University of Puget Sound

2009 Endowment Report

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For More Information
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The University of Puget Sound Endowment

Puget Sound’s endowment was created through the generosity of generations 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 continuous 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, 2009, distributions from Puget Sound’s endowment totaled $93 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 508 distinct funds totaling $195.5 million in assets. This figure represented a decrease of 8.0 percent compared with the endowment’s 2000 value of $213.5 million. The National Association of College and University Business Officers (NACUBO) Endowment Study ranked Puget Sound’s endowment 224th, in terms of size, out of the 791 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 $191.2 million of the total $195.5 million endowment assets.

1 All figures are as of June 30, 2009, unless otherwise noted.
2 In the 10-year comparison data shown, 2003 data is for the 12 months from July 1, 2002, through June 30, 2003, which includes two months from the prior fiscal year, due to the university’s alteration of the fiscal year time frame.
3 References to the NACUBO Endowment Study are for the year ended June 30, 2008, the most recent survey results available.
Investment Objectives and Spending Policy

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 5.0 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. Within the context of these long-term objectives, diversification across a broad range of asset classes helps mitigate the negative impact of bear markets in the short term.

As seen in the graphs below, both the market value and the spending levels of the endowment fund have kept pace with inflation, in spite of the extremely challenging investment environment of 2008–09.

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 2008–09, the university distributed 5.0 percent of the trailing 36-month average of the endowment’s market value, a spending rate lower than the 5.9 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.

### 36-month Trailing Spending Rule Smoothes Endowment Distributions Relative to Investment Returns

The university regularly projects forward distributions for financial planning purposes. The hypothetical graph below reflects the impact of market valuations on future distributions, assuming no growth in market value during fiscal year 2009–10 and 8.0 percent steady growth thereafter. Any decline in projected distributions (due to the significant impact of market declines experienced during fiscal year 2008–09) would be offset to some extent by additional contributions to endowment received above the conservative projection of $3.0 million per year.

### Projected Impact of Recent Market Value Declines on Future Distributions
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.

Following the significant stock market declines in fall 2008, the university chose to maintain its global equity exposure at the low end of the target range in recognition of the escalated level of risk in financial markets and the return opportunities in fixed income. Allocations to long/short hedge funds included in the global equity allocation were increased at the end of December 2008; and at June 30, 2009, hedge funds, both long/short and absolute return, comprised 24.9 percent of the portfolio.

At the end of fiscal year 2008–09, asset allocations for the endowment fund compared to current target allocations were:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>June 2009</th>
<th>Current Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>45.0%</td>
<td>54.6%</td>
</tr>
<tr>
<td>US Managers</td>
<td>24.3%</td>
<td></td>
</tr>
<tr>
<td>International Managers</td>
<td>12.9%</td>
<td></td>
</tr>
<tr>
<td>Global Managers</td>
<td>7.8%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>21.2%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Absolute Return Hedge Funds</td>
<td>13.4%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>4.8%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10.7%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Private Real Estate</td>
<td>3.4%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.5%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Pooled Endowment Asset Allocation on June 30, 2009
Endowment Fund Performance

Puget Sound’s investment policies recognize the importance of using a long-term time horizon when measuring performance. In order to provide consistent support for spending, as noted previously, the university’s endowment fund targets a long-term total return (net of fees) of inflation plus 5.0 percent; the combined total is currently estimated to be 8.0 percent. Puget Sound measures the performance of the endowment 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 slightly lagged the benchmark return for fiscal year 2008–09 but exceeded it for the three- and five-year periods ending in 2009.

As of the end of the 2007–08 fiscal year (the most current available comparative data), Puget Sound’s endowment outperformed other endowments for three- and five-year periods and underperformed for one- and 10-year periods. Ten years ago, Puget Sound had more assets allocated to fixed income and fewer 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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3 The endowment benchmark return currently comprises 35.5% Russell 3000 Index; 10.0% Russell 3000 Index + 5.0%; 19.0% MSCI AC World Index ex-US; 18.0% Barclays Aggregate Bond index; 7.0% NCREIF Property index; 3.0% CPI + 5.0% index; 7.5% US T-Bill + 3.0%. Benchmark return composition is adjusted as target asset allocations change, but changes are not applied to earlier periods.
Puget Sound’s endowment distributed $11.0 million to the university’s operating budget during the 2008–09 fiscal year, an increase of 32.0 percent compared to the amount distributed in 2000. During the 2008–09 year, endowment distributions supported 11.0 percent of university spending, slightly lower than the 12.2 percent of 10 years ago, when the spending rate was 5.9 percent compared to the current rate of 5.0 percent. 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 2008–09 fiscal year, distributions per student were $4,052, approximately equal to the prior year and up more than 35.0 percent from 10 years ago.

**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, underwrite some of Puget Sound’s operating expenses, and help 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.

While financial markets can be unpredictable, there is no bad time to make a gift to Puget Sound’s endowment. Gifts made when markets are rising further enhance the endowment’s value and provide even greater amounts of assistance to Puget Sound’s students and faculty while gifts made when markets are declining enable the university to invest when valuations are most attractive.

In the 2008–09 fiscal year, Puget Sound received $10.8 million in gifts, $5.3 million of which was added to Puget Sound’s endowment. Comparatively Puget Sound received $101.1 million in total gift income over the past 10 years, and, of this total, $26.6 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 it performs its 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 December 31, 2009)

**Investment Consultant**
Fund Evaluation Group, Cincinnati, Ohio

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

**Equity Managers**
Acadian Asset Management Inc., Boston, Massachusetts
Common Sense Investment Management LLC, Portland, Oregon
Dimensional Fund Advisors Inc., Santa Monica, California
Kayne Anderson Capital Advisors LP, Los Angeles, California
Kingdon Capital Management LLC, New York, New York
Lord Abbett & Co., Kansas City, Missouri
Pequot Capital Management Inc., Westport, Connecticut
PIMCO, Newport Beach, California
State Street Global Advisors, Boston, Massachusetts
The Commonfund, Wilton, Connecticut

**Fixed Income Manager**
PIMCO, Newport Beach, California

**Other Investment Managers**
Acacia Capital Corporation, Phoenix, Arizona
Beacon Capital Partners LLC, Boston, Massachusetts
BlackRock Alternative Advisors, New York, New York
Blackstone Alternative Asset Management LP, New York, New York
CarVal Investors LLC, Minnetonka, Minnesota
FIA Timber Partners LP, Atlanta, Georgia
Frazier & Company, Seattle, Washington
HBK Investments LP, Dallas, Texas
Invesco PowerShares Capital Management LLC, Wheaton, Illinois
Kayne Anderson Capital Advisors LP, Los Angeles, California
Kelso & Company, New York, New York
Mineral Acquisition Partners Inc., Palo Alto, California
Natural Gas Partners Energy Capital Management, Stamford, Connecticut
Northgate Capital, Danville, California
Stark Investments, St. Francis, Wisconsin
Venture Capital Fund of America, New York, New York
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University of Puget Sound Mission Statement

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.