



# BRANDING SUCCESS™

THE CAMPAIGN FOR OSU®

OKLAHOMA STATE UNIVERSITY FOUNDATION

## 2013-2014 ENDOWMENT REPORT



CAMPAIGN IMPACT ON ENDOWMENT (AS OF 8/31/14)

1,130

New scholarship funds impacting thousands of students

136

New chairs and professorships

90%

Increase in annual spending policy

## INTRODUCTION

This report was prepared to provide information about your endowment fund(s) and the management and performance of the OSU Foundation's Pooled Investment Fund (PIF).

The OSU Foundation Board of Trustees has delegated the investment management of the Pooled Investment Fund to the Investment Committee, which operates within the parameters of the Investment Policy Statement.

The Investment Committee seeks investment returns through a diversified investment portfolio, and relies upon recommendations and advice from an internal Investment Office and an independent investment consultant, Cambridge Associates. The OSU Foundation's internal Investment Office is responsible for sourcing, evaluating and selecting investment managers for recommendation to the Investment Committee. They also oversee the ongoing due diligence and monitoring of investment managers, and provide recommendations on strategic and tactical asset allocation to the Investment Committee.

The Board of Trustees has adopted the strategy of investing endowment assets to preserve the long-range purchasing power of the endowments in order to provide intergenerational financial support for the programs the endowments were created to benefit.

Endowments provide a permanent partnership between the university and the donor. The legacy of thoughtful donors plays a role in the life of the university in perpetuity and becomes the foundation upon which OSU can build its achievements. The generosity of Oklahoma State University's

many endowment donors is appreciated by generations past, present and future.

## POOLED INVESTMENT FUND OVERVIEW

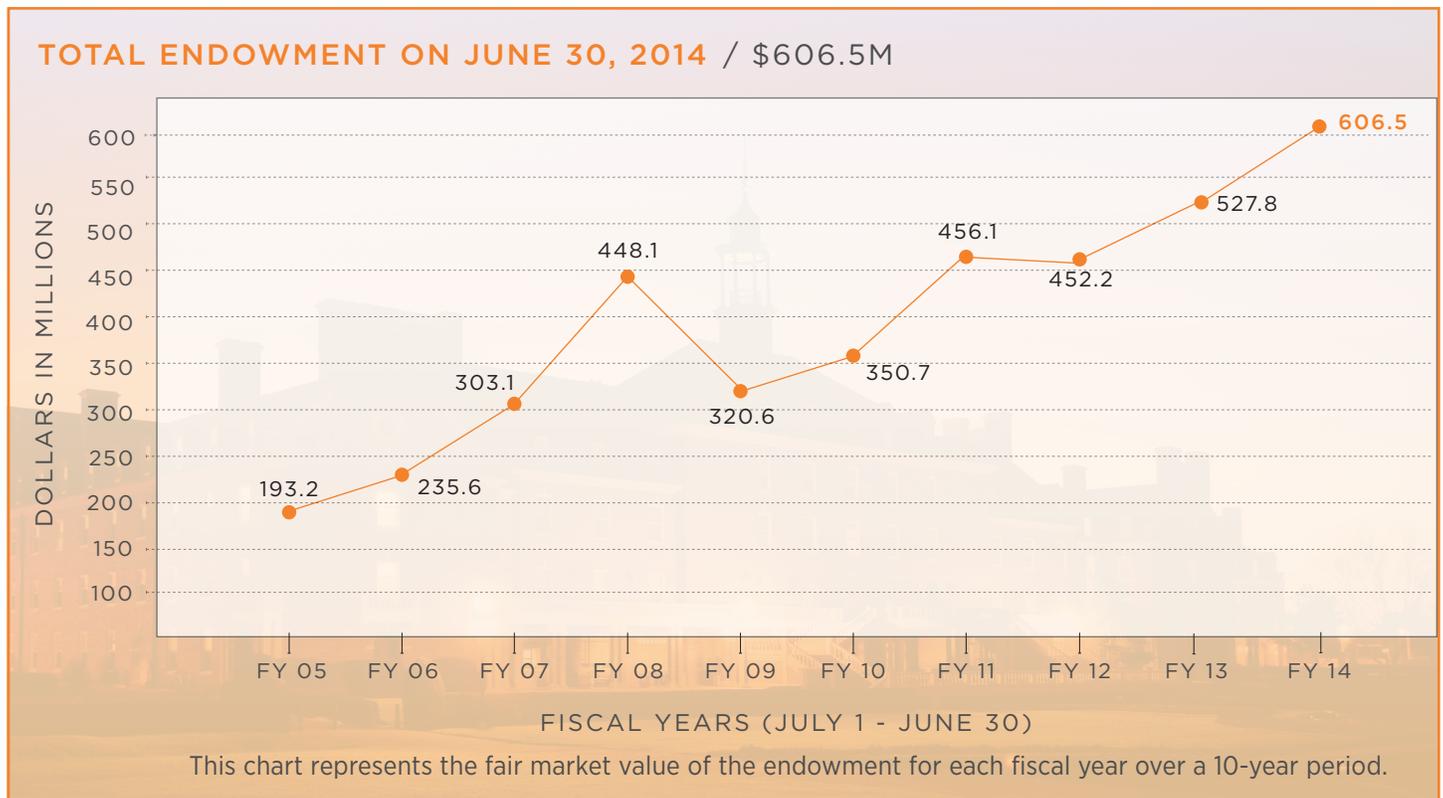
Endowment gifts for the benefit of Oklahoma State are placed in the Pooled Investment Fund (PIF), which is managed by the OSU Foundation. As of June 30, 2014, the OSU Foundation PIF consisted of 2,874 separate endowments. During FY 2014, \$25.4 million in new endowment gifts were received. The total market value on June 30, 2014, of the endowment accounts was \$606.5 million, which included the chair and professorship accounts and scholarship accounts established through the Pickens Chair and Professorship and Pickens Legacy Scholarship matching programs.

