



UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS

**Annual Endowment Peer Benchmarking Report
Year Ended June 30, 2010**

UW SYSTEM TRUST FUNDS
Annual Endowment Peer Benchmarking Report
Fiscal Year Ended June 30, 2010

INTRODUCTION

- The Annual Endowment Peer Benchmarking Report utilizes two informational sources: 1) the 2010 NACUBO–Commonfund Study of Endowments (NCSE); and 2) the informal “Peer Benchmark Survey” conducted by Penn State University (hereafter referred to as the Penn State Survey).
- The NCSE is an annual survey of college and university endowments which reports data on investment and spending policies and practices, investment performance and fees, staffing, and other measures. The 2010 study included 542 private and 308 public institutions with an average endowment size of \$407 million.
- The 2010 Penn State Survey reports data from 25 university endowments including 17 from Big Ten institutions and 8 from other “peer” universities. The survey contains data on investment performance, asset allocation, and spending policies. The institutions included had an average endowment size of \$1.7 billion. The Penn State Survey data is presented wherever possible, as this information represents a distinct subset of the larger population.
- The data presented in the report that follows falls into the following categories:
 1. Asset Allocation
 2. Investment Performance
 3. Cost of Managing Investment Programs
 4. Investment Management Practices
 5. New Gifts to Endowment
 6. Spending Policies
 7. Investment Return Objectives
 8. Underwater Funds
 9. Resources, Management, and Governance
 10. Socially Responsible Investing Practices

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SUMMARY DATA

	NCSE Study	Penn State Survey
Number of Institutions Reporting – Total	850	25
Number of Institutions Reporting – Public	308	23
Number of Institutions Reporting – Private	542	2
Largest Endowment – Public	\$14.1 billion ¹	\$6.7 billion ³
Largest Endowment – Private	\$27.6 billion ²	\$5.9 billion ⁴
Average Endowment Size	\$407.0 million	\$1.7 billion
Participating UW Institutions	UW System Trust Funds	UW System Trust Funds
	UW-Madison Foundation	UW-Madison Foundation
	UW-Eau Claire Foundation	
	UW-Oshkosh Foundation	
	UW-Superior Foundation	
<i>UW System Trust Funds Endowment</i>	<i>\$289 million</i>	

¹ University of Texas System

² Harvard University

³ University of Michigan

⁴ Northwestern University

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ASSET ALLOCATION

Asset Class	UW Trust Funds¹	NCSE All Pools²	NCSE \$100-\$500MM	NCSE >\$1B	Penn State Survey³
Equities					
U.S. Equities	22%	30%	26%	14%	20%
Non-U.S. Equities	31%	16%	17%	15%	15%
Fixed Income	26%	21%	18%	11%	17%
Alternatives	20%	26%	33%	56%	44%
Private Capital ⁴	12%	7%	8%	20%	15%
Hedge Funds ⁵	8%	14%	19%	24%	20%
Real Estate ⁶	0%	2%	2%	5%	4%
Natural Resources ⁷	0%	3%	4%	7%	5%
Cash/Other	1%	7%	6%	4%	4%
TOTAL	100%	100%	100%	100%	100%

¹ It should be noted that UW Trust Funds employs a “global tactical asset allocation” strategy for a significant portion of the endowment fund, which involves tactical shifts in asset allocation. The numbers provided here, however, are allocations only as of the fiscal year-end.

² All NCSE figures represent equal-weighted averages.

³ Penn State Survey figures represent equal-weighted averages.

⁴ Category consists primarily of venture capital and other private equity.

⁵ Category consists primarily of unregulated private investment partnerships investing in mostly marketable securities, but employing strategies (long/short, convertible arbitrage, leverage, etc.) designed to provide for more absolute returns with low correlation to the markets.

⁶ Category includes both public and private real estate.

⁷ Category includes timber, oil and gas partnerships, and commodities.

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ASSET ALLOCATION

Changing or Considering Changing Asset Allocation Approach of Portfolio

	<i>UW Trust Funds</i>	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Changing or considering changing?	Yes	26%	28%	20%
Classifications under consideration: ¹				
Growth assets	No	41%	53%	42%
Risk reduction	No	57%	58%	58%
Inflation protection (real assets, TIPS)	Yes	52%	59%	42%
Opportunistic	Yes	34%	44%	50%
Liquidity	No	23%	25%	50%
Other	Yes	20%	23%	8%

¹ Multiple responses were allowed. Figures here represent only those institutions planning to make asset allocation changes.

