Notes on the 2014 Endowment Report

About the Enclosed Report(s)

The enclosed reports provide financial information for Fiscal Year 2014 (July 1, 2013 - June 30, 2014). If you made gifts to a fund after June 30, 2014, that information will be provided in next year's reports to allow time for measurable growth. If you contributed to a fund during this fiscal year, the amount of your gift(s) is included in the market value figures.

Definitions

- **Market value** is a measure of a fund's value in the Foundation's endowment. It's based on the value of that fund's units on a particular date.
- A **unit** is similar to a share in investment terms.
- **Endowment distribution** is the earnings that can be spent on a stated fund purpose during a fiscal year. An endowment distribution is not made if a professorship is vacant, a scholarship or fellowship is not awarded, or a fund's criteria are not met. In these cases, the endowment distribution may be reinvested in the university's long term pool endowment for future growth.
- **Effective spending rate** is a percentage of the endowment distribution for a given fiscal year divided by the market value of the endowment as of June 30 of the previous fiscal year.
- **Short-term targets** are established annually by the Foundation's Investment Committee in consultation with the Investment Manager.
- **Long-term strategic range** guidelines and deviations from those guidelines may occur from time to time. These result from market impact or from short-term asset allocation decisions approved by the Investment Committee. Asset allocation guidelines are monitored monthly, and the portfolio will be rebalanced as soon as practical should the allocations fall outside their stated allowable ranges.
- **Lifetime giving** to a fund represents the total cash contributions to the fund received by June 30, 2014. Gifts made after June 30, 2014, are included in next year's report.
- **Date of last gift** is the date of your most recent cash contribution.

Policy for Spending the Endowment

Spending for a given year equals the sum of two factors: (1) 70% of spending in the previous year, adjusted for inflation as measured by the Higher Education Price Index (HEPI) for the 12 months prior to the start of the fiscal year; and (2) 30% of the trailing three-year average market value of the endowment investment pool multiplied by the long-term spending rate (currently 4.5%). Spending on gifts received in the previous fiscal year will be prorated based on the number of whole months each gift was included in the fund. For example, Year 2 payout from a gift received December 15 would be based on 6/12 of the spending target calculated under the formula above because the endowment held the gift for six full months (January through June) in Year 1.

This spending policy has two implications. First, by incorporating the previous year's spending, the policy eliminates large fluctuations, enabling us to plan efficiently for operating budget needs. Second, by adjusting spending toward a long-term rate (currently 4.5%), the policy ensures that spending levels will be sensitive to the portfolio's fluctuating market value, thereby stabilizing long-term purchasing power. http://www.mcvfoundation.org/about/spending_policy.html