The primary objective of the PIF is to generate an increasing stream of income to meet the rising costs of education, research and campus life while maintaining the purchasing power of its individual endowments over time. The chart below represents the fair market value of the endowment for each fiscal year over a 10-year period.

## PROGRAM SUPPORT

The Pooled Investment Fund supports university programs as designated by the donors. Programs supported by the spending policy distributions include scholarships, fellowships, professorships, chairs, building operations and research.

Many important university activities could not be achieved without the financial support from endowment funds. OSU is fortunate to have endowments that support programs system-wide.



## INVESTMENT PERFORMANCE

The PIF's performance is calculated on a total return basis, which measures the performance of equity, fixed income and alternative investments. Total return, for purposes of this report, is the combination of income, dividends, gains and

losses for the fiscal year net of investment management fees. Investment performance is determined on the PIF as a whole rather than on each separate endowment. Depending upon the timing of additions to an individual endowment, returns on specific endowments may vary from the following result.

### HISTORICAL RETURNS

Compound Annualized Returns	OSUF	Short-Term Benchmarks			Long-Term Benchmarks	
		Manager Selection Benchmark <sup>(1)</sup>	Detailed Asset Allocation Benchmark <sup>(2)</sup>	Sub-Asset Allocation Benchmark <sup>(3)</sup>	Asset Allocation Benchmark <sup>(4)</sup>	Equity Benchmark <sup>(5)</sup>
FY14	15.7%	14.9%	15.3%	13.9%	20.6%	23.6%
Trailing 2 Fiscal Years (FY13 - FY14)	13.4%	12.2%	12.4%	11.3%	16.6%	20.4%
Trailing 3 Fiscal Years (FY12 - FY14)	7.1%	-	-	-	8.4%	10.9%
Trailing 5 Fiscal Years (FY10 - FY14)	10.6%	-	-	-	12.4%	15.3%
Trailing 10 Fiscal Years (FY05 - FY14)	7.3%	-	-	-	6.5%	6.2%

