



# Gonzaga Endowment Overview

**September 2024**



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What is an endowment



# What is an Endowment?

- An endowment is a long-term portfolio invested to obtain a return (after fees) sufficient to provide an annual spending amount plus inflation (approximately 7.0%).

$$\frac{\text{Long-term investment return \%} - \text{inflation}}{\% \text{ spending rate}}$$

- Endowments are perpetual in nature and represent an institutional commitment to support the donor's intended purpose.
- The investments of endowed funds are diversified among asset classes that may perform differently in various market conditions.

# Performance and Benchmarking



# The Pooled Endowment - Performance

The pooled endowment is approximately 85% of the total endowment, and represents the chief body of assets that are actively managed by the Investment Committee and from which the majority of our annual endowment spending is derived.

## As of June 30, 2023

	<b>Actual</b>	<b>Policy</b>	<b>Alpha</b>
One year return:	5.2%	6.4%	-1.2%
Three year return:	11.3%	9.7%	1.6%
Five year return:	9.1%	7.6%	1.5%
Ten year return:	9.3%	8.1%	1.2%

*Did you know – the strong investment returns over the past 10 years helped the University to more than double endowment spending.*

*Fact – Policy index represents the composite benchmark for the pooled endowment.*

# The Pooled Endowment - Benchmarking

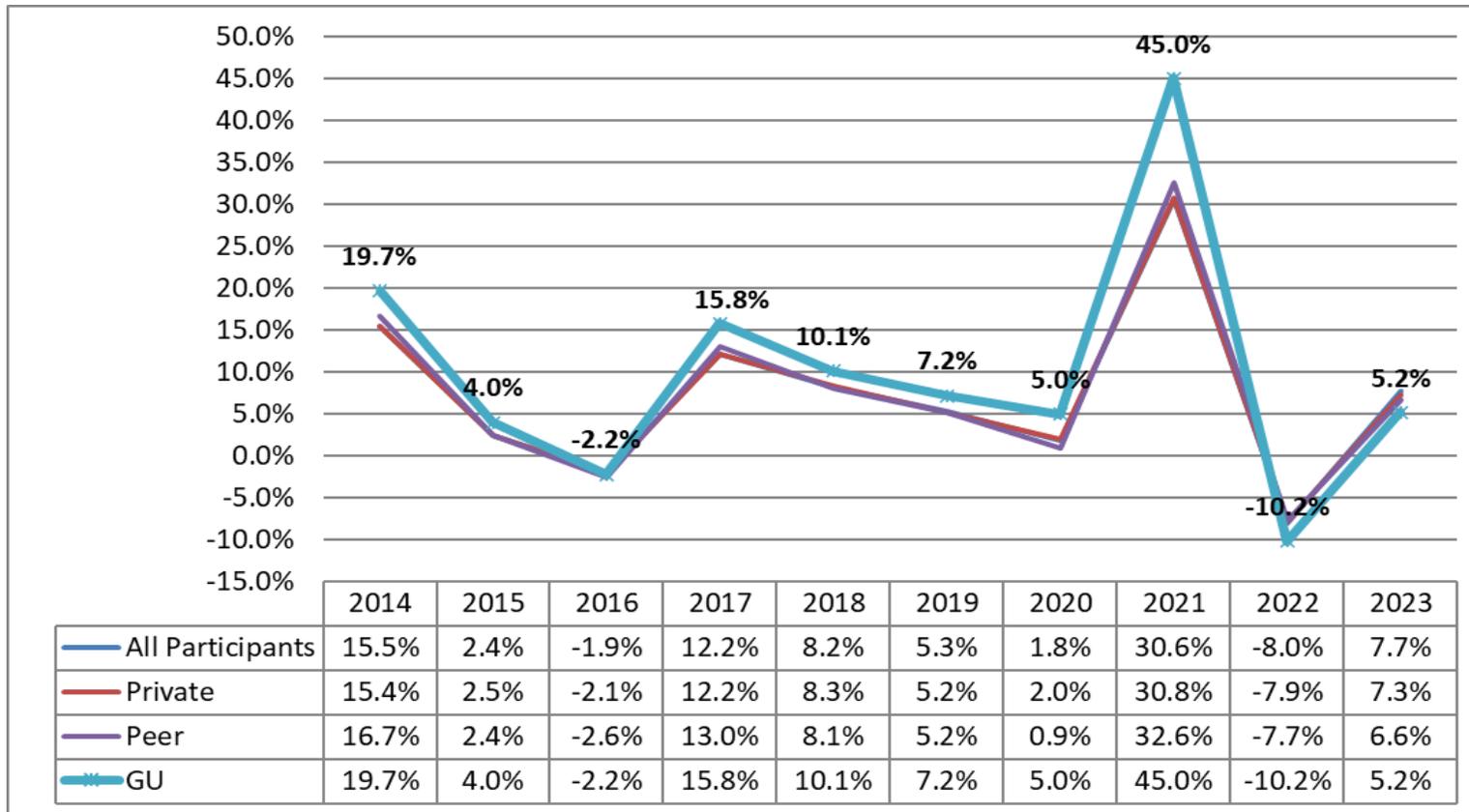
The NACUBO-Commonfund Study of Endowments® (NCSE) is the most comprehensive study of the nation's institutions of higher education with endowments, with over 685 participating endowments in FY2023. Results are measured as of June 30, with study results available the following February.

