



The Brown University Endowment:
Investing in Brown's Future 2008





The Brown University Endowment: 2008 Investing in Brown's Future

The University's endowment is primarily a collection of donations given over the last 240 years by alumni, parents, students and friends of Brown. To ensure that Brown will thrive 240 years from now, the principal of these gifts cannot be spent, but the earnings can. When a donor makes a gift to the endowment, the University agrees to manage and maintain that gift in perpetuity.

To secure its original eight acres, its first building and its infant library, the University's forefathers relied on the generosity of patrons who provided \$4,500 in permanent funds, the origins of today's endowment. In 1804, Nicholas Brown established the University's first endowed professorship with a gift of \$5,000, and in return, the Corporation changed the school's name from Rhode Island College to Brown University. By 1831, the University had an additional endowment of \$25,000 for the purchase of library books. The value of the endowment neared \$200,000 in 1854, exceeded \$600,000 in 1872, and broke the \$1 million mark in 1889.

There are now more than 2,300 named endowment accounts, with a market value of \$2.7 billion, supporting the faculty, the student body and the academic infrastructure. As the endowment has grown, the benefits of these enduring contributions have been felt across the campus. Today, the endowment supports more than 18 percent of the University's annual operating budget. Indeed, every dollar of endowment income in the budget helps finance vital activities, including undergraduate student scholarships, professorships, graduate student fellowships, library acquisitions, the division of biology and medicine, more than 70 academic programs, every varsity sport, and building maintenance.

While Brown's endowment has increased substantially since the University was founded in 1764, the concept of endowment remains exactly the same: It is a trust to be both guarded and enhanced, because it is an enduring asset that shapes the character of the institution, ensures Brown's permanence, and supports the many endeavors of Brown's faculty and students.

This brochure provides background information, key facts, and answers to frequently asked questions about the Brown endowment.

WHAT IS THE ENDOWMENT?

The Brown Endowment contains thousands of funds that are invested for the long term. Unlike current-use gifts, which are spent completely for immediate needs, endowed funds are invested and the University may only spend a small portion of the income on those investments each year. True endowment funds, which account for three-fourths of Brown's endowment, are specifically donated as endowment. By law, the University cannot invade the real principal value – the equivalent of the original gift plus inflation – and the University must apply these gifts and their earnings as specified by the donors, in perpetuity. The remaining one-fourth of the endowment was created by converting other University resources into endowment at the discretion of the Brown Corporation.

In its basic structure, Brown's endowment resembles a large mutual fund. Most of the endowment is invested as part of a consolidated long-term investment pool, with each specific, or named, fund owning shares in the investment pool. Every fund in the pool – each endowed scholarship or professorship, for example – receives an annual distribution of income based on the number of shares the fund owns. At the end of each month, a new market value per share is determined, and this value is used over the succeeding month to determine how many shares new gifts to the endowment buy.

The Brown Corporation – the University's governing board – and Brown's senior administrators share stewardship responsibilities for the endowment. Through effective management, the University maintains a balance between meeting the needs of today's academic and research programs and preserving the long-term value of the endowment to meet tomorrow's needs.

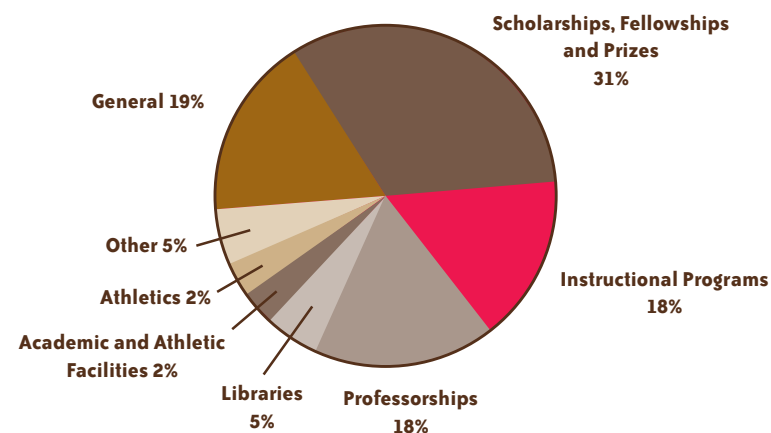
HOW LARGE IS BROWN'S ENDOWMENT AND HOW DOES IT COMPARE WITH THOSE OF OTHER UNIVERSITIES?