### RISK & RETURN SUMMARY VS. LONG-TERM BENCHMARKS

	FY14			Trailing 2 FYs			Trailing 3 FYs		
	OSUF	Asset Allocation Benchmark	Equity Benchmark	OSUF	Asset Allocation Benchmark	Equity Benchmark	OSUF	Asset Allocation Benchmark	Equity Benchmark
Annualized Return	15.7%	20.7%	23.6%	13.4%	16.6%	20.4%	7.1%	8.4%	10.9%
Annualized Standard Deviation	6.3%	7.7%	9.7%	5.2%	7.1%	8.3%	7.7%	12.2%	14.3%
Sharpe Ratio	2.46	2.65	2.42	2.56	2.33	2.44	0.90	0.68	0.75
Beta (OSUF vs. benchmarks)	-	0.62	0.50	-	0.58	0.50	-	0.58	0.50
Alpha (OSUF vs. benchmarks)	-	2.9%	4.0%	-	3.6%	3.3%	-	2.1%	1.5%

### PEER COMPARISON (AS OF 6/30/2014)

Average Annual Compound Returns <sup>(6)</sup>	OSUF	Endowment Composite Median <sup>(7)</sup>	OSUF Percentile Ranking
FY14	15.7%	15.9%	47
Last 2 Fiscal Years	13.4%	13.7%	43
Last 3 Fiscal Years	7.4%	8.4%	24
Last 5 Fiscal Years	9.8%	11.5%	13

Note: Historical Returns are compounded annualized returns and reflect all capital statements and estimates received as of 8/11/2014. Some private equity investments have yet to provide statements for the period ended June 2014. In turn, OSUF expects final performance to increase slightly.

(1) The Manager Selection Benchmark was introduced in FY13 and is a non-investable, dollar-weighted average of each individual manager benchmark.

(2) The Detailed Asset Allocation Benchmark was introduced in FY13 and is a non-investable, dollar-weighted average of each detailed asset allocation benchmark (e.g. splitting long-only equity into domestic, international and emerging).

(3) The Sub-Asset Allocation Benchmark was introduced in FY13 and is a non-investable, dollar-weighted average of each sub-asset allocation benchmark (i.e. long-only equity, hedged equity, real assets and fixed income).

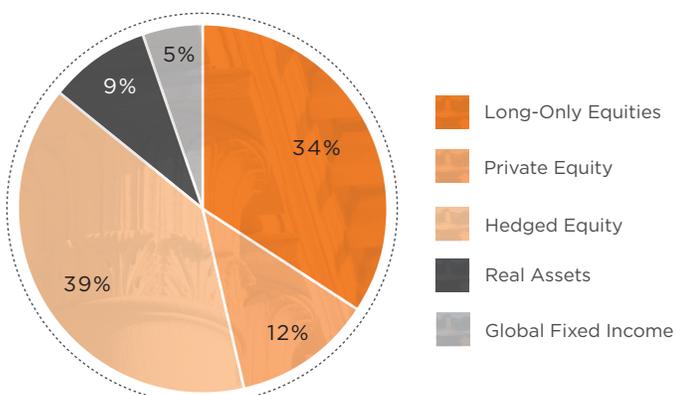
(4) The Asset Allocation Benchmark is 80% MSCI ACWI (Equity), 10% Barclays Aggregate Bond Index (Fixed Income), and 10% DJ UBS Commodity Index (Real Assets).

(5) The Equity Benchmark is the MSCI ACWI.

(6) Peer comparison returns are average annual compound returns.

(7) Provided by Cambridge Associates, LLC, the Endowment Composite Median represents median performance of their universe of reporting member colleges and universities, independent schools, museums and libraries, foundations, medical endowments and other endowed institutions.

