

University at Buffalo Foundation Inc And Affiliates

Information Session for
Faculty Senate Executive Committee
December 9, 2009



About UB Foundation

- Mission
- Organization Structure
 - Board Structure - Corporate Structure - Business Office Structure
- Financial Information
 - Assets - Revenues
 - Liabilities - Expenditures
 - Net Assets - University Support
- Administrative Fees
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- UBFIRST
- Frequently Asked Questions
- University at Buffalo Endowment

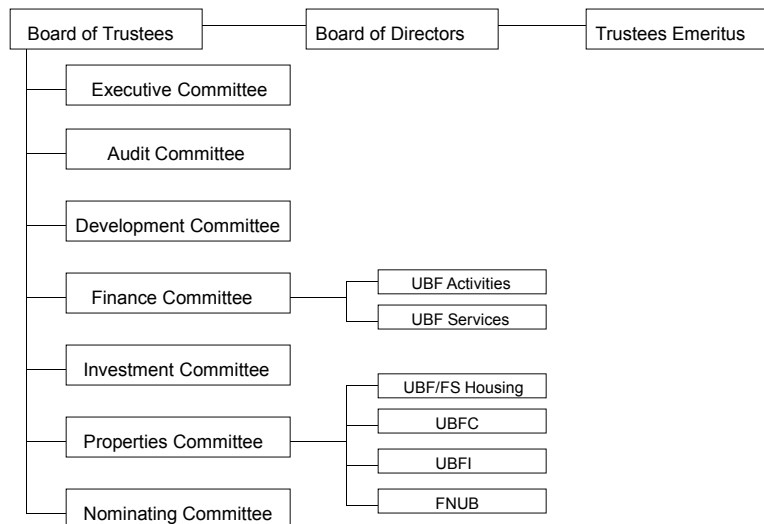


Mission

- Support and promote activities of UB by providing assistance with
 - Philanthropy and Fund Raising
 - Revenue Management
 - Financial Services
 - Developing and Managing Real Property
 - Strong Base of Private-Sector Support



Organization Structure





UBF Board

Board Position Description

The Board of Trustees of the University at Buffalo Foundation, Inc. (UBF) is the University at Buffalo's (UB) preeminent body charged with the stewardship of the university's privately held assets in the service of strengthening the university's teaching, research, and public service mission and accomplishments.

Elected by the State University of New York Board of Trustees at the recommendation of the UBF board, trustees serve up to 2 consecutive 3-year terms. Trustees represent the University at Buffalo and the University at Buffalo Foundation to the general public and fulfill general duties of care, loyalty and obedience.



UBF Board

Responsibilities

- **Provide stewardship** of the university's privately-held assets through managing and investing of gifts, grants, and properties; providing financial advice and counsel, and approving all major budgets and expenditures of the foundation.
- **Represent UB and UBF** to the university's many constituencies, regionally, nationally, and globally; and advocate on behalf of the university's interests with individuals of influence in the public and private sectors. Increasingly, UBF trustees shall take responsibility for protecting and growing the critically important assets of UBF.
- **Provide business assistance** to the university. Less than 35% of the university's operating budget comes from New York State. Accordingly, it is increasingly necessary for UBF trustees to offer business acumen in management, flexibility and securing of private sector opportunities.
- **Assist the university in acquiring resources**, and in promoting a culture of philanthropy. Personal annual giving is expected at a minimum level of \$5,000, whether through direct giving or through participation in and support of applicable university events. As appropriate to means and circumstances, trustees are requested to arrange at least one major gift and a planned gift to the university. Support for major university-wide campaigns is expected and encouraged.
- **Be knowledgeable of UB** and its programs, strengths, and aspirations. Participate actively in the alumni and development programs of the university and engage in campus events as time permits.
- **Attend**, either in person or by conference call, a minimum of two of the three board meetings per year (Fall, Winter, and early Summer). Actively participate in person or by conference call on at least one of five primary committees, most of which meet four times annually. Provide experience and special expertise as abilities and time permit.



UBF Board

Qualifications

- **Dedication** to the aims and objectives of UB and public higher education.
- **Awareness** of **and access** to individuals and organizations which can be encouraged to support UB financially and through volunteerism.
- **Involvement** in **and contribution** of financial support, priority time and/or personal expertise for the benefit of UB, its schools and its programs.
- **Stature, influence, leadership,** and **visibility** within one's profession and/or community.
- **Commitment** to utilize the full and diverse range of the trustee's personal and professional skills to increase the assets, effectiveness and importance of the UB Foundation as the primary enabling partner of the University at Buffalo.