<b>NACUBO STUDY - June 30, 2023</b>	<b>One-Year Return</b>	<b>Three-Year Return (annualized)</b>	<b>Five-Year Return (annualized)</b>	<b>Ten-Year Return (annualized)</b>
Gonzaga University Pooled Endowment	5.2%	11.3%	9.1%	9.3%
NCSE Average (all participants)	7.7%	9.3%	7.0%	7.2%
Difference	-2.5% or -250 bps	+2.0% or +200 bps	+2.1% or +210 bps	+2.1 or +210 bps
Percentile Rank	Bottom Quartile	Top 25%	Top 15%	Top 10%

*Fact – The endowment is designed to generate at least a 7% average annual return over a longer term, recognizing that performance can vary significantly from year to year.*

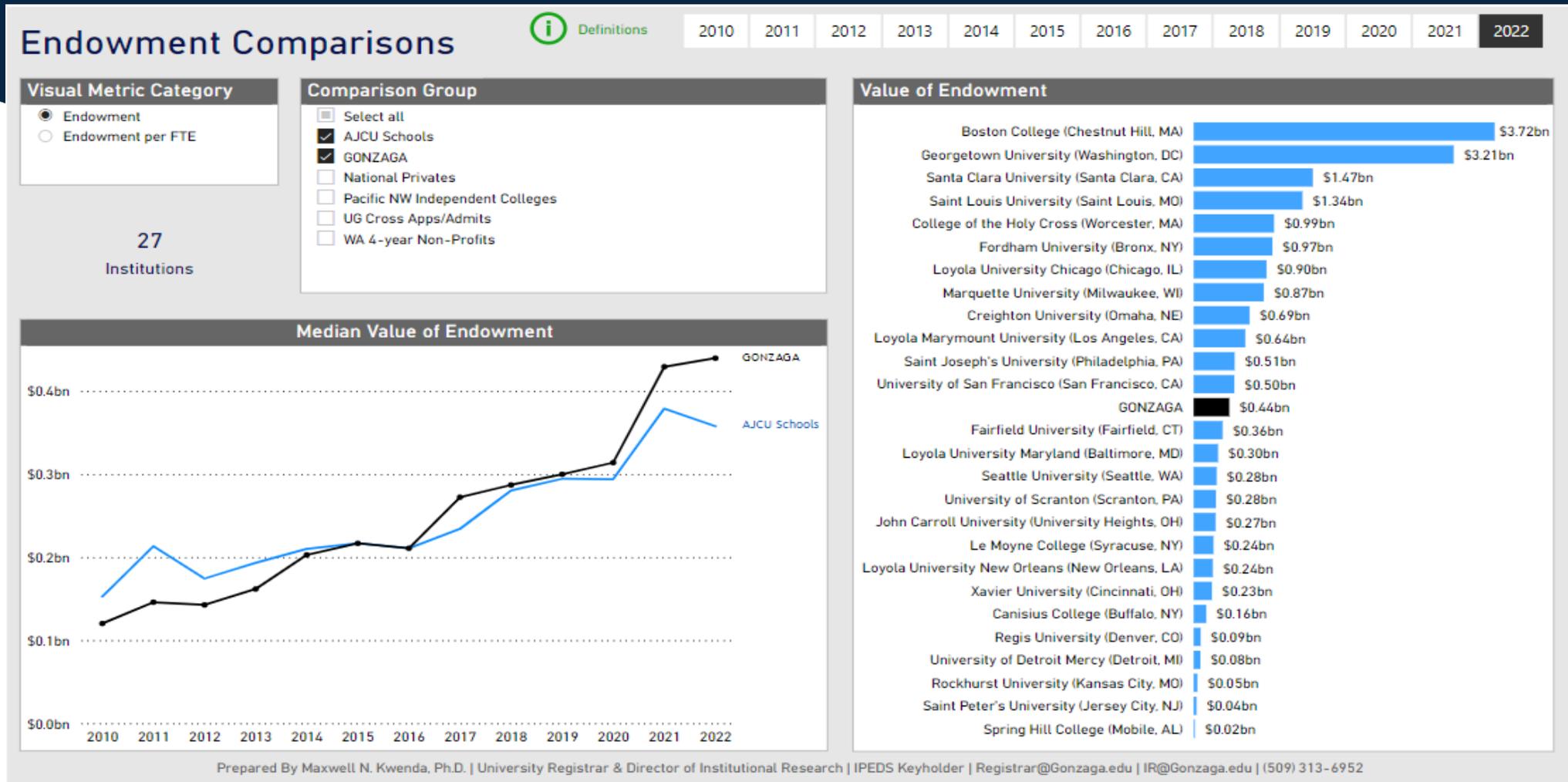
# The Pooled Endowment - Benchmarking

## Average Annual Returns – Past 10 Years



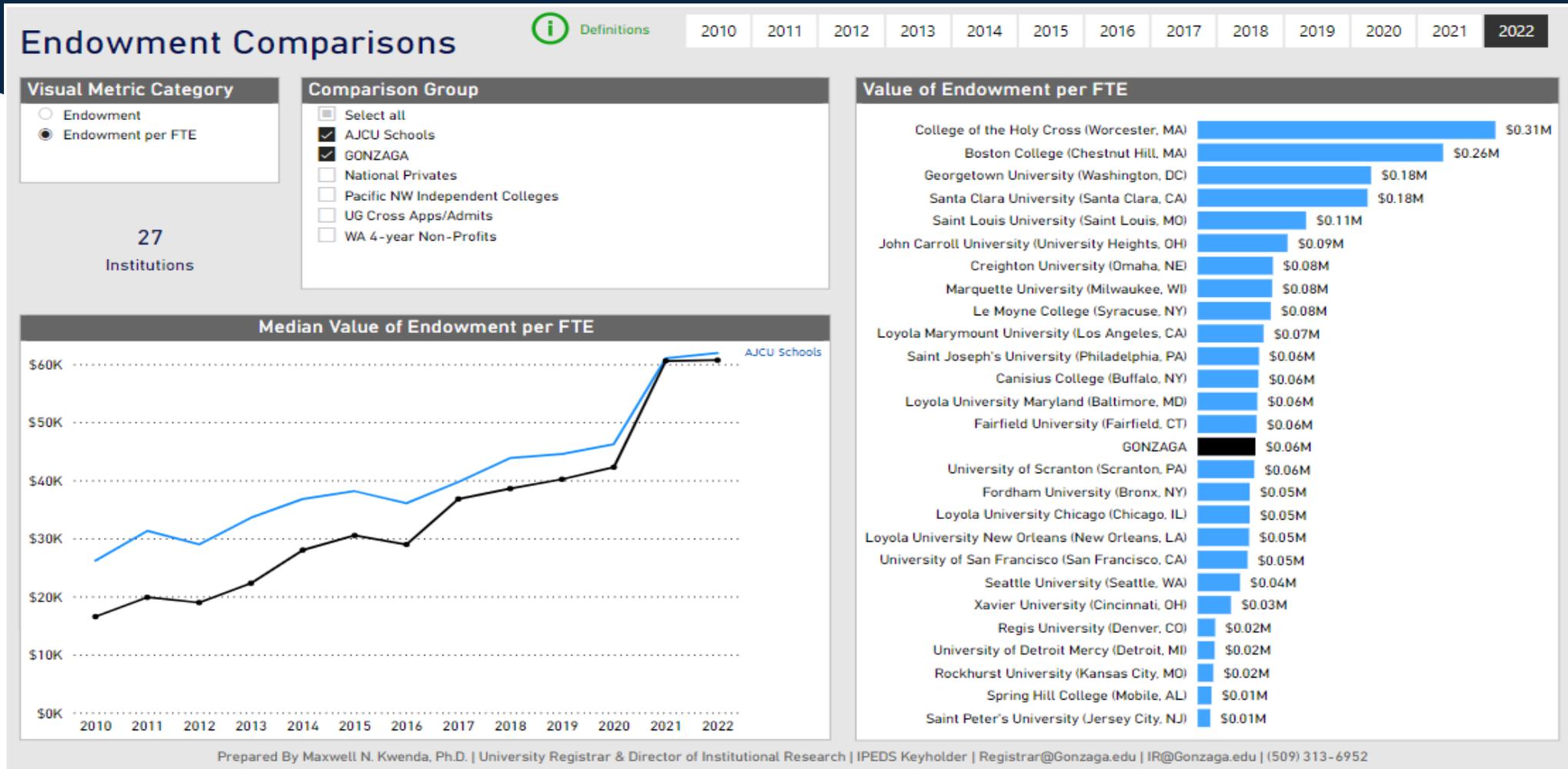
- While Gonzaga’s 1-year return fell into the bottom quartile for 2023, it has been in the top 25% in the nation and outperformed the average return for all comparison sets 7 times in the past 10 years.

