



Endowment Annual Report Pacific Lutheran University June 1, 2012 to May 31, 2013



Table of Contents

Introduction	1
Endowment Growth.....	2
Comparison	3
Endowment Fund Structure	4
Asset Allocation.....	4
Types of Investments.....	5
Long-Term Endowment Performance	3
Spending	7
Looking to the Future: Deferred Gifts	8
Portfolio Management	9
Investment Managers	10

Introduction

The Pacific Lutheran University endowment is a permanent fund from which income may be spent at a rate established by the Board of Regents. The income from the endowment provides the university with greater financial stability and allows the university to implement long-range plans. Currently, the annual payment is equal to five percent of the average assets over the last three fiscal year ends.

About 89.1% of the annual university operating budget is funded by tuition. Gifts to the university fund and endowment provides about 4.5% of the operating budget. In addition, the endowment provides funding for various restricted accounts. The remaining 6.3% represents net income from auxiliary services and miscellaneous fees.

Due to the perpetual nature of the endowment, investments are made with the intention of holding them long-term. While many of the investments are liquid and can be sold at any time, others have an investment horizon as long as ten years. Real estate included in the portfolio may be held even longer.

The PLU endowment is invested in a number of highly diversified asset classes, providing stability in the principal or corpus of the endowment. This stability has allowed the university to continue to provide a five percent payout each year even during the volatile markets. Beyond maintaining the endowment value, continual growth has been realized due to careful management and by new gifts. The turbulent period of 2008-09 lead to a drop in the value of the endowment, with a recovery by June 2011. The endowment also had a downturn in FY2012, but the university continued the payout to scholarships and other university priorities.

The university and its advisors have selected an investment strategy that strives to create endowment growth to provide continual funds for a variety of university programs. This growth is not only supported by market expansion but also through thoughtful and generous gifts to its endowment. The endowment also reached an all-time high at May 31, 2013.

