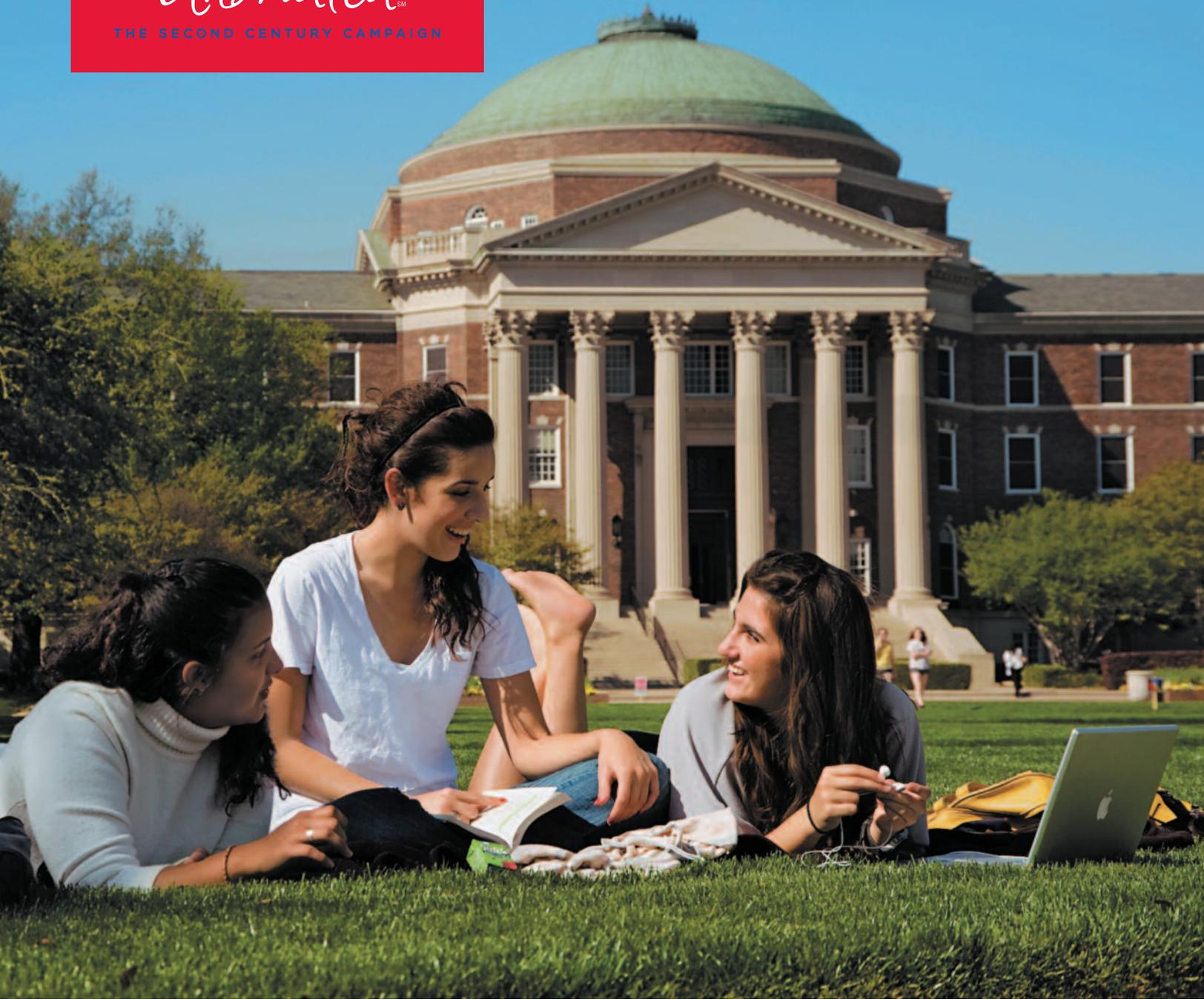


TREASURER'S  
2010  
ENDOWMENT  
REPORT

SMU  
*Unbridled*<sup>SM</sup>

THE SECOND CENTURY CAMPAIGN



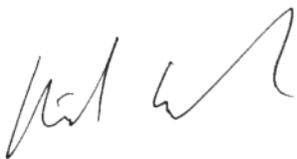
## **SMU'S ENDOWMENT REBOUNDED ALONG WITH THE U.S. FINANCIAL MARKETS**

and recovered part of the decline experienced last year. Market value increased by \$37.1 million during the 2009-10 fiscal year, reaching \$1.07 billion as of May 31. The endowment also received \$25.2 million in new gifts – an important indicator of the confidence our supporters have in our ability to invest and manage the portfolio. Endowment spending provided significant support to University operations, with \$56.7 million allocated to educational programs, scholarships, libraries and faculty support.

The investment return for the endowment portfolio for the one-year period ending May 31, 2010, was 7.2 percent. Publicly traded investments, which averaged 60 percent of total assets during the period, returned 13.8 percent and were a major contributor to performance. Private or illiquid investments, which averaged 40 percent of total assets, returned 0.6 percent and detracted from performance. Private investment performance tends to lag that of the public markets; the endowment's investment in private strategies has been a major contributor to performance in previous years.

