

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:

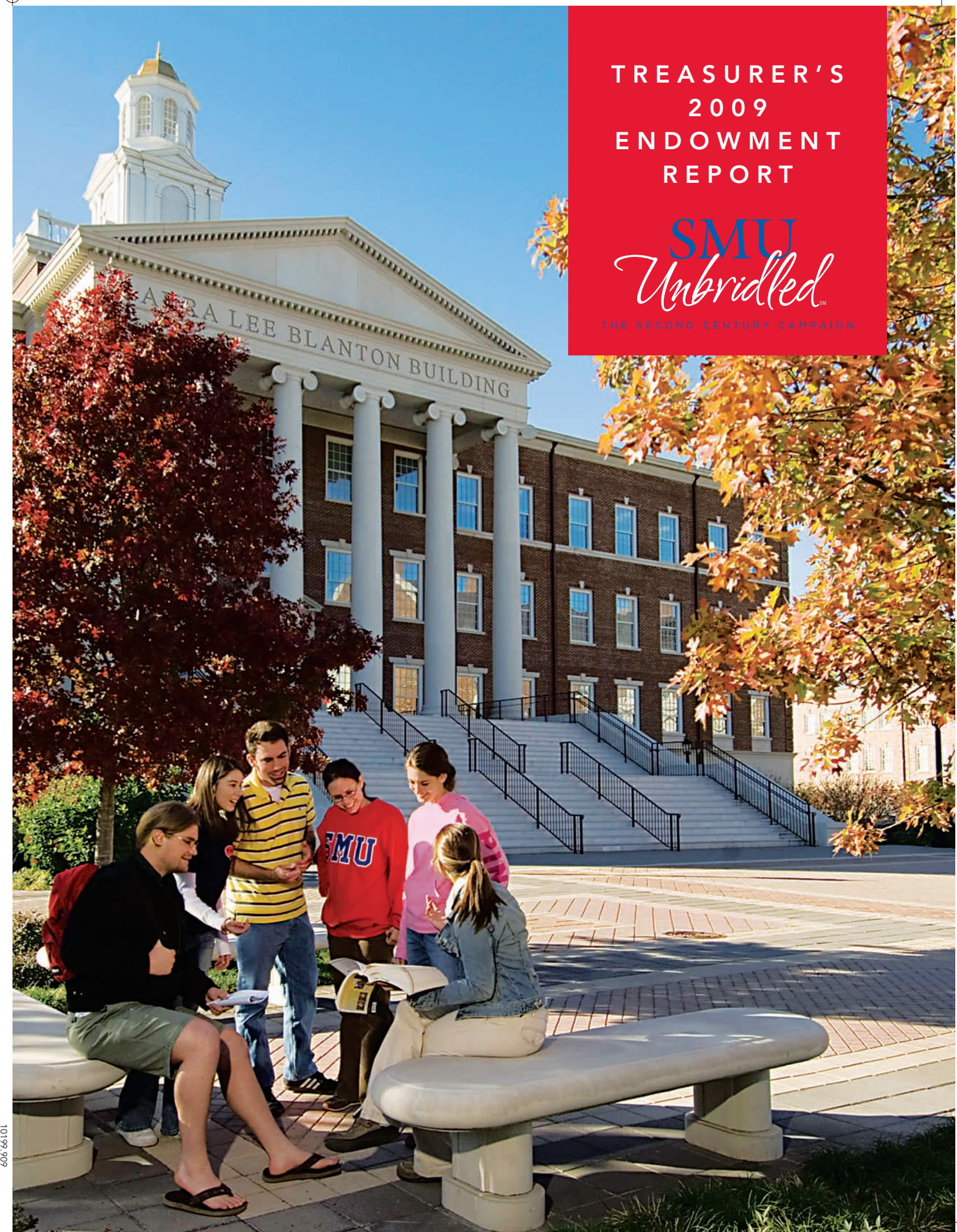
- Maintain the endowment's real purchasing power
- Minimize year-to-year volatility to aid in budget planning
- Support the University's educational goals by releasing a substantial and sustainable flow of funds to the operating budget

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.