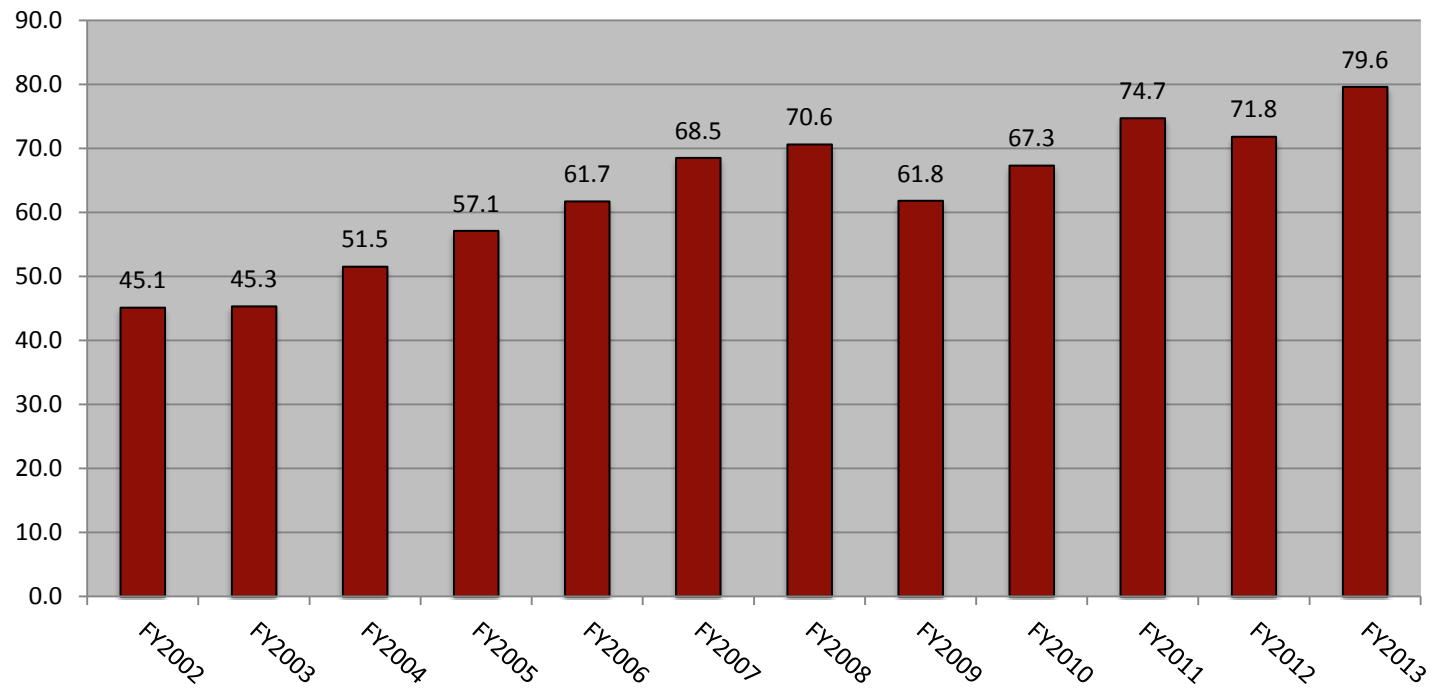


Endowment Growth

Through the most recent capital campaign, *Engage the World: The Campaign for PLU*, the endowment experienced a significant increase in value and it continues to maintain value as deferred gifts and pledges come to the university. Although the endowment pool is invested in a diversified manner, it is still

correlated with the stock market. The graph below shows the growth of the PLU endowment over the past 18 years, including both market investment performances and annual gifts to the university. As of May 31, 2013 the total value of the PLU Endowment was \$79.6 million.

