Dear Alumni and Friends,

It is a great pleasure for me to communicate with the benefactors who support endowed funds at the University of North Carolina Wilmington. Your investment in our programs and our people, especially our students, strengthens every aspect of the UNCW experience. We appreciate your vision to see beyond current economic concerns and to focus on the opportunities the future presents for innovative universities like UNCW.

Despite the global economy’s ongoing uncertainty, the UNCW endowment moved in a positive direction during fiscal year 2010-11, producing a 16.9 percent rate of return, which is 10 percentage points higher than last year. The university endowment’s combined market value at the conclusion of the fiscal year, June 30, 2011, exceeded $64 million, reflecting your generosity as well as careful fund management.

Given that our endowment benefits scholarships, professorships, academic and athletic programs, research and civic engagement efforts, UNCW wants to ensure that we protect your investment in our mission by maximizing earning potential while minimizing risk. To learn more about the UNCW endowment, I encourage you to peruse the information contained within the Endowment Activity Report, which is also available online at www.uncw.edu/EndowmentReport.

Similar to other public universities across the nation, UNCW cannot expect state funding to rebound for some time to come. Yet our mission remains as important as ever, and our involvement in addressing a variety of community concerns is expected to grow. The universities that will succeed under such circumstances are those that approach these challenges as opportunities, that champion entrepreneurship and pursue community partnerships, and that remain true to their core values of teaching, research and community outreach.

To accomplish this, UNCW must have a very strong financial foundation to approach the future with such optimism, and your endowed gifts are helping us establish a solid base of support in perpetuity. I appreciate your confidence in UNCW and your commitment to our mission. Your investment yields significant returns for the people and programs of the University of North Carolina Wilmington, our coastal communities and the state of North Carolina.

Sincerely yours,

Gary L. Miller
Chancellor
The University of North Carolina Wilmington and the UNCW Foundation, Inc. solicit endowment gifts from alumni, parents, students and friends of the university to ensure that support for UNCW students, faculty and programs will thrive in perpetuity. An endowment is a long-term investment that creates financial stability, allowing the university to be less dependent on unpredictable sources of revenue, such as state appropriations and research sponsorship. Moreover, an endowed gift offers alumni and friends the opportunity to have their name, or the name of a loved one, linked to an area of the university in which they have a special interest. Endowments can be unrestricted to provide maximum flexibility for the needs and challenges of the future, or they can be restricted to a purpose such as an undergraduate scholarship, research support or particular area or program.

Endowment gifts are invested by the university and foundation in pooled investment funds within each entity, with the goal to ensure that the principal maintains its purchasing power over time in order to provide support in the future.

The university and foundation endowment portfolio that supports the university has grown since its inception, with a combined market value, as of June 30, 2011, of $64,190,465 million. Endowment funds support initiatives that promote excellence at UNCW – scholarships and fellowships for our students, professorships for distinguished faculty, and research and program support. The benefits of these lasting gifts have been felt across the campus, with every dollar helping to finance vital activities and shaping the character of the university, and ensuring permanent support for the many endeavors of UNCW’s students and faculty.

This document provides background information and answers to frequently asked questions about UNCW’s endowments. Additional information about UNCW’s endowment, including definition of terms, can be found online at www.uncw.edu/EndowmentReport.

How Large is UNCW’s Endowment, and How Does it Compare to Those of Peer Institutions?

As of June 30, 2011, UNCW’s total endowment portfolio was valued at $64,190,465. Since July 1, 2005, 138 endowments have been created, bringing the total number of endowed funds to 364. In fiscal year 2011, the pooled endowment portfolio made significant progress in recovering from the market declines of 2008-09, with an annual rate of return of 16.9%. In comparison, as of June 30, 2010, UNCW had 348 endowed funds, the total endowment portfolio was valued at $52,441,634, and the annual rate of return was 6.53%.

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 of the UNCW Board of Trustees are responsible for the prudent management of and accounting for endowment funds under guidelines set by the Endowment Board, in accordance with generally accepted accounting principles, and in compliance with laws/regulations. The Endowment Board of the university has invested the endowment funds with UNC Management Corporation Investment Fund (www.uncmc.unc.edu), GMO Quality Fund and GMO US Equity Fund (www.gmo.com), The Investment Fund for Foundations (www.tif.org), and the North Carolina Short-Term Investment Fund (STIF). The Foundation’s pooled endowments are invested in UNC Management Corporation Investment Fund, the North Carolina Short-Term Investment Fund (STIF), and in a long-term, interest-bearing note to the university. The goals are to provide stable and increasing support for future generations at UNCW.

What are the University’s Investment Policies?

The university and foundation investment policies and decisions are based on maximizing long-term returns at an acceptable level of risk. The pooled endowments are primarily invested in five funds: UNC Management Corporation Investment Fund (53%), GMO Quality Fund (10%), GMO US Equity Fund (7%), TIFF’s Multi-Asset Fund (22%), NC STIF (5%), with 3% in other miscellaneous investments. These funds are broadly diversified to provide long-term protection against the volatility inherent in equities and bonds. (see graph A)
HOW HAS THE ENDOWMENT PERFORMED?

During fiscal year 2011, the rate of return for the UNCW pooled endowment was 16.9%, meeting the minimum investment benchmark of CPI + annual spending rate. The longer term rates of return reflect the difficult markets experienced since 2008-09 but point out the lower volatility of our portfolio returns relative to the S&P 500.

Due to the economic downturn of the previous years, a number of endowment funds established more recently have a market value which is less than the original gift value. These endowments are considered “underwater” and do 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 so that students depending upon these scholarships would continue to receive funding.

WHAT IS UNC WILMINGTON’S PAYOUT POLICY?

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

For 2010-11, the boards approved a spending rate of 3.5%. 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. For fiscal years 2006 through 2010, the approved spending rate was 4.5%; however, due to market losses in 2008, the spending rate approved for the 2010-11 academic year was lowered to 3.5% in an effort to preserve the endowment and allow for future growth.
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 spending rate approved by the UNCW Board of Trustees for each fiscal year, the university calculates a distribution per share and applies this payout per share to each fund’s average number of shares over the preceding 12 months. This distribution is made to a corresponding “spendable account” in July of each year.

Graph C
Example Endowment Fund Growth and Payout Amounts

The following example shows endowment fund growth, spending rate and payouts for an endowment that reached $100,000 book value in June 2002. No additional gifts have been made to the endowment since that time.

<table>
<thead>
<tr>
<th>Fiscal Year*</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved Spending Rate</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>3.5%</td>
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<tr>
<td>Book Value at July 1</td>
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<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Market Value at July 1</td>
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<td>$178,918</td>
<td>$174,629</td>
<td>$148,798</td>
<td>$150,165</td>
</tr>
<tr>
<td>Distribution to Spendable Account</td>
<td>$5,728</td>
<td>$6,417</td>
<td>$6,985</td>
<td>$7,037</td>
<td>$5,431</td>
</tr>
</tbody>
</table>

*The fiscal year runs from July 1 to June 30; FY07 began on July 1, 2006, and ended on June 30, 2007.

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.