Corporate Structure

- **Formal Corporate Names**
 - **UB Foundation and Affiliates**
 - University at Buffalo Foundation Inc.
 - UB Foundation Activities Inc.
 - UBFA LLC
 - UB Foundation Services Inc.
 - Eclipse LLC
 - UBF Corporation
 - **Related University Entities**
 - Central Radiopharmaceutical Services Inc.
 - Buffalo Prep, Inc.
 - University Medical Resident Services, P.C.
 - University Dental Resident Services, P.C.
 - Buffalo Area Engineering Awareness for Minorities, Inc.
 - UB Alumni Association, Inc.
 - FNUB, Inc.
 - FNUB LLC
 - University at Buffalo Foundation Incubator, Inc.
 - UBF Faculty-Student Housing Corp.
 - 248 North Long Street, Inc.
 - University at Buffalo Center for Assistive Technology Inc.
 - UB Speech-Language and Hearing Clinic, Inc.
 - UB Dental Alumni Association, Inc.

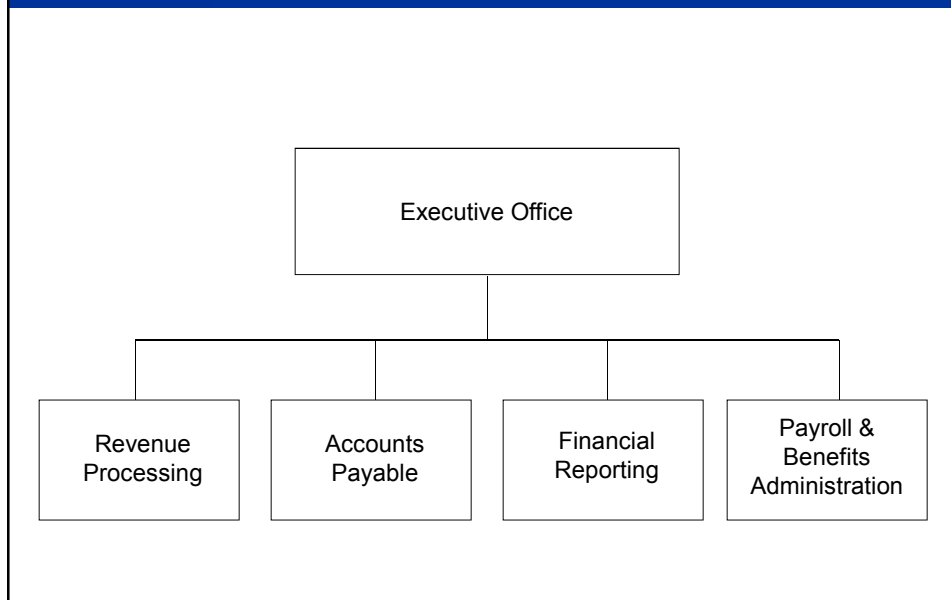


Corporate Structure

- **Affiliated Corporations**
 - **UBF Corporation – property development**
 - Parcel B
 - Bookstore
 - The Commons
 - **FNUB, Inc. – property operation**
 - 465 Washington St.
 - 889 LeBrun
 - Anderson Gallery
 - Jacobs Executive Development Center
 - **University at Buffalo Foundation Incubator, Inc. – property operation**
 - Incubator Facility
 - Baird Research Park
 - **UBF Faculty-Student Housing Corp. – property operation**
 - Apartment-style Housing Projects
 - South Lake Village
 - Flickinger Court
 - Flint Village
 - Hadley Road
 - Creekside Village
- **248 North Long Street Inc. – property operation**
 - Sweet Home Road Properties
- **UB Foundation Services, Inc. – sponsored program administration; other agency activity**
- **UB Foundation Activities, Inc. – financial management services & activities; gift expenditures**