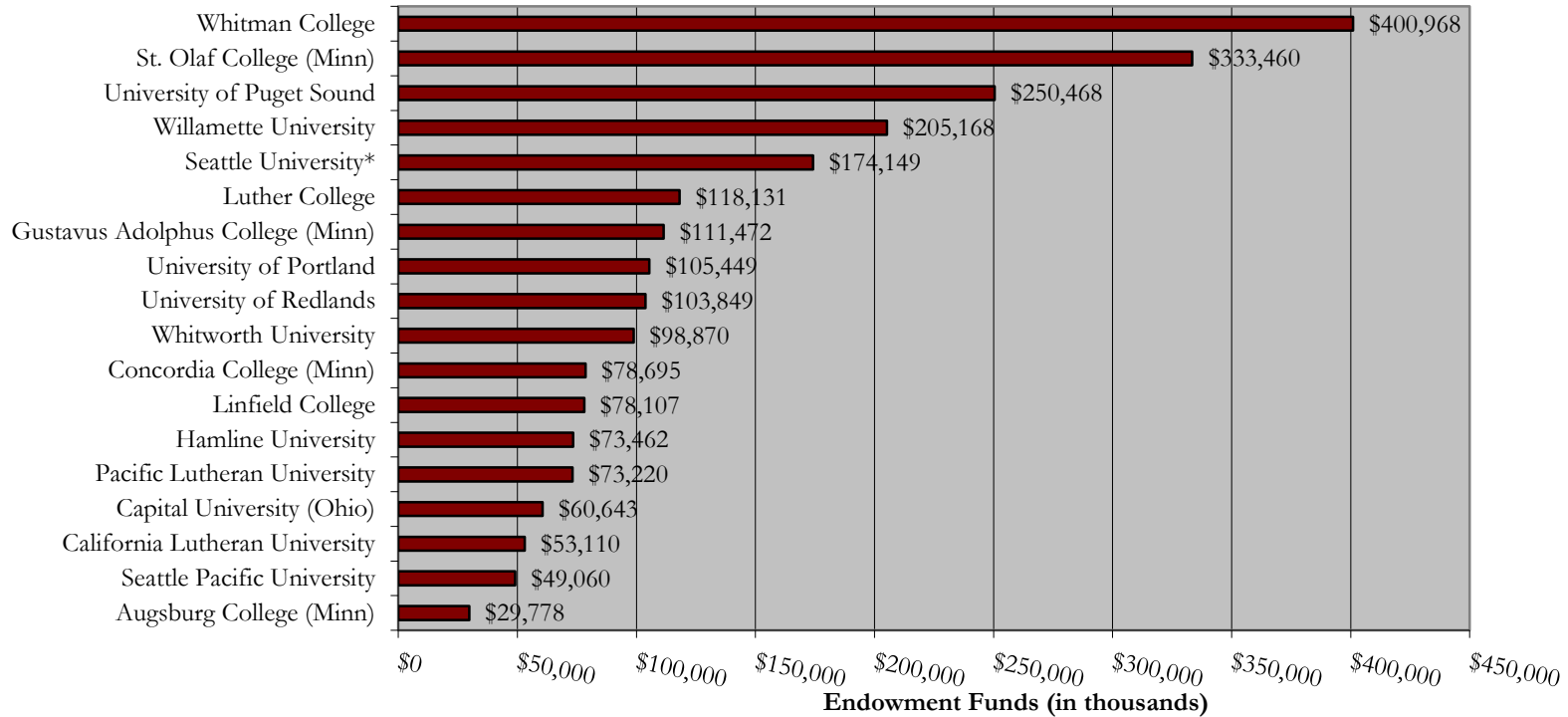
Endowment



Comparison

The university benchmarks endowment performance each year by participating in the endowment study of the National Association of College and University Business Officers (NACUBO). In addition, we compare our endowment size with Pacific Northwest, Evangelical Lutheran Church of America (ELCA) and New American Colleges and Universities (NAC&U) peers. The graph below illustrates the value of the PLU endowment as shown in the NACUBO endowment study for fiscal year 2012. The values reflect growth and appreciation, as well as payouts.

NACUBO Comparison of Endowment Values in June 2012



* Seattle University information obtained from the Financial Statement, not included in NACUBO study
 NACUBO reports data in February for the previous fiscal year. FY13 data will be publicly available in February 2014.

Endowment Fund Structure

Pooled Fund

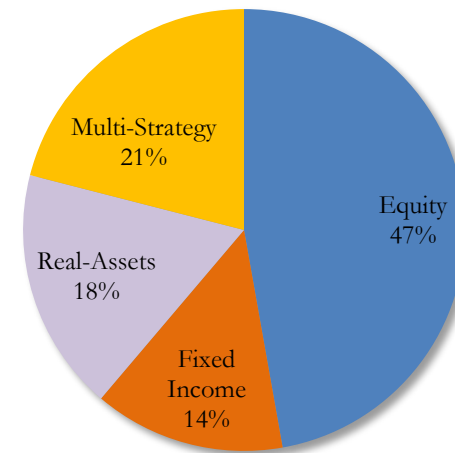
Most endowment gifts made to Pacific Lutheran University programs are pooled for investment purposes, creating a vehicle similar to a mutual fund. As gifts are invested in the pool, they effectively buy “shares” of the endowment. Each share is issued at a net asset value, allowing the university to “unitize” the endowment to calculate the value of its underlying investments. The university then manages these pooled funds. As of May 31, 2013, the market value of the pooled investment fund was \$70.1 million.

Non-Pooled Funds

A part of the university endowment is composed of non-pooled funds, which are held in trust by outside managers. This includes charitable trusts that are professionally managed for the benefit of more than one institution. While the university is entitled to an income from the contractually set portion of the trust, it is unable to make decisions regarding the management of those assets. As of May 31, 2013, the market value of the non-pooled endowment was \$9.5 million.

