowment is to provide continuing financial support for the university’s annual operations. Over time the university’s goal is to grow the endowment through careful investment and through the addition of new gifts, while providing steadily growing support to university programs across generations.

During the 10 years ending June 30, 2007, distributions from Puget Sound’s endowment totaled $86 million in support of student financial aid, professorships, teaching and academic support, research, campus facilities, and other purposes. As of that same date, the University of Puget Sound endowment consisted of 493 distinct funds totaling $259.3 million in assets. This figure represented an increase of 77 percent compared with the endowment’s 1998 value of $146.6 million. The National Association of College and University Business Officers (NACUBO) Endowment Study\(^2\) ranked Puget Sound’s endowment 220, in terms of size, out of the 765 colleges and universities participating in the study.

Nearly all endowment funds are a part of the pooled endowment, thereby achieving greater diversification and lower costs. This report addresses the results achieved by pooled endowment assets, which comprise $253.1 million of the total $259.3 million endowment assets.

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1 All figures are as of June 30, 2007, unless otherwise noted.

2 References to the NACUBO Endowment Study are for the year ended June 30, 2006, the most recent survey results available.
Puget Sound recognizes that support for current operations must be consistent with the long-term growth of the endowment. To that end the specific objective of the investment policy is to attain, through appreciation and income, a long-term annualized total return (net of fees and expenses) of at least 5 percent plus the rate of inflation. The university’s spending policy aims to balance the need for consistent current operating support with the need to preserve the long-term purchasing power of the endowment. To meet the goal of intergenerational support, the university must strike a balance between distribution and reinvestment of earnings. As seen in the graphs below, both the market value and the spending levels of the endowment fund have kept pace with inflation, as measured by the Consumer Price Index.

Excessively high spending rates deteriorate long-term spending power, while reinvesting too large a portion of total return may cause significant disruptions in the programs donors have funded. Puget Sound employs a moving average asset base which moderates the impact of market fluctuations on annual spending.
In fiscal year 2006–07, the university distributed 5 percent of the trailing 36-month average market value, a spending rate lower than the 6 percent rate of 10 years ago. Reducing the spending rate has increased the likelihood that the endowment will continue to deliver the same or higher spending support for future generations.
ASSET ALLOCATION

The target asset allocation for the endowment is designed to deliver the long-term total return required to grow the endowment while minimizing changes in asset values that may disrupt funding to programs. At the end of fiscal year 2006–07, asset allocations for the endowment fund compared to current target allocations were:

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>JUNE 30, 2007</th>
<th>CURRENT TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity—Large Cap</td>
<td>23.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Domestic Equity—Small Cap</td>
<td>11.9%</td>
<td>12.0%</td>
</tr>
<tr>
<td>International Equity</td>
<td>18.4%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18.3%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>14.4%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>2.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>5.9%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Private Real Estate</td>
<td>4.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

POOLED ENDOWMENT ASSET ALLOCATION AT JUNE 30, 2007
Puget Sound’s investment policies recognize the importance of using a long-term time horizon when measuring performance. In order to provide consistent support and growth for spending, as noted previously, the university’s endowment fund targets a long-term total return (net of fees) of inflation plus 5 percent; the combined total is currently estimated to be 8 percent. Puget Sound measures the performance of the endowment fund by comparing the total returns of individual investment managers, asset classes, and the endowment fund as a whole to selected benchmark returns. The university also compares the performance of the endowment fund to the performance of other college and university endowment funds of similar size. The results of all performance measures are regularly reviewed by the investment subcommittee of the board of trustees.

As seen in the graph below, the total annualized return of the endowment fund exceeded the benchmark return for fiscal year 2006–07, as well as for the three- and five-year periods ending in 2007.

As of the end of fiscal year 2005–06 (the most current available comparative data), the one-year total return for Puget Sound’s endowment fund was 12.8 percent, exceeding the average return of other private colleges and universities by 1.7 percent. The 10-year annualized total return for Puget Sound’s endowment fund was 8.1 percent, as compared to 9.0 percent for other private colleges and universities for the same time period. Ten years ago, Puget Sound had more assets allocated to fixed income and less to alternative investments, whereas today the pooled endowment asset allocation is more balanced. For many colleges, alternative investments have been the best-performing asset class during this time period.

