A letter from Chancellor Rosemary DePaolo

The generosity you and other donors bestowed on the University of North Carolina Wilmington during the 2008-09 fiscal year strengthened us during a time rife with economic challenges. As true friends and supporters, you and other donors demonstrated tremendous vision in creating and contributing to endowed funds despite the global financial markets’ weak performance. You took the long view, recognizing that your endowed gifts are an investment in UNCW’s future.

As you no doubt have surmised, the value of UNCW’s endowment decreased in fiscal year 2008-09. Our loss average, at 14.48 percent, is very serious, but UNCW fared better than many higher education institutions, which faced average losses of 20-30 percent. Our endowment’s performance compares favorably against the S&P, as indicated within this report. Therefore, I remain very confident in our fund managers and their ability to position UNCW’s endowment to rebound as the financial markets improve.

Our endowment underpins countless opportunities for UNCW students, faculty and staff. The income from endowed funds supports scholarships, classroom instruction, research endeavors, student travel, program initiatives and much more. Fortunately, the majority of our endowed funds provided income for use in the current academic year.

However, a number of endowed funds established more recently have a market value less than their original value. These “underwater” funds didn’t provide the income we expected, but dozens of generous donors made special contributions in the spring to support the scholarships and other programs that depend on those endowment awards. I am especially grateful to every donor who took this extraordinary step to benefit our students, faculty and staff.

All gifts to UNCW shape and support the excellence that defines our university. UNCW continues to rise in national prominence, as evidenced by the success of our students, faculty and staff, and the recognition we receive from various ranking organizations and publications. U.S. News & World Report recently ranked UNCW as one of the top 10 public master’s universities in the South, making this the 12th straight year the university has placed in the top 10.

Your confidence in UNCW; your gifts to our students, faculty, staff and programs; and your tireless commitment to helping us uphold our mission brightened a year clouded by global economic crises. To say UNCW cannot thrive without you is an understatement. The university deeply appreciates your ongoing support.

All the best,

Rosemary DePaolo
Chancellor

Thank you for investing in the future of UNCW
THE UNCW ENDOWMENT

The University of North Carolina Wilmington and the UNCW Foundation Inc. solicit endowment gifts from alumni, parents, and friends of the university to ensure that support for UNCW students, faculty and programs will thrive in perpetuity. The principal of these gifts cannot be spent without written donor consent but the earnings, as approved by the appropriate governing board, must be spent according to the provisions outlined in donor agreements. When a donor makes a gift to an endowment, the university agrees to manage and maintain that gift.

The endowment that supports the university has grown since its inception, with a market value as of June 30, 2009, of $48.9 million; those funds provide support for students, faculty, academic research and athletic endeavors. The benefits of these lasting gifts have been felt across the campus. Every dollar of endowment income helps finance vital activities, including: undergraduate student scholarships, professorships, graduate student fellowships and our athletics program. The endowment shapes the character of the university and ensures permanent support for the many endeavors of UNCW’s students and faculty.

HOW LARGE IS UNCW’S ENDOWMENT, AND HOW DOES IT COMPARE TO THOSE OF PEER INSTITUTIONS?

As of June 30, 2009, UNCW’s endowment was worth $48.9 million. Since July 1, 2005, 107 endowments have been created, bringing the total number of endowed funds to 333. While the market value of the university endowment experienced a decline during 2008-09, the losses have been much less severe than those experienced by other universities, and compare well to S&P returns.

HOW DOES UNCW MANAGE THE ENDOWMENT?