Asset Allocation

The asset allocation guidelines are set by the Investment Committee of the PLU Board of Regents and reviewed periodically. The allocation parameters are used as a guide for both new investments and ongoing rebalancing. These parameters were adjusted in August of 2010. The actual asset levels are reviewed at each meeting of the Committee and are considered before a new investment is made or sold. As of May 31, 2013 the current allocation fell within the allowable range for each type of asset. Traditionally, endowments have balanced their portfolios between publicly traded equities and fixed income in a ratio of about 60/40 or 70/30. Many large endowments have moved toward various alternative investments, real estate and real assets. PLU has followed this trend for the past 15 years, and avoided some of the volatility seen by many smaller endowments. (See page 10 for a list of individual investment managers.)



Types of Investments

Equities

The endowment currently has investments with twelve different equity funds, fully diversifying the sector by geographic location, company size, industry, and market characteristic (growth v. value). While equities have historically had large returns, they also carry a large amount of volatility. Some of these funds may maintain both long and short positions.

Fixed Income

The endowment is currently invested in four different fixed income funds. Their strategies include global bonds, domestic fixed income securities, international, and emerging markets debt instruments through separate accounts, mutual funds, and commingled funds for long-only fixed income, and limited partnerships and mutual funds for long/short fixed income and opportunistic structures. With interest rates at the lowest levels in the past thirty years, the Investment Committee minimized the endowment's interest rate and credit exposure. This asset class has very little correlation with equities, and therefore serves as a good source of diversification.

Real Assets

Real assets held by the university include both gold and other commodities.

Multi-strategy

The multi-strategy section of the endowment is composed of investments in five different funds. These funds allocate capital among strategies that cross traditional asset class definitions without the limitations imposed when managing versus a specific benchmark. Multi-strategy investments seek to generate a positive return regardless of the performance of the public, long-only markets.

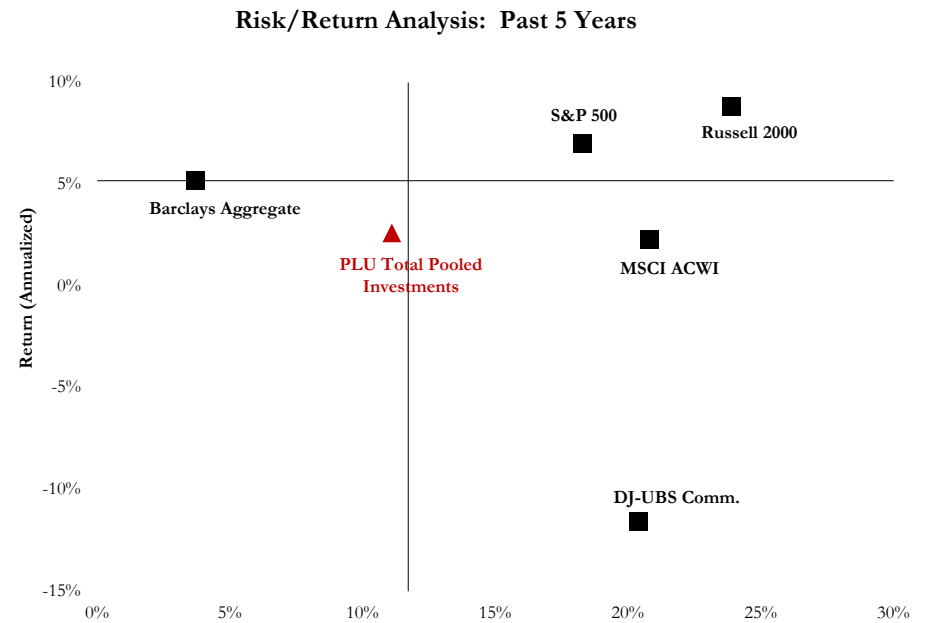
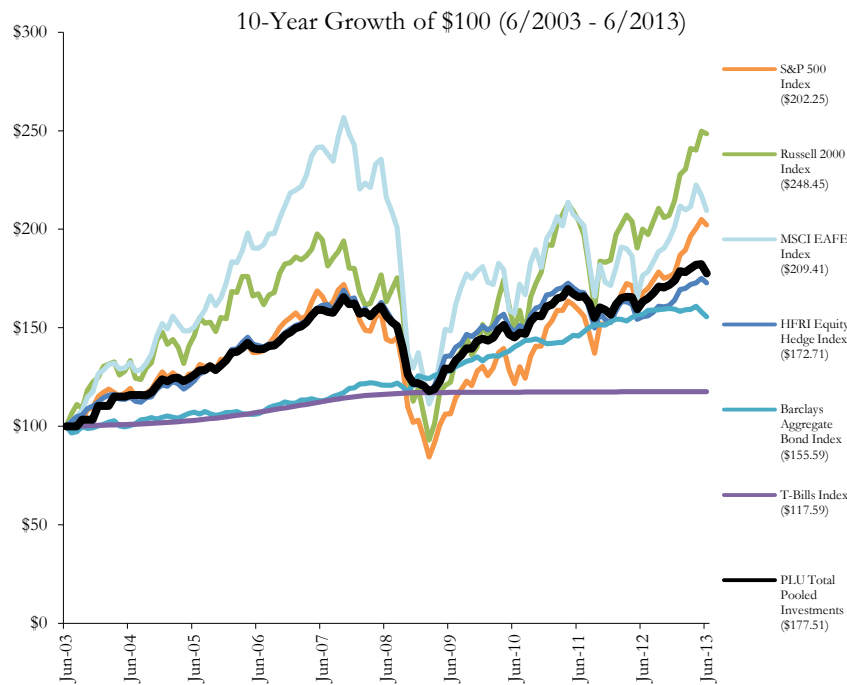
Real Estate