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UNIVERSITY ENDOWMENTS ACROSS THE NATION have felt the impact of stresses not seen in the global financial markets for 50 years. The peak-to-trough decline for the global markets in 2008–09 was 60 percent, and almost all asset classes were down more than 20 percent during the period.

The SMU Endowment did not escape this global crisis. Its market value declined by \$369 million during the 2008–09 fiscal year, to total \$1.032 billion as of May 31. The total return declined 24.2 percent, consistent with endowments of similar size nationwide.

The endowment's decline during the fiscal year was less than that of the U.S. and international equity, real estate and commodities indices (see chart below). Endowment performance is measured against a blended benchmark of investment indices weighted to match asset allocation targets. SMU's broadly diversified portfolio, designed to limit volatility without sacrificing long-term return, continues to perform well against its benchmark over longer periods of time.

There has been other encouraging news. The endowment also added \$20.1 million in new gifts – an important indicator of the confidence our supporters have in our ability to invest, manage and steward the funds entrusted to us.

Changes made to the University's spending policy several years ago have proven successful in guarding against the need to make reductions in endowment distributions, as some universities have been forced to do. The policy balances fluctuations in the market value of the endowment with distributions made available in previous years, helping SMU achieve a more consistent level of expenditure from the endowment. The endowment provided significant support to University operations last year, with \$60.3 million allocated to educational programs, scholarships and faculty support.

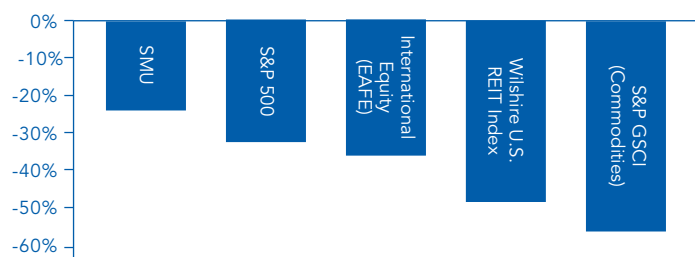
The financial markets began to stabilize in March 2009, recovering some of their previous declines. SMU's endowment has benefited accordingly. We are hopeful that the stabilization is a sign that the worst of the financial crisis is over. As always, we remain focused on pursuing strategies and identifying opportunities that will enable the endowment to meet its long-term return goals – and allow support for the University's programs and priorities to grow significantly over time.

You, our generous donors, make this growth possible. We are sincerely grateful and will continue to be careful stewards of the resources that are strengthening our quality and impact as a university.