As of June 30, 2007, Brown's endowment was worth almost \$2.7 billion, the 26th largest college endowment in the country. Still, the University's endowment historically has been, and continues to be, smaller than most of the institutions with which it competes for faculty and students.

WHAT ACTIVITIES AT BROWN ARE SUPPORTED BY THE ENDOWMENT?

The endowment supports more than 18 percent of the University's annual operating budget, compared with about 7 percent two decades ago. Every dollar of endowment income in the budget – totaling \$103 million in 2008 – helps finance vital activities, including undergraduate student scholarships, distinguished professorships, graduate student fellowships, library acquisitions, the division of biology and medicine, more than 70 academic programs, every varsity sport, and building maintenance.

ENDOWED INCOME DISTRIBUTION BY PURPOSE



HOW DOES BROWN MANAGE THE ENDOWMENT?

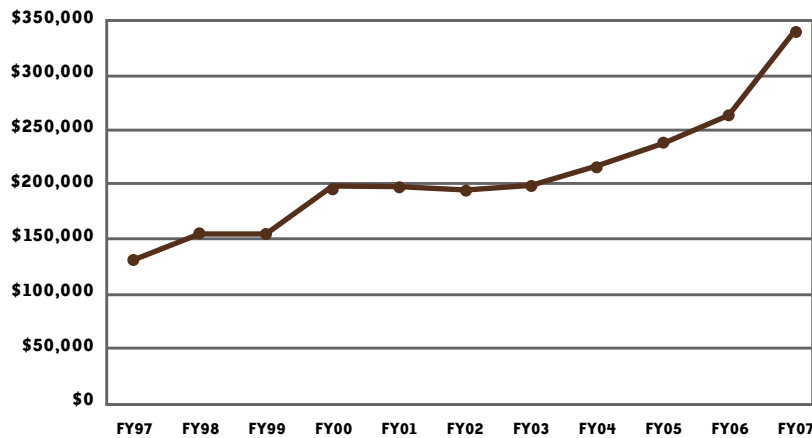
Brown takes its fiduciary responsibility to current and future generations of students very seriously. The professional staff of the Brown University Investment Office and the members of the Brown University Investment Committee – a committee of the Brown Corporation, the University governing body – work together to manage the endowment. The Investment Committee focuses on high-level investment policy and strategy. Members of the committee have a thorough understanding of investment management, generally gained through direct experience in the field. The Investment Office staff recommends policies and strategies to the Investment Committee and hires and evaluates external investment managers, who have expertise and demonstrated success in managing particular asset classes.

The University's goals are to provide stable support from the endowment each year to the budget and to preserve the long-term value of the endowment to provide support for future generations at Brown. To maintain or enhance the University's purchasing power, the critical goal for the endowment investments is to outperform Brown's spending rate benchmark.

HOW HAS THE ENDOWMENT PERFORMED?

From 1992 to 2007, the endowment has grown through gifts and appreciation in the investment portfolio, from \$426 million to \$2.7 billion. The average annual total investment return for the 15-year period ending June 30, 2007, was 12.0 percent. As a result, Brown's endowment per student has grown steadily.

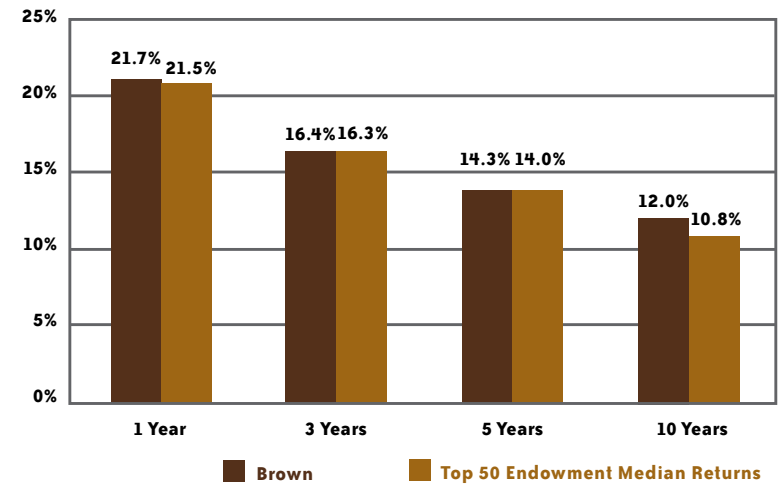
ENDOWMENT PER STUDENT



During fiscal year 2007, the University's endowment returned 21.7 percent. Brown's endowment performance compares well when measured against the returns of the 50 largest college and university endowments. As shown in the following chart, the Brown endowment tends to trail its peers in strong bull markets, but outperforms them in down markets, reflected in the 10-year returns.