The real estate segment of the endowment includes various residences in the vicinity of the university, commercial properties near campus, and real estate that is for sale and was gifted to the university. The purpose of the real assets in the portfolio is to generate current income and some appreciation in the value of the property.

Cash / Non-Pooled

The cash/non-pooled segment of the endowment includes liquid cash investments, life insurance, some real estate contracts, and investments managed by others. Even though PLU has little influence on funds managed by others, those investments strategies are considered when other investment decisions are made.

Long-Term Endowment Performance



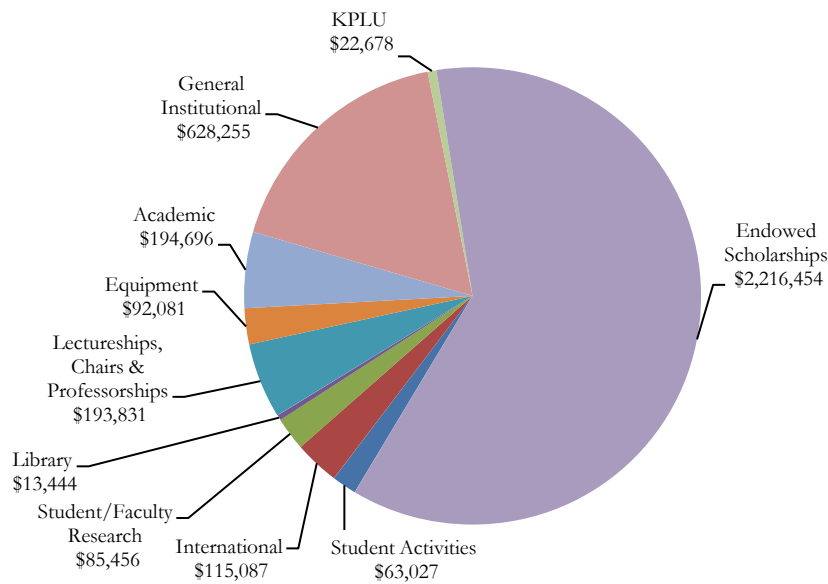
Spending

The endowment is meant to provide cash every year to fund scholarships, undergraduate research, equipment, lectures, athletic facilities, some faculty positions, global education, and other university programs. The total amount paid out from the endowment pool was \$3,625,000. The graph below left illustrates

the areas of expenditure. Many endowment funds, established by donors to honor or memorialize an individual, provide student scholarships. The graph below right shows the total value of these scholarships awarded in the year 2012-2013.