Business Office Structure



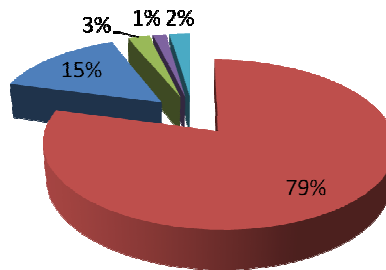


Financial Information Fiscal 2009



Financial Information – Fiscal 2009

■ Assets



■ Investments \$516,024,762

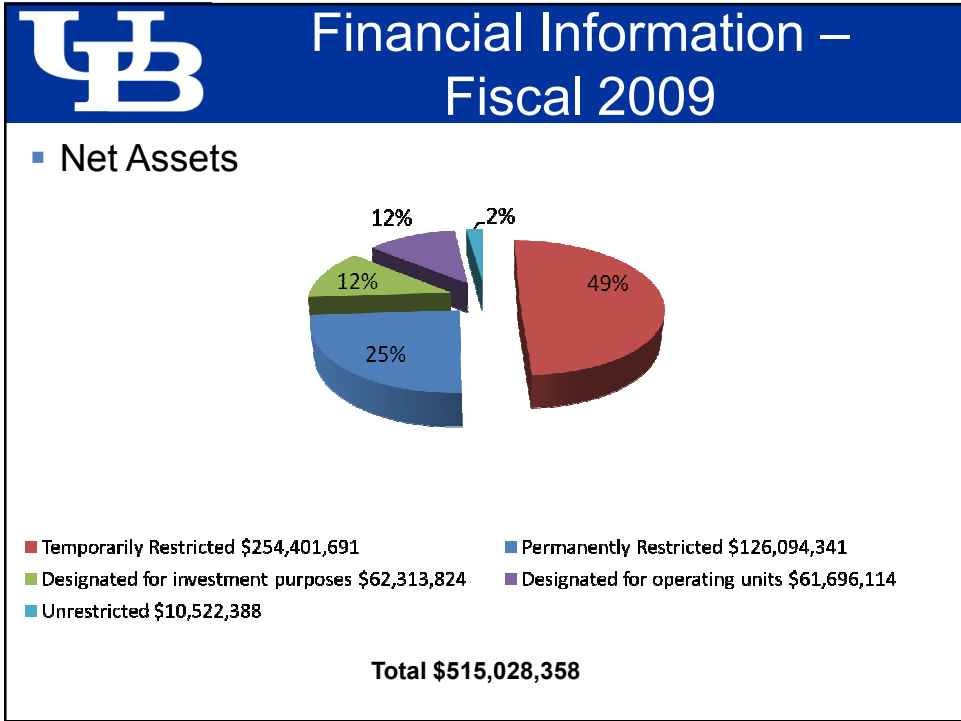
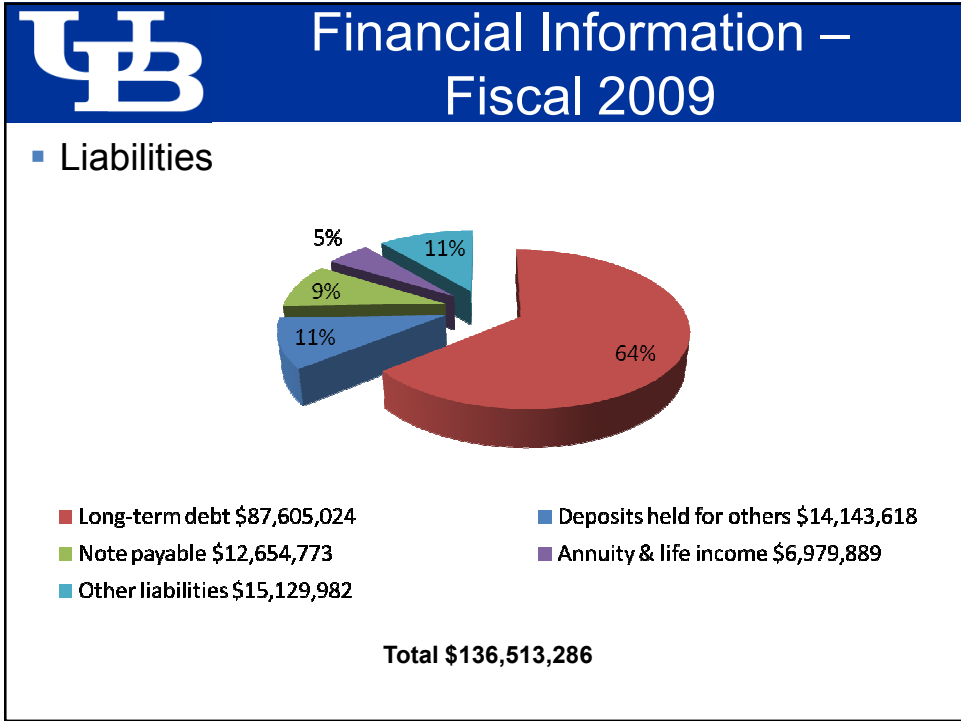
■ Property, Plant, and Equipment \$95,952,587

■ Contributions Receivable \$15,781,211

■ Fine Art collection \$9,173,514

■ Other assets \$14,609,570

Total \$651,541,644





Financial Information – Fiscal 2009

Revenues Administered

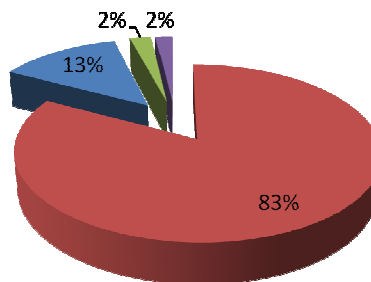
Source	Amount
Gift Revenue	\$15,420,359
Investment Revenue	(\$63,289,474)
Rental Revenue	\$17,900,066
Activity and Service Revenue	\$41,963,920
Administer for Others	\$44,910,499