Although financial markets rebounded during the year, the investment environment remains challenging. As always, we are focused on pursuing investment strategies and identifying opportunities that will enable the endowment to meet its long-term goals and allow support for the University's programs and priorities to grow over time.

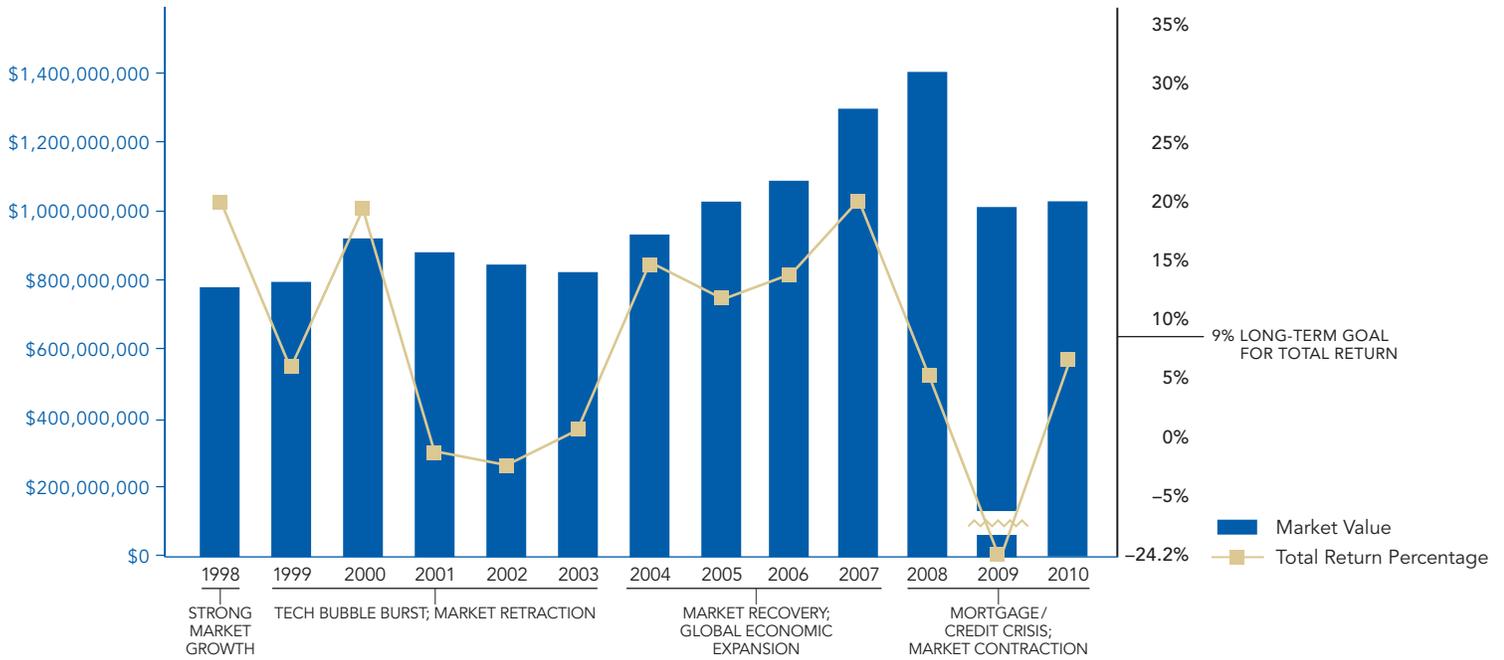
As SMU approaches its centennial celebration, we are thankful for our generous donors who support all aspects of the University and our current priorities – student quality, faculty and academic excellence and the campus experience. We will continue to be careful stewards of the resources that ensure sustained growth and success into our second century.



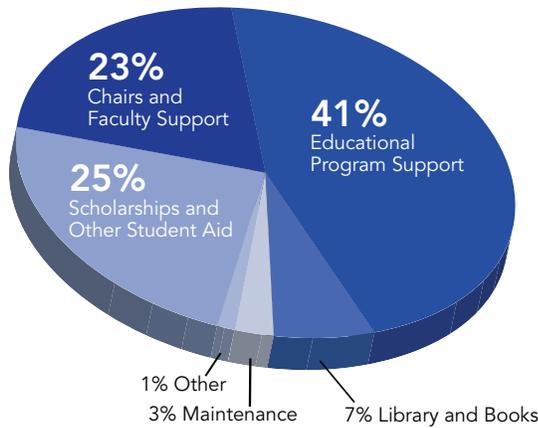
Mike Condon

*Treasurer and Chief Investment Officer*

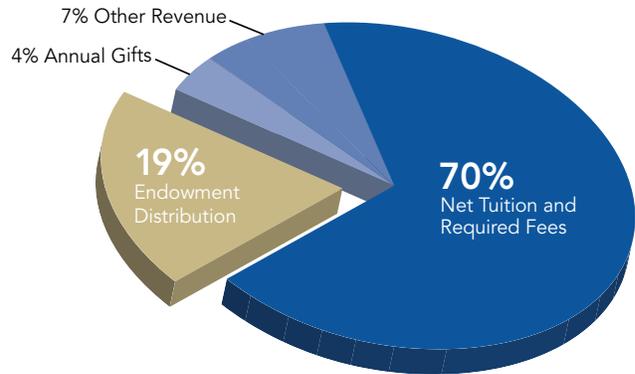
## ENDOWMENT GROWTH AND TOTAL RETURN 1998-2010