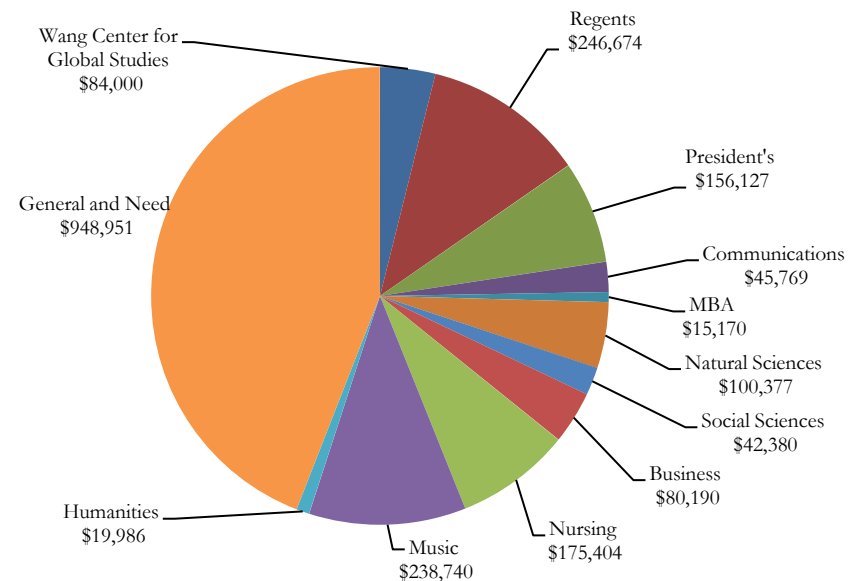
Endowment Expenditures (2012-13)

Total Amount Paid Out from Endowment Pool: \$3,625,000



Value of Endowed Scholarships Awarded (2012-2013)

Total Spent on Endowed Scholarships: \$2,197,815



*Due to student eligibility, not all endowed scholarship funds will be awarded in any one academic year.

Looking to the Future: Deferred Gifts

Many people choose the endowment as a way to leave a lasting and permanent legacy for themselves, for a professor, or for a loved one. For example, by providing a minimum gift of \$25,000 either outright, over a period of years, or through a deferred gift, a donor may create a student scholarship and establish the criteria, within reason and IRS guidelines, by which the university will award the scholarship. A donor profile will then accompany the scholarship so that future generations of PLU students will come to know the donor or the person for whom the scholarship is named.

The most common and popular deferred gift arrangement is to provide a bequest through one's will, living trust or as a named beneficiary of a retirement account. In fact, each year PLU receives dozens of notices from individuals that we are included in their estate plans – with nearly 500 in total.

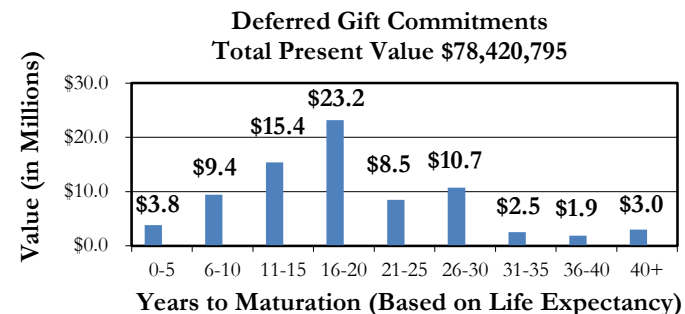
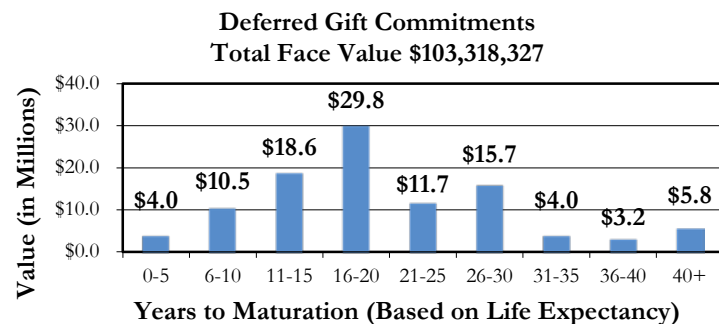
Charitable gift annuities and charitable remainder trusts are also very popular and tax-wise ways to provide a gift to PLU. Currently, PLU provides income to 51 individuals from 64 gift annuity contracts with a market value of \$4.5 million. In addition,