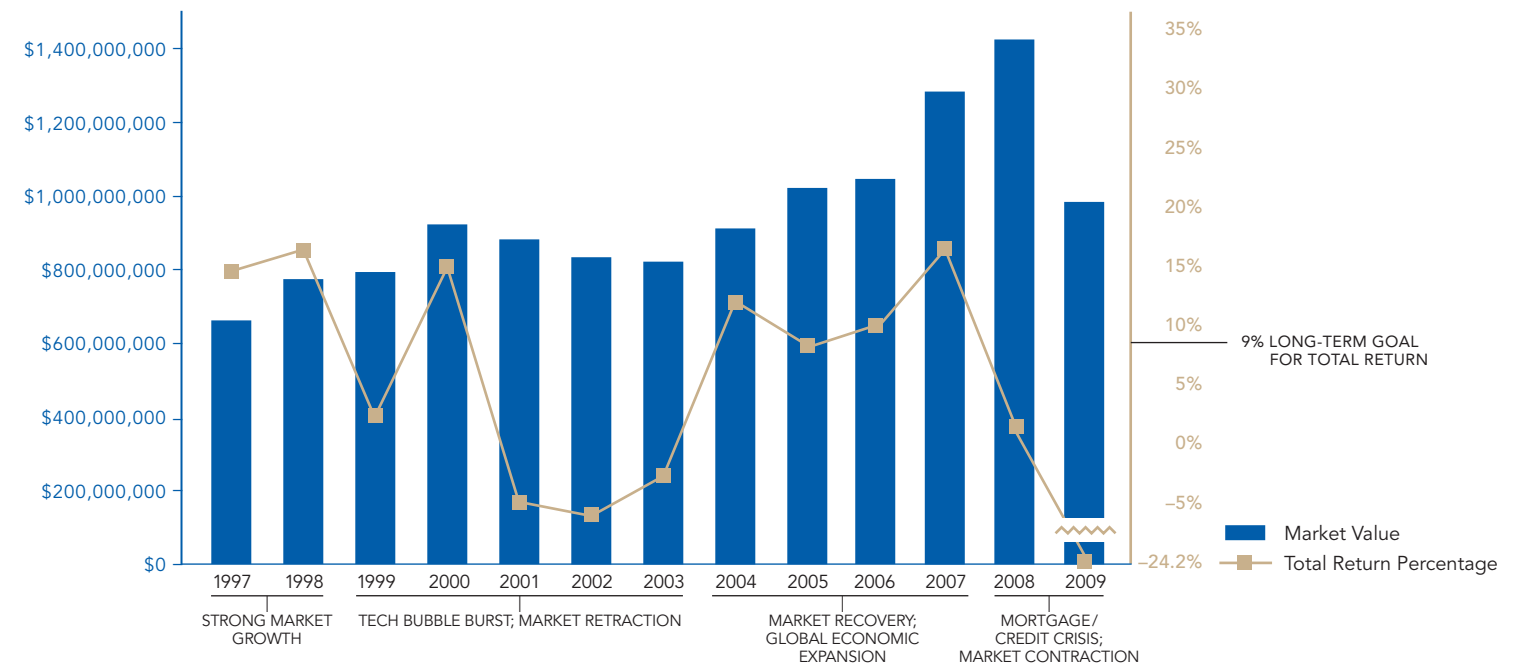


Michael Condon
Treasurer and Chief Investment Officer

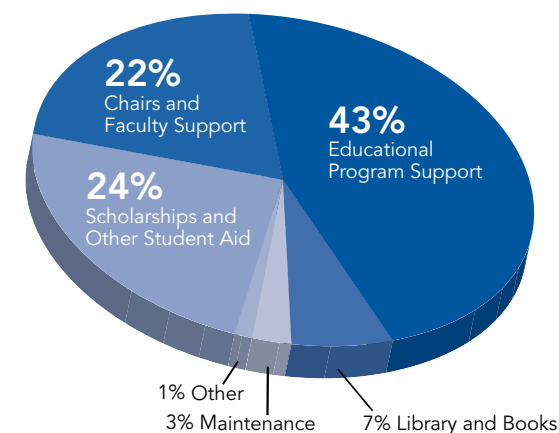
TOTAL RETURN OF SELECTED INDICES
June 2008 – May 2009



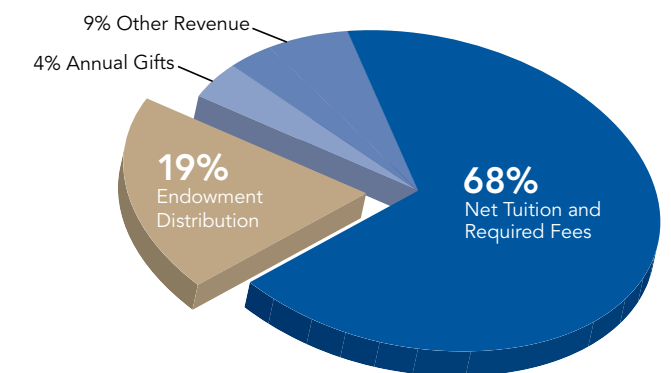
ENDOWMENT GROWTH AND TOTAL RETURN 1997–2009



2008–09 ENDOWMENT DISTRIBUTION BY DESIGNATED PURPOSE



2008–09 ENDOWMENT DISTRIBUTION AS A PERCENTAGE OF SMU REVENUE SOURCES (EDUCATIONAL AND GENERAL BUDGET)



BALANCED POOL ASSET ALLOCATION 2008–09

