

**ENDOWMENT
ACTIVITY
REPORT**

JULY 1, 2011
JUNE 30, 2012



**THANK YOU
FOR INVESTING
IN THE FUTURE
of
UNCW**



A LETTER FROM CHANCELLOR GARY L. MILLER

Dear Alumni and Friends,

I am so pleased to have the opportunity to share this report with the benefactors who support endowed funds at the University of North Carolina Wilmington. By investing in our programs and our people – *especially our students* – you are strengthening every aspect of the UNCW experience. We appreciate your vision for the future and the opportunities it presents for innovative universities like UNCW.

I am happy to report that the UNCW portfolio took another step forward last fiscal year; the university's combined endowments experienced an annual return of 5.7 percent in a year when positive returns were difficult to attain. At the end of fiscal year, June 30, 2012, the university endowment's combined market value totaled nearly \$68 million, which reflects both the generosity of our donors as well as careful management of the assets entrusted to UNCW.

The future of higher education requires us to have a strong financial footing, and I cannot express the importance your endowed gifts make as we continue to build that foundation. Your confidence in UNCW is inspiring, and I appreciate your commitment to our mission. Thank you for sharing our commitment to the journey of learning, our love of place and our dedication to the power of ideas and innovation to change lives. The people and programs of this university will reap significant returns from your investment, and I deeply appreciate your generosity.

Sincerely yours,

A handwritten signature in black ink that reads "Gary L. Miller". The signature is written in a cursive, flowing style.

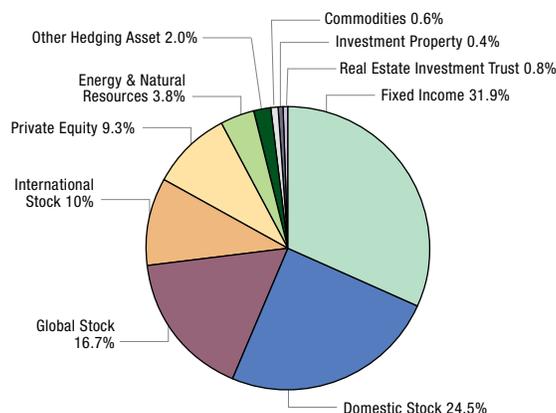
Gary L. Miller
Chancellor

The UNCW Endowment – by the Numbers

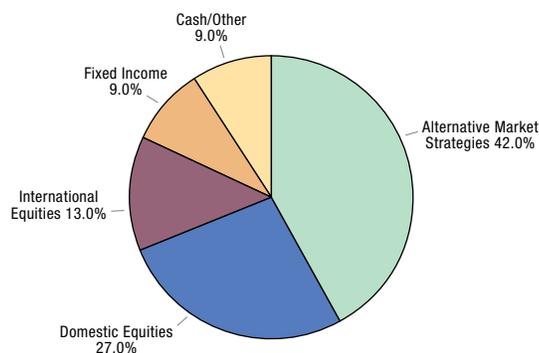
	2011-12	2010-11
End of year value	\$ 67,711,177	\$ 64,150,261
Average Value	174,513	176,237
Investment Performance	5.70%	16.90%
New Contributions	3,018,440	5,004,230
Endowment Payout	(1,625,345)	(1,412,610)

Endowments for:

Scholarships	28,587,464	28,183,871
Academic Support	16,176,034	12,778,081
Professorships	12,724,767	12,689,408
Facilities	5,116,451	5,609,176
Public Service	2,018,403	1,282,811
General University Support	3,088,058	3,606,914
Total Endowments	\$ 67,711,177	\$ 64,150,261



A. UNCW Endowment Pool Asset Allocation
as of June 30, 2012



B. UNCW Endowment Pool Asset Allocation
as of June 30, 2012, per NACUBO* Asset Classes

*National Association of College and University Business Officers

THE UNCW ENDOWMENT

The University of North Carolina Wilmington and the UNCW Foundation Inc. encourage 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 plan using dependable and predictable sources of revenue. Moreover, an endowed gift offers alumni and friends the opportunity to link a family name and other loved ones to an area of the university in which they have a special interest. Donors of endowments may either give money to the university for supporting programs at the university's discretion (unrestricted endowments) or set up specific endowments for agreed purposes (restricted endowments), such as scholarships, professorships, academic and athletic programs, research and public service engagement.

Endowment gifts are prudently managed by the university and foundation to generate adequate income for the endowments' purposes while protecting their real value against inflation and, ideally, producing a surplus beyond this level. Gifts are invested in pooled investment funds within each entity. The accounting for

these funds is similar to that of a mutual fund, with each individual endowment owning a pro-rata share of the pooled assets and sharing in the pro-rata share of investment gains/losses.

The university and foundation endowment portfolio that supports the university has grown significantly since inception. 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 support vital activities and shaping the character of the university, and ensuring permanent financing for the many endeavors of UNCW's students and faculty.

This document provides an overview of what the endowment as a whole does for the university and serves as a financial report of its investing and spending activities for the past year. A separate statement detailing information on a donor's particular endowment(s) is also included with this report. 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, 2012, UNCW's total endowment portfolio was valued at \$67,711,177. Since July 1, 2005, 162 endowments have been created, bringing the total number to 388. In fiscal year 2012, the pooled endowment portfolio's annual return of 5.7 percent was another step forward in a year when positive returns were difficult to achieve. This rate of return ranks in the top quartile of the BNY Mellon Universe of 223 endowments and foundations.