PLU serves as trustee to 34 charitable remainder trusts with a market value of \$7.2 million, providing tax and income benefits to 36 individuals.

Life Insurance policies are yet another way to provide a deferred gift to PLU. Existing, “paid-up”, life insurance policies are often contributed to a charitable cause like PLU. In addition, purchasing a new policy and naming Pacific Lutheran University as beneficiary has many tax benefits as well as the ability to provide a major deferred gift.

PLU is currently the irrevocable owner and beneficiary of 73 life insurance policies, with a combined face value of over \$12 million.

Trusts and annuities are managed separately from the PLU endowment, and are invested into funds that take the donor age and income distribution into account. The graphs below indicate the projected years to maturation for both revocable and non-revocable deferred gifts.



Portfolio Management

A team of people, each of whom has a distinct and important task, manages the PLU endowment. The highest level of responsibility goes to the seven-member Investment Committee of the PLU Board of Regents. The committee is responsible for the strategic direction of the fund, and meets about six (6) times each year, in person or via teleconference. The committee also received monthly updates on performance of all investments. Committee tasks include asset allocation, manager selection, and setting the overall investment and spending policy.

Working closely with the Investment Committee are staff members of the university who recommend and support strategic decisions of the committee. In addition, many others at PLU work in the areas of account management, manager monitoring, risk management, asset allocation and rebalancing, and essential communication among various parties.

Slocum & Associates, acting as investment advisors, work closely with the members of the team in investment selection, risk management and ongoing monitoring of current investments. Our investment advisor is also consulted before the Investment Committee makes any strategic allocation changes.

Finally, but most importantly, the underlying investment managers we select to actually invest the assets have the crucial task of security selection, and are most essential to the continued performance of the PLU endowment.

Investment Committee

Mr. Dale Benson
Mr. Ed Grogan
Mr. Roe Hatlen
Dr. Mark Knudson, Vice Chair
Mr. Donald R. Morken
Rev. Dr. Larry Neeb
Mr. Jeffrey L. Rippey, Chair

Advisors

Dr. Loren J. Anderson (PLU President until May 31, 2012)
Dr. Thomas W. Krise (PLU President, June 1, 2012-present)
Mr. Robert K. Riley, PLU Associate Vice President for
Finance/Controller
Dr. Sheri J. Tonn, PLU Vice President of Finance & Operations
Mrs. Darcy Johnson

Investment Advisors

Mr. Texas Hemmaplardh, Slocum & Associates
Mr. Mark Anderson, Slocum & Associates

Investment Managers

US Large Cap Equity

Platte River Capital
Vanguard Dividend Growth

US Small Cap Equity

Buffalo Small Cap

International Equity

Parametric

Global Equity

Tweedy, Browne Worldwide High
Division
William Blair International Growth

Private Equity

Adams Street
Thomas Weisel Global
Partners Group
WP Global – Core Alpha

Long/Short Equity

ABS
Criterion – Horizons

Fixed Income

PIMCO Unconstrained
Franklin Templeton Global Bond
SVP – Restructuring Fund
MKP - Credit

Real Assets

Blackstone Resources
SPDR Gold Trust

Multi-Strategy Managers

PIMCO All Asset
BlackRock Tempus
Davidson Kempner – Partners
Interlachen – Multi-Strategy
Marathon – Special Opportunity
Pine River - Nisswa