# The Pooled Endowment - Benchmarking



*Did you know* – you can review this interactive reporting too at - <https://www.gonzaga.edu/give/about-giving/endowments/endowment-peer-comparisons>

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# Governance



# Our Endowment Governance Structure

- The Board of Trustees, based on the recommendations of the Investment Committee, is responsible for the Endowment Investment Policy Statement (IPS) and functions as a fiduciary.
- The Investment Committee is comprised of 3 Trustee members, 1 Trustee Emeriti, and 5 Subject Matter Experts (SME) with broad expertise in financial markets and investment management.
- The Investment Committee meets monthly.
- The Committee is supported by Joe Smith, CFO, Dana McCullough, Treasury Manager, and Verus Investments, a third-party investment consulting firm.

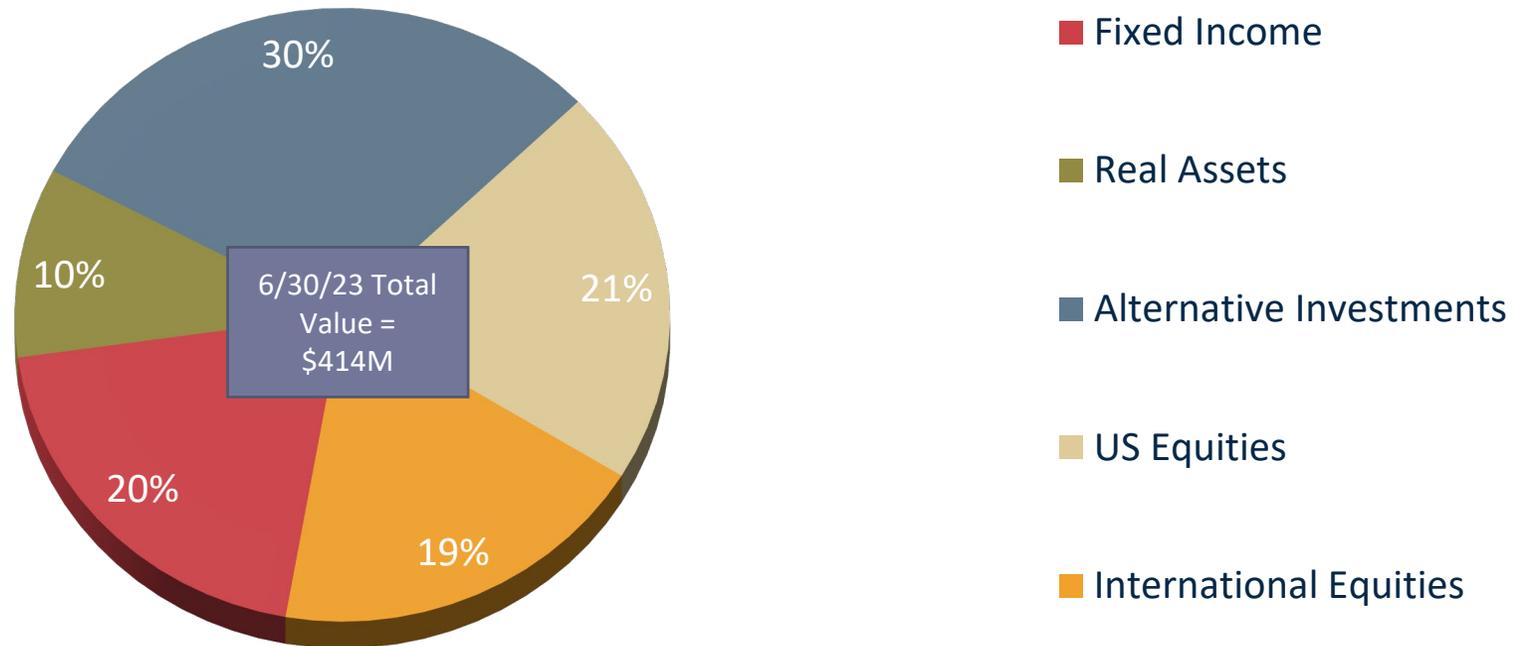
*Did you know – The investment committee includes individuals with significant investment experience, meets frequently, and is supported by University staff and an investment consulting firm.*