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ASSET ALLOCATION

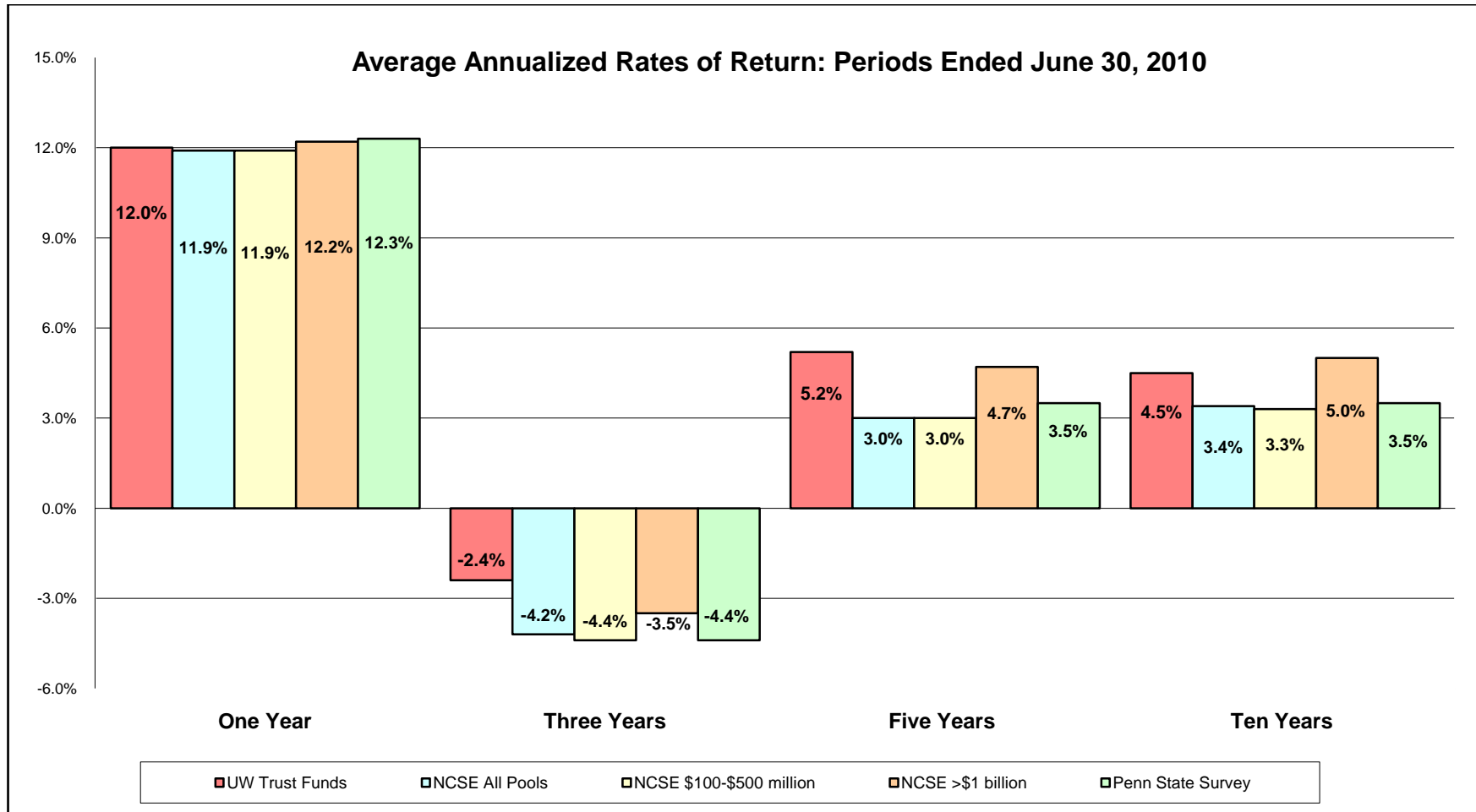
Percent Allocated to Liquidity Categories in Fiscal Year 2010¹

Liquidity Category	<i>UW</i> Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Daily	61%	42%	39%	23%
Monthly	26%	19%	19%	13%
Quarterly	0%	11%	11%	10%
Annually	0%	8%	9%	9%
Illiquid	13%	17%	17%	40%
Other	0%	3%	3%	5%

¹ Responses shown here are only for those institutions (232) that reported they use such liquidity classifications.