Total \$56,905,370



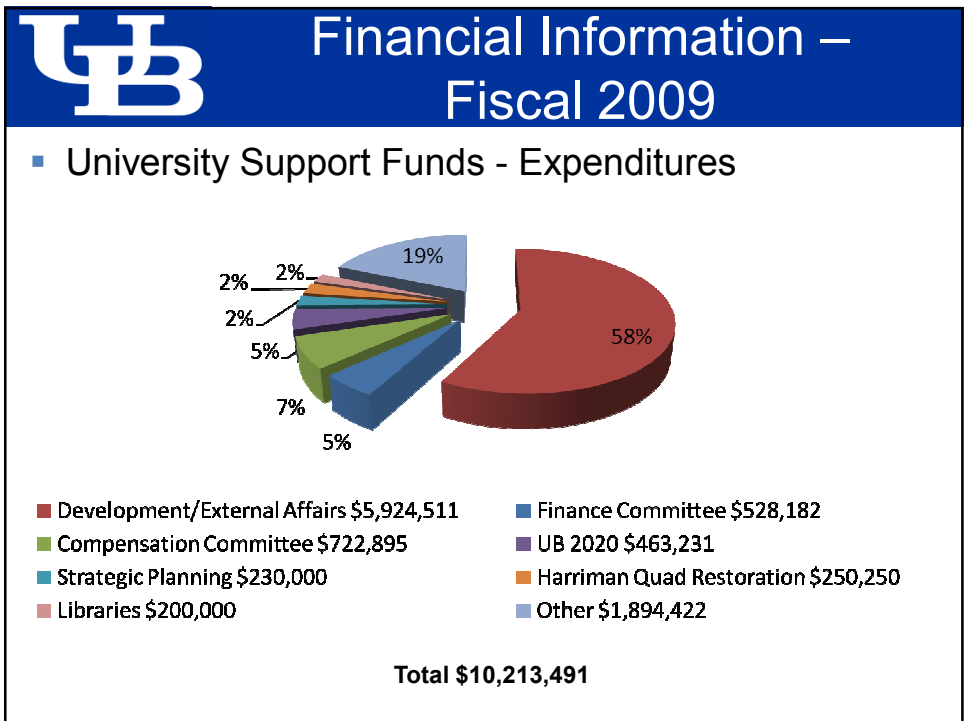
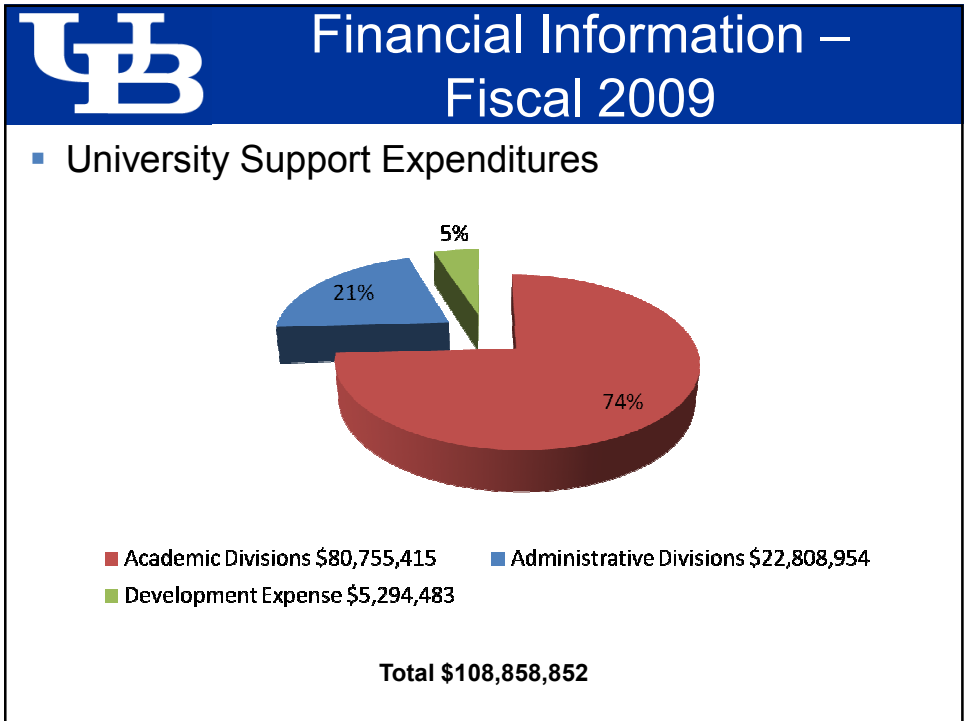
Financial Information – Fiscal 2009

Expenditures Administered



■ University Support \$108,858,852
 ■ Property Expense \$17,211,315
■ Investment Expenses \$2,940,839
 ■ Business Office \$2,375,134

Total \$131,386,140





Financial Information – Fiscal 2009

- Generating Funds for University

Source	Amount
Unrestricted Gifts/Fees on Gifts	\$686,083
Asset Management	\$10,416,604
Property Management	(\$758,792)
Financial Services	\$249,572

Total \$10,593,467



About UB Foundation

External Influences Over Activities

- Donor/Funding Source Expectations
- SUNY Policies
- Campus Policies
- General Public Expectations
- Federal/State Requirements



Administrative Fees



Administrative Fees

- Gift Revenues
 - Endowment Principal Gifts -- 0%
 - Expendable Gifts -- 5%
- Endowment Fund Revenues
 - An endowment fee amounting to approximately 1% of the value of each endowment fund is charged each year.
- Sponsored Program Revenues
 - The Office of Sponsored Programs determines a fee structure that UB follows when covering indirect cost rates for privately funded sponsored programs that the foundation administers.
- Faculty Practice Revenues
 - Clinical practice revenues are subject to a 5 percent administrative fee.