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The endowment benchmark return currently consists of 6.0% Russell 3000 Index + 5%; 25.0% S&P 500 Index; 15.0% Russell 2000 Index; 15.0% MSCI AC World Index Free ex-US; 18.0% LB Aggregate Bond index; 7.0% NCREIF Property index; 15.0% US T-Bill + 5%. Benchmark return composition is adjusted as target asset allocations change, but changes are not applied to earlier periods.
Puget Sound’s endowment distributed $9.7 million to the university’s operating budget during the 2006–07 fiscal year, an increase of 43 percent compared to the amount distributed in 1998. During the 2006–07 year, endowment distributions supported 11.2 percent of university spending, up from 10.4 percent 10 years ago. Programs supported by the endowment include student financial aid, professorships, teaching and academic support, research, and campus facilities, as well as general institutional support.

During the 2006–07 fiscal year, distributions per student were $3,627, up 13.9 percent from the prior year and more than 47 percent from 10 years ago. While distributions per student have declined from a high of $3,788 following the strong markets of the late 1990s, they have kept pace with inflation over the last 10 years.

**WHY GIVE TO THE ENDOWMENT?**

Gifts to Puget Sound’s endowment provide consistent, growing support to university programs in perpetuity. Endowed gifts lessen the university’s dependence on tuition and fees, underwriting some of the operating expenses of the university and helping to provide access to qualified students now and into the future. Endowed gifts can be used to establish named funds, honoring individuals of the donor’s choice, that support financial aid, faculty, or academic programs.

In the 2006–07 fiscal year, $9.5 million in gifts was given to Puget Sound, $2.1 million of which was added to Puget Sound’s endowment. Comparatively, Puget Sound received $93.6 million in total gift income over the past 10 years, and, of this total, $25.5 million was added to the university’s endowment fund.
WHO MANAGES THE ENDOWMENT?

The university’s investment policies are recommended by the investment subcommittee of the board of trustees, approved by the finance and facilities committee, and annually distributed to the full board. These policies guide the university’s governing board as they perform their fiduciary duties, which include determining asset allocation and investment strategy, selecting investment vehicles and managers, and monitoring performance.

Like most colleges and universities with an endowment the size of Puget Sound’s, the university uses an investment consultant to advise on all aspects of managing and overseeing the endowment. To the fullest extent possible, individual endowments are pooled to reduce risk through diversification and to provide economies of scale. Although endowment assets are invested as a pool, the university separately maintains the identity of each endowed fund in its accounting records.

ENDOWMENT FUND MANAGERS
(As of September 30, 2007)

Investment Consultant
Fund Evaluation Group, Cincinnati, Ohio

Custodial Bank
Victory Capital Management Inc., a division of KeyBank N.A., Cleveland, Ohio

Equity Managers
Dimensional Fund Advisors Inc., Santa Monica, California
Lord Abbett & Co., Kansas City, Missouri
PIMCO, Newport Beach, California
Quellos Capital Management LP, Seattle, Washington
State Street Global Advisors, Boston, Massachusetts
The Commonfund, Wilton, Connecticut

Other Investment Managers
Acacia Capital Corporation, Phoenix, Arizona
Beacon Capital Partners LLC, Boston, Massachusetts
Blackstone Alternative Asset Management LP, New York, New York
CarVal Investors LLC, Minnetonka, Minnesota
Common Sense Investment Management LLC, Portland, Oregon
Endowment Realty Investors Inc., a subsidiary of The Commonfund, Wilton, Connecticut
FIA Timber Partners LP, Atlanta, Georgia
Frazier & Company, Seattle, Washington
HBK Investments LP, Dallas, Texas
Kayne Anderson Capital Advisors LP, Los Angeles, California
Kelso & Company, New York, New York
Kingdon Capital Management LLC, New York, New York
Mineral Acquisition Partners Inc., Palo Alto, California
Northgate Capital, Danville, California
Pequot Capital Management Inc., Westport, Connecticut
Stonebrook Fund Management, New York, New York
Stark Investments, St. Francis, Wisconsin
Venture Capital Fund of America, New York, New York

Fixed Income Manager
PIMCO, Newport Beach, California
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University of Puget Sound is an independent, predominantly residential, undergraduate liberal arts college with selected graduate programs building effectively on a liberal arts foundation. The university, as a community of learning, maintains a strong commitment to teaching excellence, scholarly engagement, and fruitful student-faculty interaction.

The mission of the university is to develop in its students capacities for critical analysis, aesthetic appreciation, sound judgment, and apt expression that will sustain a lifetime of intellectual curiosity, active inquiry, and reasoned independence. A Puget Sound education, both academic and cocurricular, encourages a rich knowledge of self and others; an appreciation of commonality and difference; the full, open, and civil discussion of ideas; thoughtful moral discourse; and the integration of learning, preparing the university’s graduates to meet the highest tests of democratic citizenship. Such an education seeks to liberate each person’s fullest intellectual and human potential to assist in the unfolding of creative and useful lives.