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INVESTMENT PERFORMANCE



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INVESTMENT PERFORMANCE

Range of Returns: NCSE All Pools

	1 Year	3 Year	5 Year	10 Year
75 th Percentile	13.7%	-2.7%	3.8%	4.4%
Average	11.9%	-4.2%	3.0%	3.4%
25 th Percentile	10.2%	-5.6%	1.9%	2.4%
<i>UW Trust Funds Return</i>	12.0%	-2.4%	5.2%	4.5%
<i>UW Trust Funds Rank</i>	2nd Quartile	Top Quartile	Top Quartile	Top Quartile

Range of Returns: Penn State Survey¹

	1 Year	3 Year	5 Year	10 Year
75 th Percentile	14.1%	-3.0%	4.9%	5.4%
Average	12.3%	-4.4%	3.5%	3.5%
Penn State Survey 25 th Percentile	10.5%	-6.0%	1.6%	1.5%
Penn State Survey Median	12.4%	-4.3%	3.5%	3.4%
<i>UW Trust Funds Return</i>	12.0%	-2.4%	5.2%	4.5%
<i>UW Trust Funds Rank</i>	3rd Quartile	Top Quartile	Top Quartile	2nd Quartile

¹ Note that for the Penn State Survey cohort, the average endowment size is \$1.7 billion, the median endowment size is \$1.2 billion, and the UW Trust Funds endowment is the 5th smallest reporting organization among the 25 represented here.

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COST OF MANAGING INVESTMENT PROGRAMS¹

	UW Trust Funds²	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Average cost (\$ thousands)	\$2,420	\$1,744	\$1,505	\$20,164
Average cost (basis points)	87	66	71	100
Median cost (basis points)	N/A	52	58	78

¹ Figures represent dollar-weighted averages. Caution must be used in interpreting these figures as the survey data suggests responding institutions experienced difficulties in accurately calculating fees, and reported fees are likely not on an "apples-to-apples" basis.

² UW Trust Funds fees include only asset management and mutual fund expenses; most (90%) of reporting institutions included these fees and some included other fees (e.g., 57% included "direct expenses", 61% included "consultant fees", 18% included "internal staff").

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INVESTMENT MANAGEMENT PRACTICES¹

Active, Passive, Extended Markets

Asset Class/Strategy	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
U.S. Equities				
Active	85%	78%	72%	85%
Passive/Enhanced Index	15%	22%	28%	15%
Non-U.S. Equities				
Active (EAFE)	68%	59%	64%	56%
Passive (EAFE)	0%	9%	12%	6%
Emerging Markets	32%	32%	24%	38%
Fixed Income				
Active	12%	75%	67%	83%
Passive	64%	10%	16%	2%
U.S. High Yield	24%	5%	5%	7%
Non-U.S.-Developed	0%	8%	10%	6%
Emerging Markets	0%	2%	2%	2%

¹ Figures represent dollar-weighted averages.

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INVESTMENT MANAGEMENT PRACTICES

Portfolio Rebalancing Practices¹

Rebalancing Frequency	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Calendar-based	46%	44%	22%
Annually	10%	13%	0%
Semi-annually	4%	3%	2%
Quarterly	23%	20%	16%
Monthly	7%	6%	4%
Other	2%	2%	2%
Market value-based	99%	100%	87%
Target- and range-based	82%	88%	80%
Response to major cash flows	17%	17%	7%
Other	3%	2%	5%
<i>UW Trust Funds</i>	<i>Review quarterly; target- and range-based</i>		

¹ Multiple responses were allowed.