What we own and how we invest



# What we own and how we invest

## Pooled Endowment Target Asset Allocation

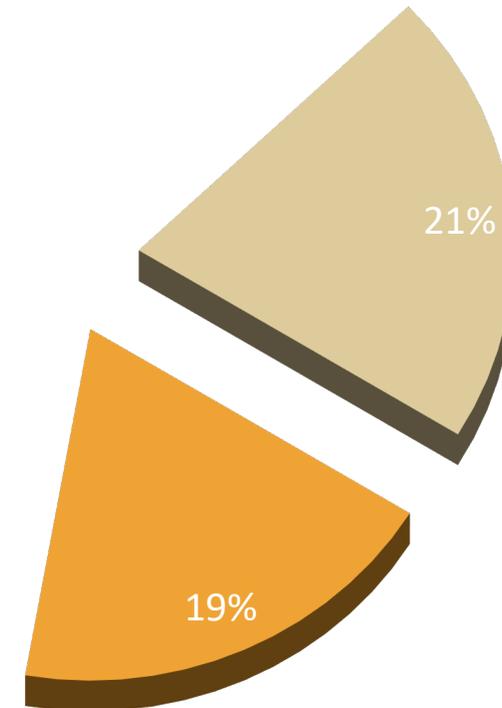


*Did you know – The pooled endowment is diversified with 32 different investment managers managing 39 separate funds, including a fund managed by the Gonzaga University Student Investment Club. The total endowment is comprised of 906 individual endowments.*

# What we own and how we invest

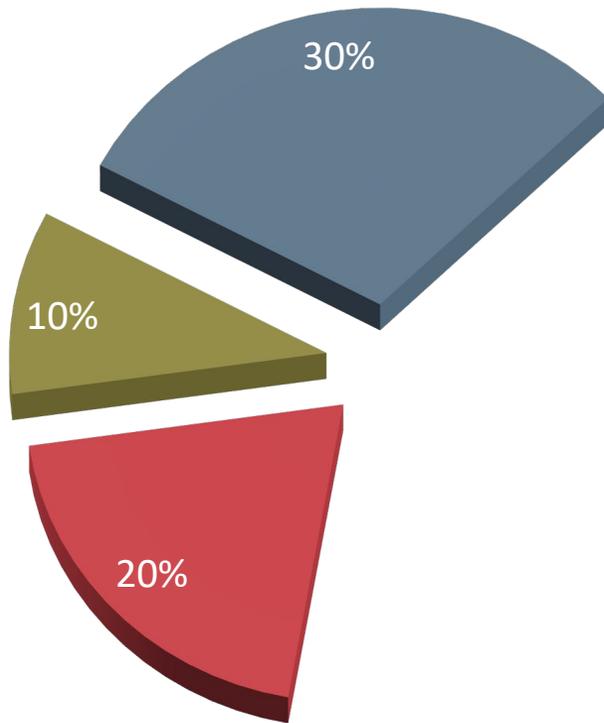
**US Equities** are stock investments in those companies that are publically traded and headquartered in the United States. This portion is largely allocated to “large cap” stocks, such as those that comprise the S&P 500. Such stocks typically pay a dividend. The remainder (approx. 5% of the total portfolio) is allocated to “small/mid cap” stocks that generally do not pay a dividend.

**International Equities** include developed markets and emerging market equities outside of the United States. Depending upon size, these stocks may pay a dividend.



*Fact – Equities are stock investments, and for Gonzaga, generally owned through a mutual fund.*

# What we own and how we invest



**Alternative Investments** include a variety of private investments in categories such as venture capital, buy-out, and other private equity and private credit. These investments tend to be less liquid than public equities and are intended to generate returns in excess of public equities.

**Real Assets** include investments in real estate funds, which generally invest in commercial and residential real estate. These investments are less liquid than public equities.