### ASSET ALLOCATION / JUNE 30, 2014

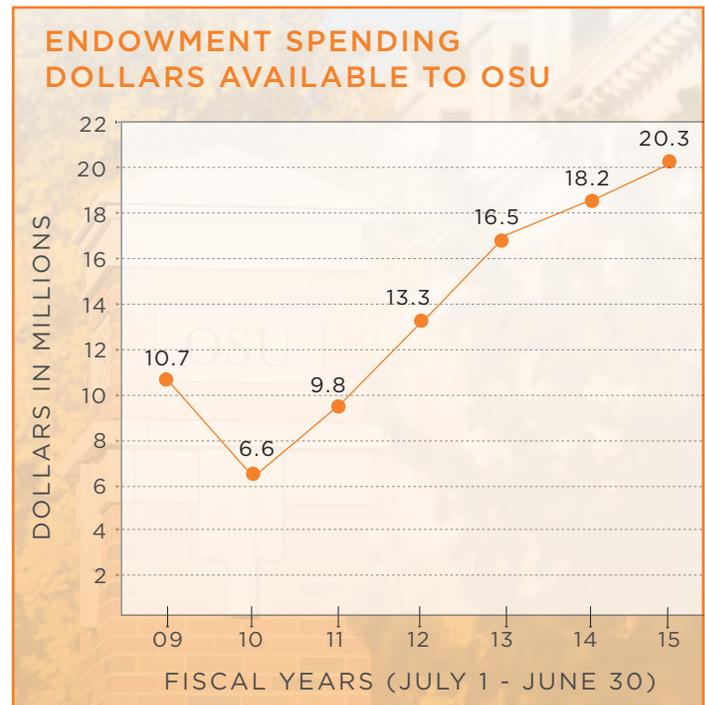


## SPENDING POLICY

A goal of the Pooled Investment Fund is to achieve investment performance that supports stable endowment spending from year to year in order to provide steady predictable funding for programs.

The endowment spending policy is approved by the Board of Trustees and is calculated as the prior year's spending amount adjusted by inflation. The adjustment for inflation is made by dividing the Consumer Price Index (CPI) as of August of the current year by the CPI as of August of the previous year. The calculated spending amount was adjusted by adding an amount equal to 5 percent of new gifts or reinvested cash received by Sept. 30. The spending policy is reviewed by the Investment Committee at least annually. The committee has made annual adjustments to the formula to increase the distribution when exceptional investment performance is achieved.

The graph at right represents the funds available to the university from the Pooled Investment Fund's spending distribution for the seven-year period FY09-FY15.



## GLOSSARY OF TERMS RELATED TO FINANCIAL SUMMARY

**Administrative Fee:** The fee paid to the OSU Foundation for management of the Pooled Investment Fund. For FY14 this fee was 2.1 percent of the average daily balance of the market value of the Pooled Investment Fund.

**Chairs/Professorships:** Funds utilized to support teaching and research efforts of an endowed faculty position.

**Distribution of Funds:** Utilization of cash available that supports the purpose of the endowment.

**Endowed Gifts During Fiscal Year:** Gifts made to your endowment during the fiscal year.

**Endowment Gift Value:** The original contribution to your endowment plus previous additional gifts to your endowment.

**Market Value of Endowment:** Fair market value of your endowment at the beginning and end of the fiscal year.

**Net Investment Income, Gains (Losses):** Realized and unrealized gains and losses after expenses of consulting and custodial fees.

**Other Activity:** Activity other than gifts or net investment income to your endowment (i.e. mineral interest, income from real property).

**Other Program Support:** Funds utilized to support endowed programs other than scholarships/fellowships and chairs/professorships. Examples would be lectureships, research initiatives, building or operational support.

**Reinvested Cash:** Funds transferred from cash available to your endowment.

**Scholarship/Fellowships:** Funds utilized to support educational endeavors of a student.

**Spending Gifts During Fiscal Year:** Gifts made to your fund to be used for current spending rather than endowed.

**Spending Policy Distribution:** Funds provided by your endowment for support of OSU during the fiscal year as determined by the Spending Policy. It allows for use of both realized income and appreciation as components of spending distribution.

**Total Cash Available for Spending:** Funds available for expenditure resulting from application of the Spending Policy, carryover balances from previous fiscal year(s) or other additions to the fund.

**Total Historical Gift Value:** The summation of all gifts to your endowment.

**Total Endowment Balance:** Sum of the market value of the endowment and the cash available for spending.



### OKLAHOMA STATE UNIVERSITY FOUNDATION

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*Uniting Donor and University Passions and Priorities to Achieve Excellence*