Administrative Fees

- **Activities and Services Revenues**
 - The general university service fee (GUSF) of 7 percent applies to activities and services revenues. This revenue category includes all revenues except gifts, sponsored programs, investment revenue, faculty practice, and UB Micro sales. Such revenue items are continuing education, event admissions, social activity fees, and other sales and services.

- **Charitable Trusts and Gift Annuities**
 - For all charitable trusts and gift annuities administered by UB Foundation, an annual fee is charged of approximately 0.5 percent of the beginning-of-the-year market value. Upon final distribution of trust assets, standard gift revenue fees are applied.
 - For those charitable trusts not administered by UB Foundation, the standard gift revenue fees are applied upon receipt of distribution from the trust.



UB Foundation Web Page

<http://www.ubfoundation.buffalo.edu>



UB First

<http://www.ubfoundation.buffalo.edu/drpl/cat/25>



Frequently Asked Questions

<http://www.ubfoundation.buffalo.edu/drpl/cat/79>



University at Buffalo Endowment



UB's Endowment

- Definition
- Overview of UB's Endowment
- Investment Committee
- Professional Services
- Investment Performance and Policies
 - Performance
 - Asset Allocation
 - Spending
- Underwater Endowments
- Underfunded Endowments
- Unutilized and Underutilized Endowments
- Informally Established Endowments
- Stewardship Reporting
- Questions and Discussion



Endowment Definition

Textbook definition of endowment

- Endowment funds are funds with respect to which donors or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and invested in perpetuity for the purpose of producing present and future income which may either be expended or added to principal.



Endowment Definition

More practical definitions

- Principal (Endowment) Account – invested in perpetuity to generate annual expendable investment return and maintain purchasing power relative to inflation
- Spendable (Expendable) Account – used to receive portion of investment return made available for spending and make expenditures for donor's intended purpose



UB's Endowment


- As of June 30, 2008 - UB's total endowment was \$535.6 million.
 - Split into two parts
 - State Held (\$322.3 million) – administered by SUNY Trustees
 - UBF (\$213.3 million) – administered by UB Foundation Trustees
- As of June 30, 2009 - UB's total endowment was \$410.4 million
 - All with UBF




Endowment Market Value by Administrative Area Benefitting

As of June 30, 2009 and June 30, 2008 (in thousands)

Administrative Area	June 30, 2009	June 30, 2008	June 30, 2008	June 30, 2008
	Combined	Combined	State Held	UBF
President	\$37,832	\$57,342	\$55,793	\$1,549
Provost	19,745	34,954	30,041	4,913
Alumni Relations	1,168	1,445		1,445
Architecture & Planning	460	454		454
Arts & Sciences	60,067	74,050	53,996	20,054
Athletics	2,988	3,754		3,754
Dental Medicine	11,715	15,460	9,268	6,192
Education	1,984	2,389	73	2,316
Engineering & Applied Sciences	6,658	8,853	1,712	7,141
Finance & Operations	1,199	111	92	19
Law	13,372	17,945	14,381	3,564
Libraries	3,233	4,238	1,834	2,404
Management	12,260	15,849	4,597	11,252
Medicine & Biomedical Sciences	140,721	189,054	147,299	41,755
Nursing	4,777	5,379	80	5,299
Pharmacy & Pharmaceutical Sciences	11,631	14,949	2,934	12,015
Public Health & Health Professions	1,945	2,089		2,089
Social Work	4,147	5,213	148	5,065
Student Affairs	797	998	9	989
UBF Board of Trustees	73,548	80,781		80,781
WBFO	215	271	92	271
	\$410,464	\$535,578	\$322,257	\$213,321

 Endowment Market Value - Compared to Other Universities		
<u>Rank</u>	<u>School</u>	<u>Market Value - 6/30/08</u>
1	Harvard	\$36.6 billion
2	Yale	\$22.9 billion
3	Stanford	\$17.2 billion
7	Michigan	\$ 7.6 billion
17	Cornell	\$ 5.4 billion
18	Washington	\$ 5.3 billion
20	Virginia	\$ 4.6 billion
29	Pittsburgh	\$ 2.3 billion
39	Rochester	\$ 1.7 billion
46	Penn State	\$ 1.5 billion
79	Syracuse	\$984.8 million
80	Iowa	\$935.4 million
89	Maryland	\$854.4 million
136	Buffalo	\$535.6 million
160	Miami University (OH)	\$404.7 million
166	UMass	\$381.4 million
178	UC San Diego	\$353.1 million
195	Ohio U.	\$311.9 million
346	Stony Brook	\$113.2 million
423	Canisius	\$ 77.7 million
441	Niagara	\$ 70.9 million