**Fixed Income** are bond investments, typically through a mutual fund. Fixed income investments generate interest income, and can include domestic, international, emerging market, and high yield fixed income.

*Fact – Fixed Income are bond investments, and for Gonzaga, generally owned through a mutual fund.*

# Unitization

- The University endowment consists of over 900 separately identified funds, each of which has a certain number of units (shares) in the pooled endowment.
- To establish an endowment, a gift/pledge must be \$50,000 (referred to as the minimum endowment level).
- Cash (or cash-converted) gifts are unitized in the month received, based on the most recent month's pooled endowment FMV per unit.

*Did you know – The pooled endowment approach allows all funds to be invested and managed together, similar to the concept of buying shares in a mutual fund, allowing for better investment diversity and economies of scale.*

# ESG/Socially Responsible Investment Considerations

- In December 2018, the Board of Trustees approved the recommendation of the Investment Committee’s ESG Task Force to implement a socially responsible investment strategy. The recommendation followed a yearlong study that included broad engagement from the GU community.
- The concept of divesting from “the 200 most carbon-intensive companies” as proposed originally by a May 2017 Gonzaga Student Body Association Resolution was seriously considered by University leadership, the ESG Task Force, the Investment Committee, and ultimately the Board of Trustees.
- The Task Force recommended – and the Board of Trustees agreed – that an intentional commitment to investing in companies that are implementing ways to reduce carbon emissions and have sustainable business practices is more impactful and financially responsible than divesting from a list of fossil fuel companies.

*See the Gonzaga Endowment Sustainable Investing report at <https://www.gonzaga.edu/give/about-giving/endowments/sustainable-investing> for Task Force Recommendations and updates.*

How endowments help



# Advantages of the Gonzaga Pooled Endowment

- With a larger investment base (\$414M at June 30, 2023), the endowment can invest in mutual funds at the highest minimum investment levels (typically over \$500,000), often resulting in no fees for marketing and distributions, which range from 0.25% to 1.00% (such fees are often referred to as 12b-1 fees).
- The endowment can access investment managers, not just brokers, and often the investment committee invites investment managers to discuss investment performance and outlook.
- Endowments can invest in less liquid investments, such as private equity, which can generate enhanced returns.
- Endowments can withstand market volatility based on a long-term investment horizon.
- The Investment Committee/Internal Staff/Consultant model provides a relatively low cost recipe for investment management and monitoring. Total direct expenses are approximately 0.87%.