**BROWN vs PEER INSTITUTIONS:
AVERAGE ANNUAL COMPOUND RETURNS**

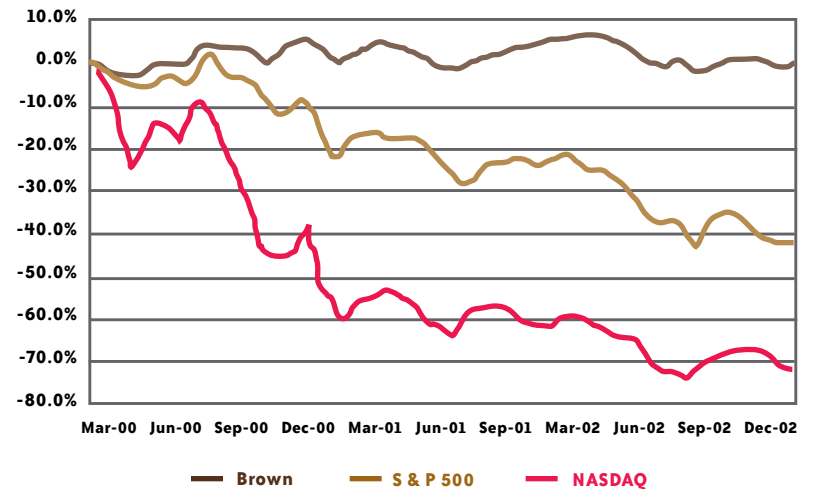
PERIOD ENDING JUNE 30, 2007



During the most recent bear market (April 2000 – February 2003), Brown's endowment maintained its value, while the S&P 500 lost 41.5 percent and the NASDAQ fell 70.7 percent.

BEAR MARKET CUMULATIVE RETURNS

APRIL 2000 THROUGH FEBRUARY 2003



It is well worth noting that, thanks to the University's investment and endowment management strategies, a gift of \$100,000 to Brown's endowment in 1992 would have appreciated to \$315,000 in fifteen years. During that time, it would also have provided \$116,000 in total budgetary support.

WHAT ARE THE UNIVERSITY'S INVESTMENT POLICIES?

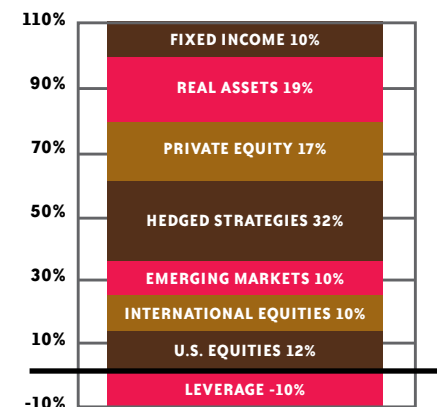
The University's investment policies and decisions seek to maximize long-term returns for an acceptable level of investment risk: the more risk an investor is willing to accept, the higher the possible overall return and the greater the chance of incurring losses.

Brown's investment policy for its long-term investments, including all of the endowment, includes a high allocation to equities to provide higher returns for spending, but it also is broadly diversified to protect against the volatility inherent in equities. The Brown University Investment Committee regularly reassesses the asset allocation targets.

The University's investment policy has evolved considerably over the last ten years, with the most recent policy ratified in 2007. Brown has adopted a more aggressive investment policy in pursuit of enhanced returns while still seeking to control risk and volatility. The most notable changes include: reduced exposure to domestic equity and fixed income, increased exposure to developed and emerging international markets, increased exposure to private equity and real assets, and modest use of leverage. With leverage, 100 percent of the endowment may be invested in equities, and an additional 10 percent may be invested in fixed income. Brown has increased portfolio risk modestly, but the policy is expected to produce higher investment returns over the long term and to have sufficient downside protection to weather turbulent markets. In turn, Brown's higher expected returns should help the University maintain or enhance its competitive position relative to its academic peers.

The following chart shows the asset allocation targets as of the beginning of fiscal year 2008:

INVESTMENT POLICY ASSET ALLOCATION



DESCRIPTION OF BROWN'S ASSET CLASSES

The public equity category includes public stock managers in the United States, in international developed markets, and in emerging markets.