 Investment Committee	
<ul style="list-style-type: none"> ▪ Trustee Investment Committee: <ul style="list-style-type: none"> •UMIFA of 1972 •UPMIFA 2006 •Standards <ul style="list-style-type: none"> •Hold to “prudent man rule” which is “to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering their probable income, as well as the probable safety of the capital to be invested.” •Reasonable care, skill, and caution with suitable risk and return objectives. •Duties <ul style="list-style-type: none"> •Loyalty – act in interest of University and donors •Impartiality – deal fairly •Delegation – need not personally administer •Productivity – maximize total return •Charge <ul style="list-style-type: none"> •Investment Objectives •Spending Policy •Asset Allocation Policy •Monitor Performance •Hire/Fire Professionals 	



Professional Services

Investment portfolio activities are handled by many professionals:

- Investment Consultant
 - Advise investment committee regarding all decisions
- Investment Managers
 - 28 different firms, each hired for unique specialties
- Investment Custodian
 - Provides security control, monitors trades, maintains activity reports
- Cost of Professional Services



Investment Performance and Policies

UB Investment Performance and Policies

Performance

- Investment Strategy - The primary investment objective is to maximize total investment return while preserving the inflation adjusted purchasing power of the portfolio
- Total investment return is the sum of interest, dividends and capital appreciation

UB Investment Performance and Policies

Endowment Portfolio Performance Compared to Benchmarks for Fiscal 2009

<u>Total Return</u>			
		Endowment Portfolio	-19.74%
		Policy Benchmark	-15.41%
<u>U.S. Equity Managers</u>			
Endowment Portfolio	Note 1		
S&P 500	-26.2%		
Russell 3000 Index	-26.6%		
<u>Non-U.S. Equity Managers</u>			
Endowment Portfolio	Note 1		
MSCI EAFE	-31.0%		
MSCI EAFE Small Cap	-27.8%		
<u>Global Equities</u>			
Endowment Portfolio	Note 1		
MSCI World	-29.0%		
<u>Emerging Markets</u>			
Endowment Portfolio	-23.8%		
MSCI Emerging Markets	-27.8%		
<u>Global REITs</u>			
Endowment Portfolio			-30.5%
Global REIT Hybrid			-36.4%
<u>Fixed Income</u>			
Endowment Portfolio			-1.6%
BC Global Aggregate			7.1%
<u>Hedge Fund of Funds</u>			
Endowment Portfolio			-12.9%
90 Day T-Bills + 4%			5.0%
<u>Private Equity</u>			
Endowment Portfolio			-24.9%
Russell 3000 Index + 4%			-23.6%

Note 1: Due to asset allocation changes during the fiscal year performance results for the Endowment Portfolio are not available for this asset class for FY '09.



Investment Performance and Policies

Endowment Portfolio Performance Compared to Benchmarks for Fiscal 1999-2008

The ten-year performance for the Endowment Portfolio in comparison with over 700 other colleges and universities across the country.

Average Annual Compounded Nominal Return Fiscal Years Ended June 30					
	Total Return	NACUBO Mean*	# of Funds*	UBF Rank*	Percentile Rank*
2008	-3.8%	-3.0%	728	404	56
2006-2008	7.7%	8.0%	699	346	50
2004-2008	10.2%	9.7%	652	272	42
1999-2008	6.1%	6.5%	494	271	55

* Latest available comparative numbers according to the 2008 National Association of College University Business Officers' Endowment Study Report.



Investment Performance and Policies

Asset Allocation

- Distribution of investments among various asset classes allows the Foundation to honor spending policies, maintain risk tolerance and stability, produce appropriate investment returns, and achieve long-term objectives



Investment Performance and Policies

Asset allocation as of June 30, 2009

By Manager Type	Endowment Portfolio	Immediate Term Target	Long Term Target
U.S. Equity--Small/Mid Cap	3.8%	3.9%	3.5%
International Equity--Small Cap	4.1%	3.9%	3.5%
Global Equity	29.2%	30.6%	21.0%
Emerging Market Equity	8.1%	8.0%	8.0%
REIT's	4.8%	5.0%	5.0%
Private Real Estate/Hard Assets	0.0%	0.0%	5.0%
Private Equity	6.7%	9.0%	14.0%
Hedge Fund of Funds	15.6%	14.0%	14.0%
Inflation Linked Bonds	1.9%	2.0%	2.0%
Global Bonds	5.3%	5.7%	4.5%
Global Government Bonds	3.9%	4.5%	4.5%
Multi-Sector Fixed Income	7.3%	7.4%	9.0%
Cash	9.3%	6.0%	6.0%
	100%	100%	100%

NOTE: Targets adopted as of March 1, 2009. Intermediate term target is goal for 2011. Long term target is goal for 2012.



Investment Performance and Policies

Spending

- Definition - funds made available from the portfolio for University programs and administrative expenses, exclusive of management, brokerage and custodial fees
- A spending formula governs the portion of total return made available each year



Spending Policy

Spending Policy Review and Analysis

- In order to allocate the benefits of endowment assets equitably across generations, a spending policy should seek to:
 - preserve the purchasing power of assets over time
 - provide a consistent level of real (inflation-adjusted) spending over time
 - provide a relatively predictable, constant and stable (in real terms) stream of earnings for current use
- These objectives are achieved if the policy results in spending that equals the real return on endowment assets. A 70/30 asset allocation should generate a long-term average real return between 5% and 6%, so the policy should seek to produce annual spending, as a percentage of assets, in this range. The current target spending rate is 5%-5.5%, which is appropriate.