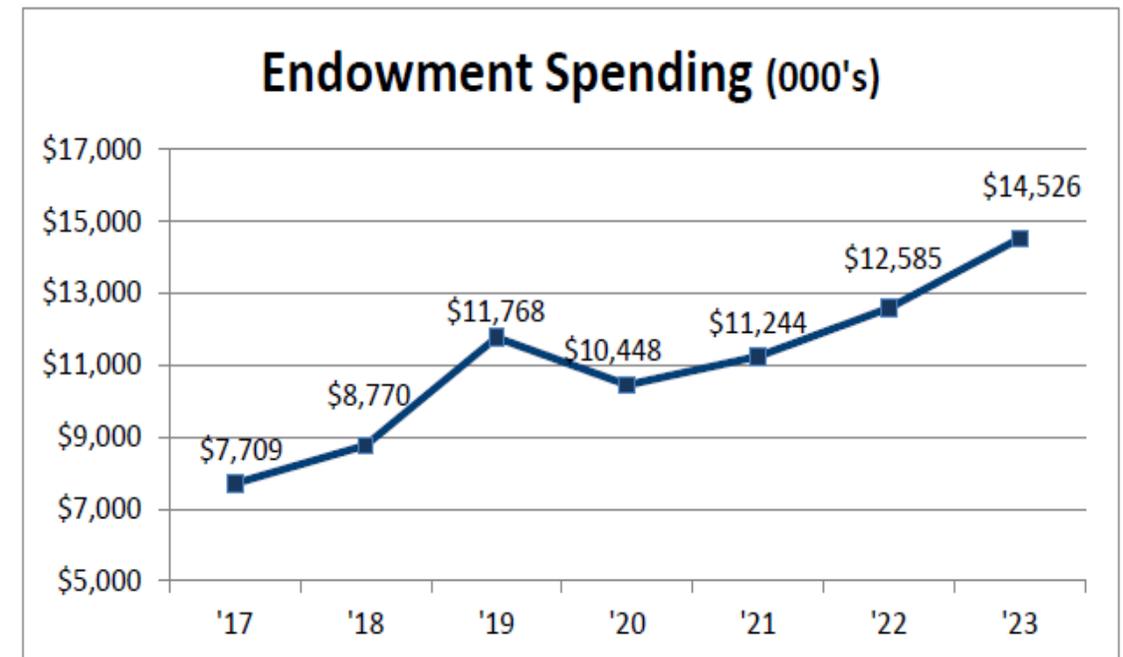
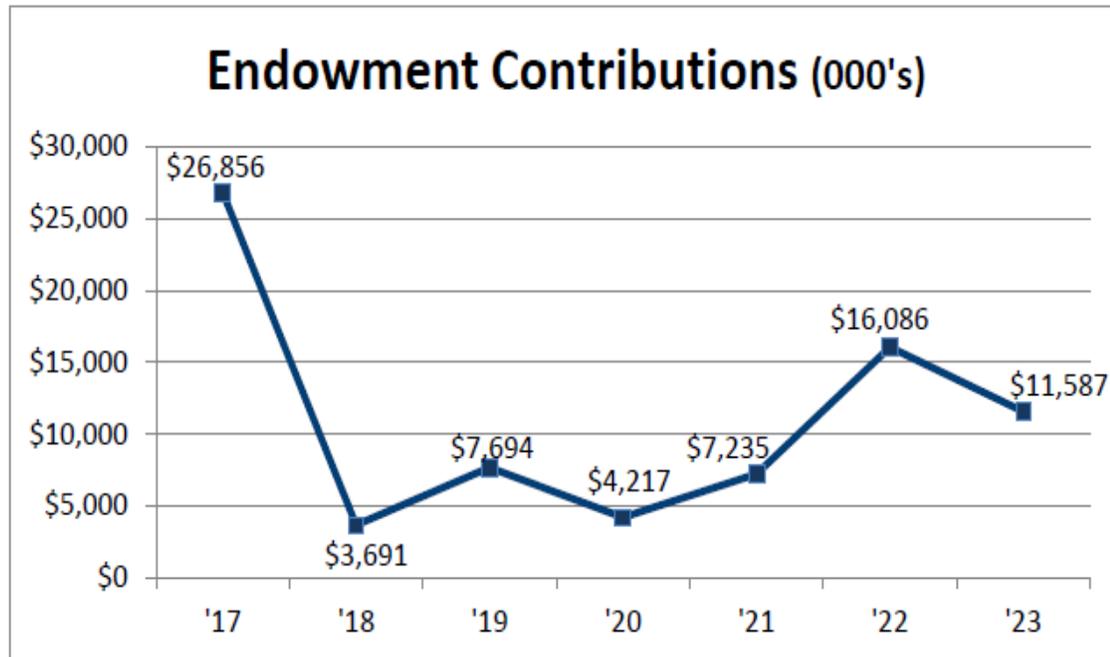
# How Endowment Gifts Help Gonzaga

- Endowments assist in providing a perpetual source of funding for endowed purposes of interest to benefactors
- Endowments allow for annual operating funds that can be a substitution for institutional funds or can be in addition to institutional funds
- Endowments bolster Gonzaga's total financial resources (balance sheet assets), a major measure in determining our institutional credit rating and borrowing capacity for capital projects
- Our ability to borrow at attractive interest rates allows for lower annual debt service, which reduces amounts that would otherwise have to be funded from student charges for tuition, etc.
- Federal and State support for financial aid is dwindling, often impacting those students who are most in need
- Parent unemployment and declines in family net worth can make college unattainable

# Spending



# Endowment Contributions and Spending



\*Endowment contributions reported according to GAAP, for fiscal years ending May 31

*Fact – The annual endowment spending was 3.8% of Gonzaga’s annual base budget in FY 2023.*