Hedged strategies is a unique category defined by the tactics employed by its managers rather than by the markets in which they participate. In general, these managers seek to generate moderate to high long-term real returns by exploiting public market inefficiencies. Their strategies typically employ a combination of long and short positions.

Private equity is composed of buyouts and venture capital. Private equity managers seek to create value via operational or structural improvement of existing companies or by the development of new companies offering innovative products or services to growing markets.

Real assets include real estate and commodities-related assets.

Fixed income provides stable cash flow with greater certainty than any other asset class. Brown's fixed income portfolio includes allocations to nominal U.S. Treasury securities and to Treasury Inflation Protected Securities (TIPS).

The investment policy's high allocation to alternative assets allows exposure to less efficient markets, where it is easier for active managers to add value, and reduces volatility through diversification. It includes fixed income and real assets as insurance policies against economic environments that are harmful to equities.



HOW MUCH OF THE ENDOWMENT DOES BROWN SPEND EACH YEAR?

Brown's endowment spending is governed by a well designed and disciplined policy that considers both long-term and short-term needs. The endowment spending policy balances the University's need for current income from the endowment with its equally important goal of preserving the endowment's value to provide funding for future generations at Brown. To ensure this, the University's investments over the long-term must provide a return that exceeds the inflation rate plus the endowment spending rate. The long-term history of financial markets demonstrates that by limiting endowment spending, on average, to 5 percent of market value, an institution can maintain the inflation-adjusted value of its endowment over time.

WHAT IS BROWN'S SPECIFIC PAYOUT POLICY?

Each February, the Brown University Corporation establishes the endowment payout rate that will apply during the upcoming fiscal year. A long-standing Corporation policy specifies that, ordinarily, the payout should be between 4.5 percent and 5.5 percent of the endowment's applicable market value. The applicable market value is defined as the average of the consolidated investment pool's market values for the 12 quarters of the three prior calendar years (e.g. the payout for fiscal year 2008 was based on calendar years 2005, 2006 and 2007).

DOES MARKET VOLATILITY HAVE AN IMPACT ON THE PAYOUT?

Brown's spending policy is conservative and responsible: The authorized spending rate averages 5 percent over time, and the lagged, 12-quarter average market value smoothes the effect of market performance – ideally, to ensure a stable source of income each year. Because the University uses this three-year average as the market value, the endowment income in any year is not affected dramatically by sudden, unsustained drops or surges in the financial markets.

HOW IS THE PAYOUT CALCULATED FOR MY NAMED ENDOWED FUND?

Most named endowed funds own shares in the long-term investment pool. (A small portion of the endowment is invested separately – typically because of donor restrictions – and does not own shares in the pool.) The number of shares each fund owns depends on the amount of

the gift and the market value of the endowment at the time of the gift. At the end of each month, the University calculates the current market value per share by dividing the total market value of the investment pool by the total number of shares. During the succeeding month, new gifts to the endowment buy shares in the consolidated pool at this share price.

Every endowed fund that owns shares in the investment pool receives an annual payout, or distribution, based on the number of shares it owns. Using the payout approved by the Corporation for each fiscal year, the University calculates a distribution per share and distributes the payout to each fund early in the fiscal year, typically in August.

WHAT IMPACT WILL BOLDLY BROWN: CAMPAIGN FOR ACADEMIC ENRICHMENT HAVE ON THE ENDOWMENT?

The \$1.4-billion Campaign for Academic Enrichment is an ambitious undertaking, through which Brown University will build on its historic strengths in teaching, research, scholarship, and community service. As part of the campaign, Brown plans to raise at least \$660 million in new endowment for professorships, undergraduate scholarships, graduate fellowships, The Warren Alpert Medical School of Brown University, and a host of other priorities. As of June 30, 2008, Brown had already raised more than \$1.241 billion in gifts and pledges for the endowment. (For the latest updates on the progress of the Campaign, visit the campaign website at www.boldly.brown.edu.)

IF I HAVE MADE A PLEDGE, WHAT HAPPENS TO MY FUND UNTIL I MAKE ALL MY PLEDGE PAYMENTS?

The University has established minimum endowment levels for various types of endowed funds. Until the prescribed minimum endowment level is received for that type of endowed fund, gift payments to establish a named fund will be held in an appropriate general endowment account. The endowment payout provides annual support for that general purpose. Once you have made gifts equivalent to the minimum funding level, the accumulated funds will be moved (at the appreciated value of their shares) to a newly created named endowment fund.