Spending Policy

Spending Policy Review and Analysis

- A growth-based spending formula results in more consistent and predictable increases in spending, compared with formulas that define spending as a percentage of assets. This benefit is particularly apparent in flat or down markets, when the formula allows spending to continue growing while asset-based formulas require spending to be frozen or reduced.
- Based on a long term simulation, covering the period from 1926 through 1997, the current policy would have worked effectively to preserve the purchasing power of assets while increasing spending at an average rate in line with inflation.



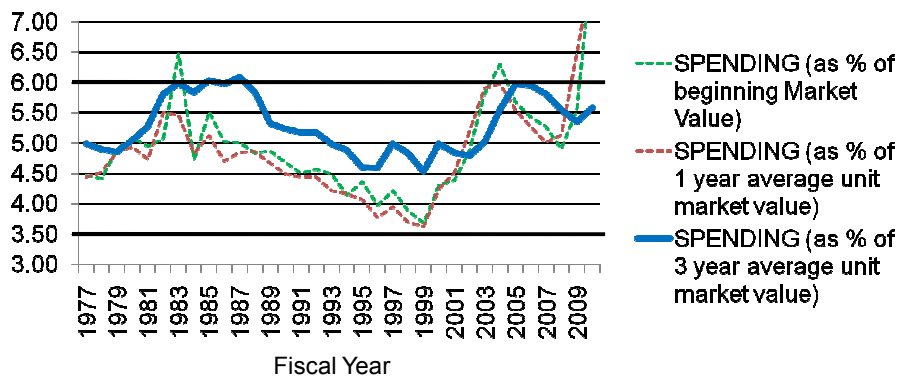
Spending Policy

- Increase spending per participating unit 3.0% in each successive fiscal year, unless:
 - Spending per unit exceeds 6% of 3 year average market value per unit, in which case spending is frozen at prior year's spending amount
 - Spending per unit is less than 3.5% of 3 year average market value per unit, in which case spending is increased to equal 5% of that average value



Spending Policy

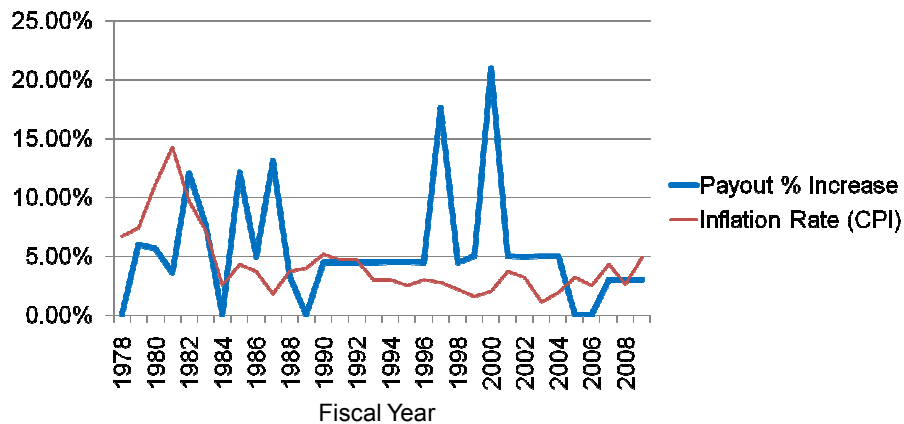
"Snake in the Tunnel"





Spending Policy

Annual Payout Increase versus Inflation



Underwater Endowments

Definition

- Endowment which, through declining market performance, has a current market value less than the historic dollar value
 - 367 of the 1174 endowments as of June 30, 2009

Spending Policy

- UBF, in accordance with New York State law, will expend only the ordinary income generated by the fund until historic dollar value is restored



Underfunded Endowments

Definition

- Endowment that does not generate sufficient annual spendable return to accomplish and fulfill its purpose

- Based upon Development's naming opportunity guidelines
 - 427 funds as of June 30, 2009



Underfunded Endowments

- Proper Funding of Endowments
 - Naming Opportunity Guidelines
 - Provide minimum endowment gifts for various faculty and student opportunities
 - May vary depending on school/unit
 - Available on Development intranet
 - Spending Needs Guidelines
 - Historically use 4% payout in illustrations



Unutilized and Underutilized Endowments

Definitions

- Unutilized endowment - no expenditures were made during fiscal 2009 although there were funds available
 - 232 funds as of June 30, 2009
- Underutilized endowment - spendable balance as of June 30, 2009 exceeds the July 1, 2009 annual amount made available for expenditure
 - 256 funds as of June 30, 2009
 - 162 of these are also underwater