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NEW GIFTS TO ENDOWMENT

	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500 million	NCSE >\$1 billion
Average gifts (\$ millions)	\$1.3	\$6.5	\$5.8	\$41.5
Median gifts (\$ millions)	N/A	\$1.5	\$3.5	\$28.2

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SPENDING POLICIES

Spending Methodology¹

	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B	Penn State Survey
Percent of a moving average	75.0%	77.0%	49.0%	75.0%
Average percentage used	4.7%	4.7%	4.9%	4.6%
Decide on an appropriate rate each year	11.0%	9.0%	8.0%	0.0%
Spend a pre-specified percentage of beginning market value	4.0%	2.0%	0.0%	0.0%
Weighted average or hybrid method	7.0%	9.0%	18.0%	0.0%
Last year's spending plus inflation	4.0%	7.0%	18.0%	5.0%
Spend all current income	4.0%	4.0%	2.0%	0.0%
Grow distribution at a predetermined inflation rate	0.0%	0.0%	2.0%	0.0%
Other	9.0%	7.0%	13.0%	20.0%
<i>UW Trust Funds</i>	<i>4% of moving 12-quarter average</i>			

¹ Multiple responses were allowed.

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SPENDING POLICIES

Actual Average Spending Rates¹

NCSE All Pools	4.5%
NCSE \$100-\$500 million	4.9%
NCSE >\$1 billion	5.6%
<i>UW Trust Funds</i>	<i>4.3%</i>

¹ Actual average spending rates are computed by dividing endowment dollars actually spent by the beginning endowment value. Figures represent equal-weighted averages.

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INVESTMENT RETURN OBJECTIVES

Average Index-Based Return Objectives

Consumer Price Index (CPI)	CPI Plus 5.1%
Higher Education Price Index (HEPI)	HEPI Plus 5.3%
<i>UW Trust Funds</i>	<i>HEPI Plus 5.0%</i>

Average Absolute Return Objectives

NCSE All Pools	7.7%
<i>UW Trust Funds</i>	<i>8.5%</i>

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UNDERWATER FUNDS¹

	Percent of Endowment Underwater
NCSE All Pools	14%
NCSE \$100-\$500 million	13%
NCSE >\$1 billion	10%
<i>UW Trust Funds</i>	2%

¹ "Underwater funds" represent individual endowment accounts whose market values are below their "historic dollar value" (i.e., the original value of the gift).

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RESOURCES, MANAGEMENT, AND GOVERNANCE

Committee Size and Investment Staffing

	Average Number of Committee Members	Average Investment Staffing	Percent Using Consultants ¹
NCSE All Pools	8.0	1.5	80%
NCSE \$100-\$500 million	9.1	1.2	90%
NCSE >\$1 billion	9.7	10.0	64%
<i>UW Trust Funds</i>	6	2	No

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RESOURCES, MANAGEMENT, AND GOVERNANCE

Average Number of Separate Investment Firms Used by Asset Class

	<i>UW Trust Funds</i>	NCSE All Pools	NCSE \$100-\$500 mm	NCSE > \$1 billion
U.S. Equities	3	3.8	4.5	6.3
Non-U.S. Equities	2	3.0	3.4	8.4
Fixed Income	3	2.4	2.7	3.4
Alternative Strategies – Direct	1	11.4	10.7	78.9
Alternative Strategies – Fund of Funds	3	2.6	4.3	3.1

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SOCIALLY RESPONSIBLE INVESTING PRACTICES

Percent with Some Form of Social Investing Policy

NCSE All Pools	19%
NCSE \$100-\$500 million	23%
NCSE >\$1 billion	38%
<i>UW Trust Funds</i>	Yes¹

¹ *UW Trust Funds actively votes proxies, solicits student and public comment on social issues, and may take ad hoc actions on social responsibility issues.*

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SOCIALLY RESPONSIBLE INVESTING PRACTICES

SRI Efforts Employed¹

Asset Class/Strategy	UW Trust Funds	NCSE All Pools	NCSE \$100-\$500MM	NCSE >\$1B
Screen all/part of portfolio	Yes	89%	87%	86%
Types of restrictions: ²				
Alcohol	No	36%	29%	5%
Weapons	No	26%	29%	5%
Gambling	No	34%	24%	5%
Tobacco	No	57%	51%	48%
Geopolitical/location specific ³	Yes	37%	33%	71%
Commingled funds application:				
Exempt from SRI policy	No	25%	22%	48%
Screen where possible	Yes	55%	62%	38%
Vote SRI-related proxies	Yes	45%	49%	48%
"Sustainability" considered	Yes	32%	36%	24%

¹ Numbers are percentages of only those institutions reporting some form of social investment policy.

² Multiple responses allowed.

³ UW Trust Funds currently screens, where possible, for Sudan-related investments.