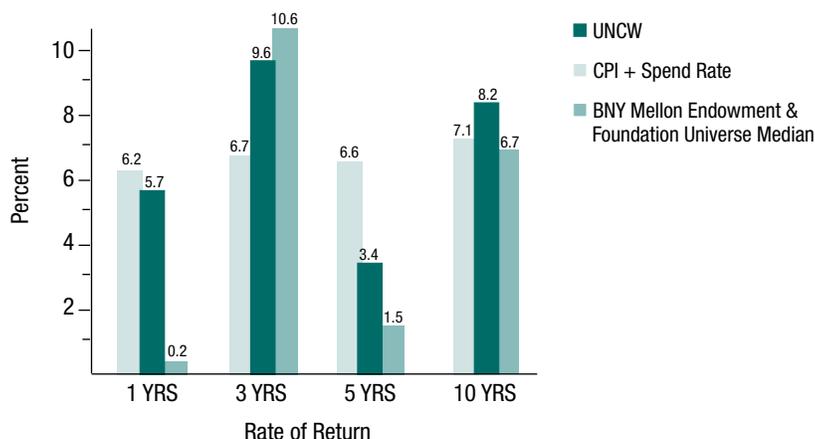
HOW DOES UNCW MANAGE THE ENDOWMENT?

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. Upon the recommendation of the Endowment Board, the university has invested the endowment in 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.tiff.org), and the North Carolina Short-Term Investment Fund (STIF). The foundation's pooled endowments are invested in UNC Management Corporation Investment Fund and the North Carolina Short-Term Investment Fund (STIF) and hold a note to the university. The goal is 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 (52 percent), GMO Quality Fund (13 percent), GMO US Equity Fund (6 percent), TIFF's Multi-Asset Fund (20 percent), NC STIF (6 percent), with 3 percent in other miscellaneous investments. These funds are broadly diversified to provide long-term protection against the volatility inherent in equities and bonds. (See graphs A & B)

UNCW Endowment Comparisons



HOW HAS THE ENDOWMENT PERFORMED?

During fiscal year 2012, our endowment portfolio performance was strong relative to other endowments and foundations but was just shy of meeting our long-term objective of the Consumer Price Index (CPI) plus annual spending rate. Our one-year return of 5.7 percent ranks in the top quartile within the BNY Mellon Universe of 223 endowment and foundation funds. The three-year return shows the significant recovery experienced following the market losses of 2008-09 and reflected in the five-year returns. More importantly, over the past 10 years the portfolio's solid 8.2 percent return both beats our long-term objective and ranks in the top quartile of the BNY Mellon Endowment and Foundation Universe.

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 "undervalue" 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 this spring so that students depending upon these scholarships would continue to receive funding.

WHAT IS UNCW 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 2011-12, the boards approved a spending rate of 3.5 percent. 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 percent; however, due to the market losses in 2008, the spending rate approved for the 2010-11 and 2011-12 academic years was lowered to 3.5 percent in an effort to preserve the endowment and allow for future growth. The boards have approved a return to a 4.5% spend rate for the 2012-13 academic year.

How did we do in FY12

	2011-12	2010-11
Opening Balance	\$ 64,150,261	\$ 53,058,229
Net Earnings	2,167,821	7,500,412
New Gifts	3,018,440	5,004,230
Average Value	174,513.34	176,236.98
Payout Dollars	(1,625,345)	(1,412,610)
Payout Ratio	3.50%	3.50%
Year-end balance	\$ 67,711,177	\$ 64,150,261

HOW IS THE PAYOUT CALCULATED FOR MY NAMED ENDOWED 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 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.

Endowment Activity Report

<i>Combined University and Foundation Endowments</i>	2011-12	2010-11	2009-10	2008-09
Beginning Balance	\$ 64,150,261	\$ 53,058,229	\$ 48,795,393	\$ 55,750,470
Additions	\$ 3,018,440	\$ 5,004,230	\$ 3,024,178	\$ 2,188,469
Net Investment Gains	\$ 2,167,821	\$ 7,500,412	\$ 3,030,692	\$ (7,089,188)
Spending:				
Scholarships	\$ (759,953)	\$ (684,996)	\$ (787,110)	\$ (937,713)
Academic Support	\$ (455,727)	\$ (442,845)	\$ (587,187)	\$ (567,668)
Professorships	\$ (298,096)	\$ (234,996)	\$ (303,247)	\$ (359,823)
Facilities	\$ (87,382)	\$ (49,773)	\$ (64,490)	\$ (149,511)
Public Service	-	-	\$ (50,000)	\$ (39,643)
Unrestricted University Support	\$ (24,187)	-	-	-
	\$ (1,625,345)	\$ (1,412,610)	\$ (1,792,034)	\$ (2,054,358)
Ending Balance	\$ 67,711,177	\$ 64,150,261	\$ 53,058,229	\$ 48,795,393

As part of UNCW’s cost-saving and sustainability efforts, University Advancement now sends numerous documents, including this report, to donors electronically. If you would like to receive reports via email in the future, please send your preferred e-address to uncwedr@uncw.edu.