For example, you pledged \$500,000 to establish a named scholarship fund. The minimum needed to establish a named scholarship fund is \$250,000; until you have paid \$250,000 on your pledge of \$500,000, your pledge payments will be held in the general endowment account

benefiting financial aid. The endowment payout on those funds is used for undergraduate scholarships. When your payments reach \$250,000, the funds are moved from the general endowment to a "named" scholarship endowment, and the payout is used for undergraduate scholarships.

Endowments for professorships are handled differently in that the named endowment account may be established once one-third of the minimum amount is received. At that time, a resolution to establish the chair will be submitted to the Corporation for a vote of approval.

WILL THE UNIVERSITY REINVEST THE PAYOUT TO HELP MY FUND GROW?

No, the payout is made annually to each endowed fund and the University uses that income immediately and directly to support the programmatic goals that you have chosen to support with your endowed fund, whether financial aid, academic programs, or faculty support. As you can see from the endowment performance described here, your fund will grow through market appreciation.

WHEN WILL MY ENDOWED FUND BEGIN MAKING DISTRIBUTIONS IN SUPPORT OF MY GIFT'S PURPOSE?

The named endowment fund will receive its first payout during the fiscal year after it is established. For example: In August 2008, you pledge \$100,000 to create a named library fund, and you make your first pledge payment of \$25,000 in December 2008. Your fund will be established when the cash received totals \$25,000 – the minimum endowment level for endowed library funds – December 2008, in this case. The fund will receive its first payout early in fiscal year 2010 (approximately August 2009).

HOW IS THE PAYOUT ON MY NAMED FUND USED?

The income generated by endowments enables Brown to offer its students an exceptional array of opportunities. The University strives to nurture and strengthen these opportunities as well as ensure that sufficient resources are available to support the administrative costs associated with the endowed activities. Endowed activities use a variety of University services including facilities, computing, libraries, and general administration.

To help support these essential costs, the University distributes the authorized endowment payout in two pieces: 95% is distributed for endowed programs to spend directly on their programmatic needs and

5% is distributed to a central pool to offset the associated administrative costs incurred by the University in support of the endowed activity. This split of the distribution was authorized by the Corporation in October 2000, reviewed by the Budget and Finance Committee in May 2004, and will be reviewed from time to time by the Corporation.

IS A GIFT TO THE BROWN ENDOWMENT A SOCIALLY RESPONSIBLE INVESTMENT?

For each of us, philanthropy is a very personal act, but one that deepens our relationship to those who are its beneficiaries. A gift to Brown can transform individuals, the institution and the wider world that they and Brown serve. The lives and work of Brown faculty and students are enriched by the generosity of every donor who has committed their financial support to this University throughout its history.

HOW DOES BROWN ADDRESS ITS ETHICAL RESPONSIBILITIES AS AN INSTITUTIONAL INVESTOR?

Brown University takes seriously the moral and social responsibilities that attend its investments. The Advisory Committee on Corporate Responsibility in Investment Policies (ACCRIP), an advisory panel of faculty, students and alumni, was established by the University in 1978 originally to study issues of investment in companies doing business in South Africa while the apartheid system was still in force. Today, the ACCRIP considers issues of investor responsibility, including the environment, human rights and other issues of social responsibility, as they affect the University's investment policies and practices.

The advisory panel provides a forum for research and reasoned discussion to inform Brown's investment managers and the Corporation Committee on Investments about campus concerns regarding ethical issues and issues of moral responsibility.

In 2003, the University divested from direct investments (made either by the University or by the investment managers Brown hires) in companies that manufacture tobacco products. In response to the humanitarian crisis in Darfur, in 2006, the University joined a handful of its peer institutions and divested from companies whose business activities can be shown to be supporting and facilitating the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur.

More recently, in February 2007, the Brown Corporation approved the creation of the Social Choice Fund within the University's endowment. This quasi-endowment fund will be invested in companies that are environmentally responsible and that are working toward sustainability, such as more efficient use of natural resources or reduced environmental burdens. Consistent with University policy, a minimum gift of \$25,000 will be required to contribute to the Social Choice Fund and its payout rate will be governed by the Brown spending policy (see page 9). The express use of the Fund will be to provide budgetary funds for undergraduate financial aid, graduate financial aid, and unrestricted purposes.

WHO DO I CONTACT ABOUT MAKING A GIFT TO THE BROWN UNIVERSITY ENDOWMENT?

For more information about making a gift to the Brown University endowment, please call the Advancement Division at 800-662-2266.





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CAMPAIGN FOR ACADEMIC ENRICHMENT

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