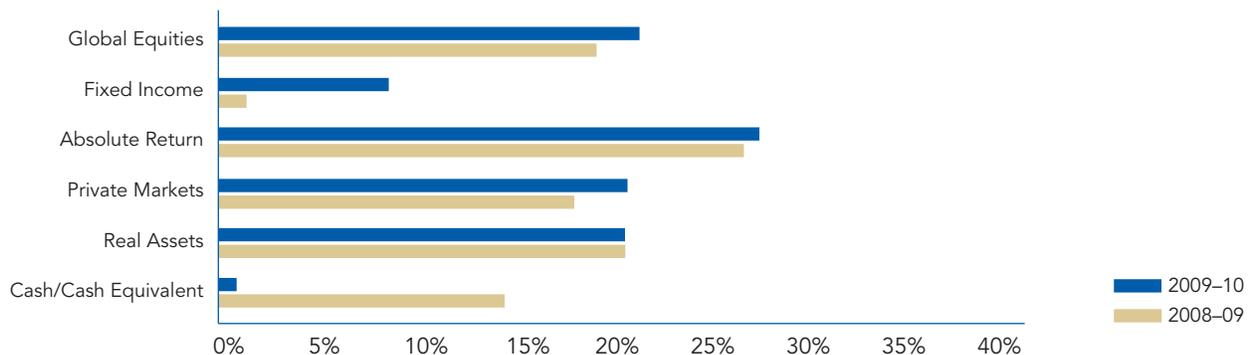
## 2009-10 ENDOWMENT DISTRIBUTION BY DESIGNATED PURPOSE



## 2009-10 ENDOWMENT DISTRIBUTION AS A PERCENTAGE OF SMU REVENUE SOURCES (EDUCATIONAL AND GENERAL BUDGET)



## ENDOWMENT POOL ASSET ALLOCATION



## READING YOUR ENDOWMENT REPORT

**Book Value.** The initial amount of the gift that established an endowment, plus any additional gifts or deposits (reinvested income).

**Market Value.** The total of Book Value plus net market appreciation/depreciation valued at the end of a given time period, less income distributed for spending.

**Spendable Distribution.** The amount available during the fiscal year to carry out the purpose of the endowed fund, according to policies established by the SMU Board of Trustees. It consists of endowment income and, for mature endowments, a "prudent portion" of capital gains.

**Balanced Pool.** A highly diversified investment portfolio allocated to different asset classes (global equities, fixed income, absolute return, private markets [venture capital and private equities], real assets and cash) that strives to maximize total return while assuming an appropriate level of risk.

**Customized Benchmark.** A standard used for measuring performance. The benchmark is a blending of returns of various asset class indices that reflect the asset allocation mix of the Balanced Pool.

**Total Return.** The sum of a) interest, b) dividends, c) appreciation (gains) and d) depreciation (losses) of an investment.

**Annualized Return.** The Total Return generated during a 12-month period; also, the annual rate of return that, when compounded over the period of the investment, generates the same return or result as the actual returns.

**Spending Policy.** A description of the goals and calculation used in determining the amount of funds available for spending that will be distributed each year to individual endowments.

## SMU ENDOWMENT SPENDING POLICY

SMU has **three primary goals** with regard to its endowment spending policy:

- Maintain the endowment's real purchasing power
- Minimize year-to-year volatility to aid in budget planning
- Support the University's educational goals by releasing a substantial and sustainable flow of funds to the operating budget

The current policy has been in effect since fiscal year 2005 and is based on a model used by Yale University. The spending formula now includes both an **inflation component** that places emphasis on stable budget support (70 percent) and a **market value component** that responds to changes in portfolio valuations (30 percent). The latter includes the current spending percentage of 4.75 percent, approved by the SMU Board of Trustees, applied to a four-quarter average of trailing market value.

A new endowment begins earning **interest and dividends (yield)** as soon as it is established. In the first several years, only the yield is available for spending for the fund's designated purpose. Since SMU's endowment strategy aims for strong total returns and emphasizes various equity-oriented investments, the annual yield is usually rather low; typically, those earnings are not spent immediately but are reserved for future support of the fund's purpose. Meanwhile, **appreciation (capital gains)** continues to increase until it is sufficient to accommodate and sustain a higher spending level. Typically, this occurs following the third or fourth year after the establishment of the fund. When the value of the fund is deemed sufficiently strong to sustain the higher spending level, a portion of the accumulated appreciation is added to the yield and distributed for spending in support of the fund's purpose.

The endowment has been charged to provide for its operation and the infrastructure support necessary to sustain the endowment and its purposes. This year the charge was less than 1 percent of the market value of the endowment.