Unutilized and Underutilized Endowments

Administrative Area	As of June 30, 2009				As of June 30, 2008			
	# of unutilized funds	Amount available for expenditure	# of underutilized funds	Amount available for expenditure	# of unutilized funds	Amount available for expenditure	# of underutilized funds	Amount available for expenditure
President	6	\$41,201	0	\$0	4	\$14,955	2	\$81,631
Provost	27	\$284,572	7	\$144,689	20	\$220,872	3	\$18,217
Alumni Relations	2	\$7,702	0	\$0	2	\$6,648	0	\$0
Architecture & Planning	1	\$796	3	\$19,099	1	\$2,987	3	\$26,700
Arts & Sciences	44	\$585,200	48	\$730,924	29	\$308,001	30	\$939,525
Athletics	0	\$0	1	\$43,600	4	\$83,233	0	\$0
Dental Medicine	13	\$122,566	14	\$157,693	17	\$151,612	6	\$159,512
Education	11	\$81,226	16	\$165,596	15	\$57,250	7	\$112,111
Engineering & Applied Sciences	12	\$164,707	14	\$263,243	7	\$109,270	5	\$314,871
Finance & Operations	5	\$24,386	2	\$11,681	4	\$12,571	0	\$0
Law	5	\$11,720	15	\$94,723	7	\$13,709	8	\$75,533
Libraries	6	\$6,869	2	\$10,247	4	\$4,719	2	\$9,194
Management	8	\$313,931	13	\$225,410	5	\$227,218	5	\$33,895
Medicine & Biomedical Sciences	64	\$1,289,919	83	\$2,944,586	65	\$945,663	66	\$1,889,758
Nursing	7	\$9,051	10	\$173,377	9	\$3,714	3	\$71,984
Pharmacy	11	\$130,270	13	\$422,720	9	\$60,329	11	\$593,490
Public Health & Health Professions	3	\$2,459	6	\$103,001	2	\$6,728	4	\$96,537
Social Work	2	\$222	8	\$259,165	1	\$13,275	9	\$129,806
Student Affairs	5	\$1,160	1	\$12,860	2	\$387	1	\$10,384
UBF Board of Trustees	2	\$48,161	0	\$0	2	\$42,288	0	\$0
WBFO	2	\$26,712	0	\$0	2	\$13,421	0	\$0
	236	\$3,152,830	256	\$5,782,614	211	\$2,298,850	165	\$4,563,148



Unutilized and Underutilized Endowments

- Appropriate use of current endowments strengthens the case:
 - to ask for additions to these endowments
 - to use as examples when approaching donors about creating new endowments
- Efforts to reduce
 - Annual reminder from UBF to business officers
 - Provost/Academic Planning and Budget



Informally Established Endowments

Definition

- Endowment with no supporting documentation to govern use of spendable return
 - 60 funds as of September 30, 2009
- Endowment Agreement template
 - Available on Development intranet



Stewardship Reporting – UBF-held reports

- Surrogates Court Reports
- Development Stewardship Reports
 - Annual financial update on every fund
 - Donor Relations & Stewardship coordinates distribution to stewardees (donors, family members, company contacts) in October/November
 - Prepared with cover letter
 - Reports can be hand-delivered to selected stewardees



Stewardship Reporting – Previously state-held reports

- Surrogates Court Reports
- Development Stewardship Reports
 - Only prepared for small subset (18 funds) that still have stewardees
 - Reports mailed by State Financial Services to stewardees of record by December 31st
 - Will be combined into a single stewardship reporting process for FY10



Stewardship Reporting

Additional Detail Reports

- Provide stewardee with description of how funds were used during fiscal year
 - Thank you letter from scholarship recipient
 - Summary of expenditures in paragraph format
- Available upon request from Donor Relations & Stewardship



Stewardship Reporting

Interim Financial Information

- Current spendable account balances
 - Contact business office, as they will have knowledge of any recent expenditures
- Current market value
 - Recalculated once per year. Interim value not available



Questions and Discussion

- FAQ Document
 - Covers commonly-asked questions from donors on endowments, stewardship, and philanthropic fees
 - For internal use only
 - Posted to Development intranet (ubdev.buffalo.edu)
 - What do you need? → FAQ



Conclusion



Conclusion


What are the main messages from today's talk?

- UBF is a **significant organization** that follows “best practices” and has a good governance structure and active board leadership.
- University endowments are **professionally managed**. We can be proud to share the facts with donors and prospects. The policies are sound.
- As the University increases its focus on “self-sufficiency” and becomes less dependent on public support, the **building of the University's endowment is more critical**.
- **Using** currently existing endowment funds **wisely and properly** is one step toward encouraging donors to augment the current endowments or to create new endowments.



Conclusion

- Each dean and unit based development officer should **know the size and breakdown of their endowment** as well as have this same information for the schools considered to be major competition.
- We don't necessarily want endowments that are “**underfunded**” or **restricted to lower priority needs**.
- The **staffs** of the UB Foundation, Central Development, and University Financial Services should be **used as a resource** to help in preparation of proposals, as well as in the solicitation process, for prospects identified for funding endowments.



Questions



University at Buffalo *The State University of New York*

Thank you