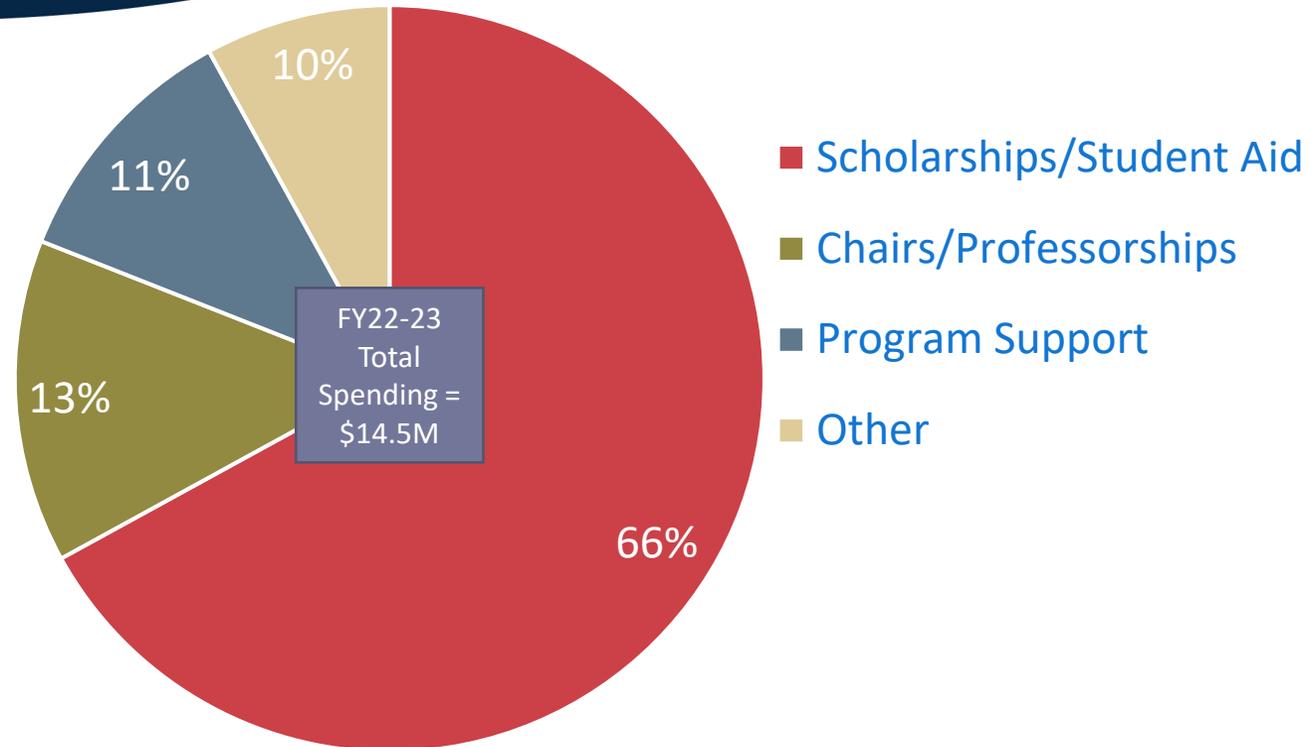
# Spending Appropriation

- The annual spending appropriation is performed in February, based on the units held the preceding December, to determine the spending appropriation for the following academic year starting June 1.
- The timing coincides with the preparation of the annual University operating budget and individual student financial aid packages.
- The annual endowment spending appropriation is based on a hybrid calculation, determined by the sum of the following:

Measure	Weighting	Calculation
Value of pooled endowment assets	30%	Simple average of the fair market value of the pooled endowment, measured for the past 12 quarters, multiplied by a spending rate of between 4% and 5%. The spending rate is approved each year by the Board of Trustees, and for fiscal year 2023/24 the rate is 4.5%
Impact of Inflation	70%	Prior year endowment spending appropriation amount multiplied by the inflation factor published by the Higher Education Price Index (HEPI). For fiscal year 2023/24, the 2022 HEPI rate was 5.2%.

*Fact – The hybrid spending calculation reduces variation year-to-year in the endowment spending allocation, by overweighting an inflation-based component (more stable) and underweighting a FMV component (more volatile).*

# FY22-23 Total Spending Distribution



*Did you know – For the 2022-23 school year, 97.5% of full-time undergraduates received need and merit based financial aid directly from Gonzaga, with 29% of student financial aid awards funded in part by endowment spending.*

# Underwater Endowments

- An individual endowment is “underwater” when the FMV of that endowment’s units are below the corpus (original gift value plus any income distribution that was used to buy units, if applicable)
- Spending appropriation amounts from activated endowments that are underwater result in funding by University unrestricted sources (fund 1000) on behalf of the endowment and not from the endowment.
- The measurement date for underwater endowments is June 30 of the fiscal year of the award.
- Such treatment results in preserving the permanently restricted net asset value at the value of the donor’s original gift value plus any income distribution that was used to buy units, if applicable.
- Growth in endowment fair market value in subsequent years is not used to repay University unrestricted funds.

*Did you know – The University protects the donor’s gift by funding, on behalf of the endowment, any spending allocation that would otherwise reduce the value of the donor’s gift.*