UNCW takes its fiduciary responsibility to current and future donors and recipients very seriously. The chancellor, vice chancellor for business affairs and Endowment Board are responsible for the management of and accounting for endowment funds under guidelines set by the Endowment Board and in accordance with generally accepted accounting principles. Upon the recommendation of the Endowment Board, the university invested the endowment in UNC Management Corporation (www.uncmc.unc.edu), GMO (www.gmo.com), The Investment Fund for Foundations (www.tiff.org) and the North Carolina Short-Term Investment Fund (STIF). The UNCW Foundation Inc. endowment is invested in UNC Management and the North Carolina Short-Term Investment Fund (STIF), and holds a note to the university. These funds are broadly diversified to provide long-term protection against the volatility inherent in equities and bonds. University and UNCW Foundation investment policies and decisions are based on maximizing long-term returns at an acceptable level of risk. The goals are to provide stable and increasing support for future generations at UNCW. See graph A.
HOW HAS THE ENDOWMENT PERFORMED?

During fiscal year 2009, the endowment returned -14.48%. Despite the loss, this performance compares well when measured against the returns of the S&P, as shown in graph B.

*Due to the economic downturn, a number of endowment funds established more recently have a market value that is less than the original gift value. These endowments are considered “underwater” and did not produce income for an award. As the market recovers and the market value of these endowments grows beyond the historical gift value, the endowments will begin producing income. A number of donors to scholarship endowments in this situation generously gave an annual gift in the spring so that students depending upon these scholarships would continue to receive funding.*

WHAT IS UNC WILMINGTON’S PAYOUT POLICY?

Annually, the Endowment Board reviews and recommends the payout rate for the upcoming fiscal year (July 1 through June 30) to the UNCW Board of Trustees for approval. The payout is a percentage of the endowment’s average market value for the previous 12 quarters (three prior calendar years).

For 2008-09, the boards approved a spending rate of 4.5%. This payout percentage is applicable to all endowments in the absence of another rate made explicit by the endowment agreement. In establishing the spending policy, the boards are required to consider the university’s long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends and general economic conditions. The spending policy strives to maximize total return while minimizing risk, in order to provide a steady stream of income to present and future generations and protect the purchasing power of the endowments from erosion by inflation.
Graph C

Example Endowment Fund Growth and Payout Amounts

The following example shows endowment fund growth and payouts for an endowment established with a gift of $25,000 in November 2005. The first award distribution occurred in fall semester 2007.

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Value</th>
<th>Based on the Calculations: Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$25,000</td>
<td>n/a</td>
</tr>
<tr>
<td>2006</td>
<td>$28,863</td>
<td>n/a</td>
</tr>
<tr>
<td>2007</td>
<td>$32,997</td>
<td>$1,056</td>
</tr>
<tr>
<td>2008</td>
<td>$32,205</td>
<td>$1,183</td>
</tr>
<tr>
<td>2009</td>
<td>$26,703</td>
<td>$1,288</td>
</tr>
</tbody>
</table>

* Note: The first award for endowed scholarships is available the first fall semester coming 12 months from the date of fulfilling the $25,000 minimum, provided the market value of the endowment exceeds the historical gift value. The above example is based on a 4.5% spending rate using the approved formula.

HOW IS THE PAYOUT CALCULATED FOR MY NAMED ENDED FUND?

Named endowed funds own shares in the investment 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. The actual mechanics of endowment investment and management are very similar to that of a mutual fund. An endowment is accounted for using a unitized investment pool. Each individual endowment owns units in the pool, revalued at the end of each month. Only at month-end periods, using a month-end value of a unit, may new endowments enter the pool. New endowments “buy into” and receive a certain number of units in the pool given the amount being invested and the value of a unit on the buy-in date. As the value of a unit in the pool grows, new endowments purchase fewer units in the pool.

Each month the university receives statements from each of the investment funds. Using these statements, 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 owns shares in the investment pool. Once an endowed fund reaches maturity – usually 12 months after being funded at the minimum endowment level – it receives an annual payout. Using the payout formula approved by the UNCW Board of Trustees for each fiscal year, the university calculates a distribution per share and distributes the payout to a corresponding “spendable account” in July of each year.

As part of UNCW’s cost-saving and sustainability efforts, University Advancement now electronically distributes numerous documents, including this report. Additional information, including answers to Frequently Asked Questions (FAQ’s) and term definitions, can be found online at www.uncw.edu/endowmentreport.

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