



Endowment 101

Gary Barnes, Vice Chancellor and CFO

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Endowment Funds

The lifeblood of any university is the generous financial support from its donor community. Endowment Funds, by design, are unique gifts given by donors that are invested over the long term with the purpose of producing earnings that will support the strategic goals of the institution and fulfil the philanthropic goals of individual donors.

Endowment gifts benefit both current and future generations and represent the institution's promise to donors to use the income and investment gains generated by their gifts to support an aspect of the university's mission into perpetuity as specified by the donor.

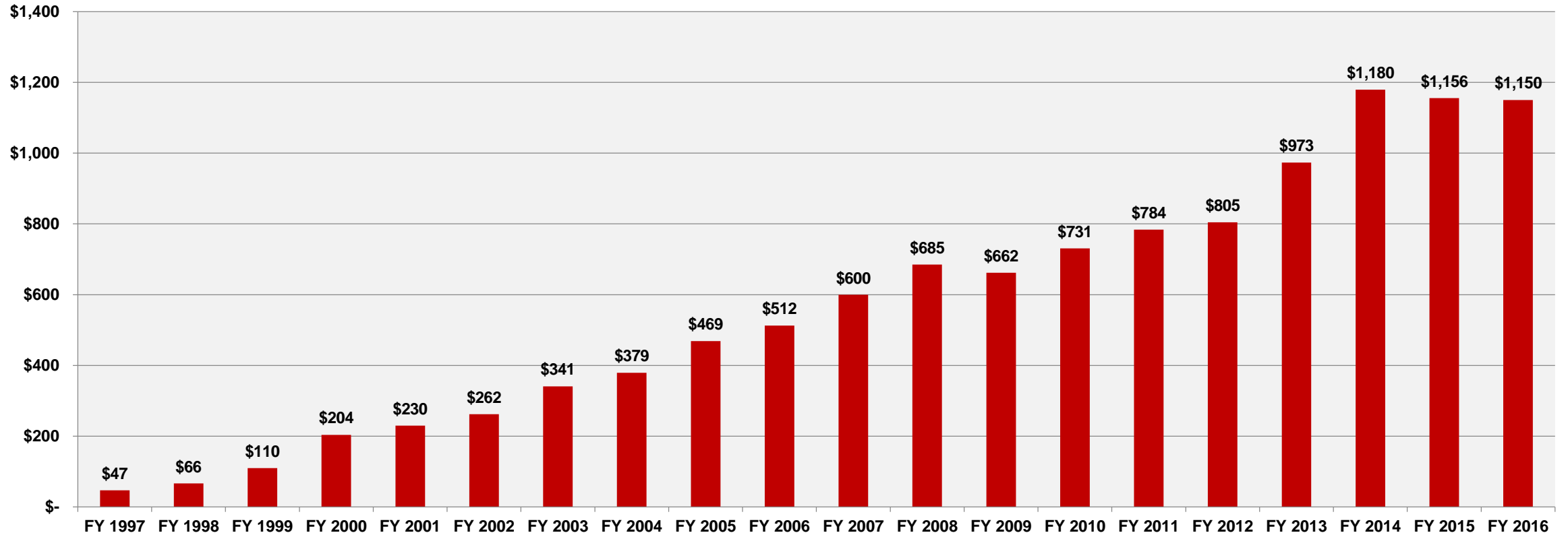
Uniform state laws provide fundamental rules for the investment and expenditures of endowment funds. The rules support two general principles:

1. Assets would be invested prudently in diversified investments that sought growth as well as income, with low volatility over time with stable funding, and
2. Appreciation of assets could prudently be spent for the purposes of the endowment.

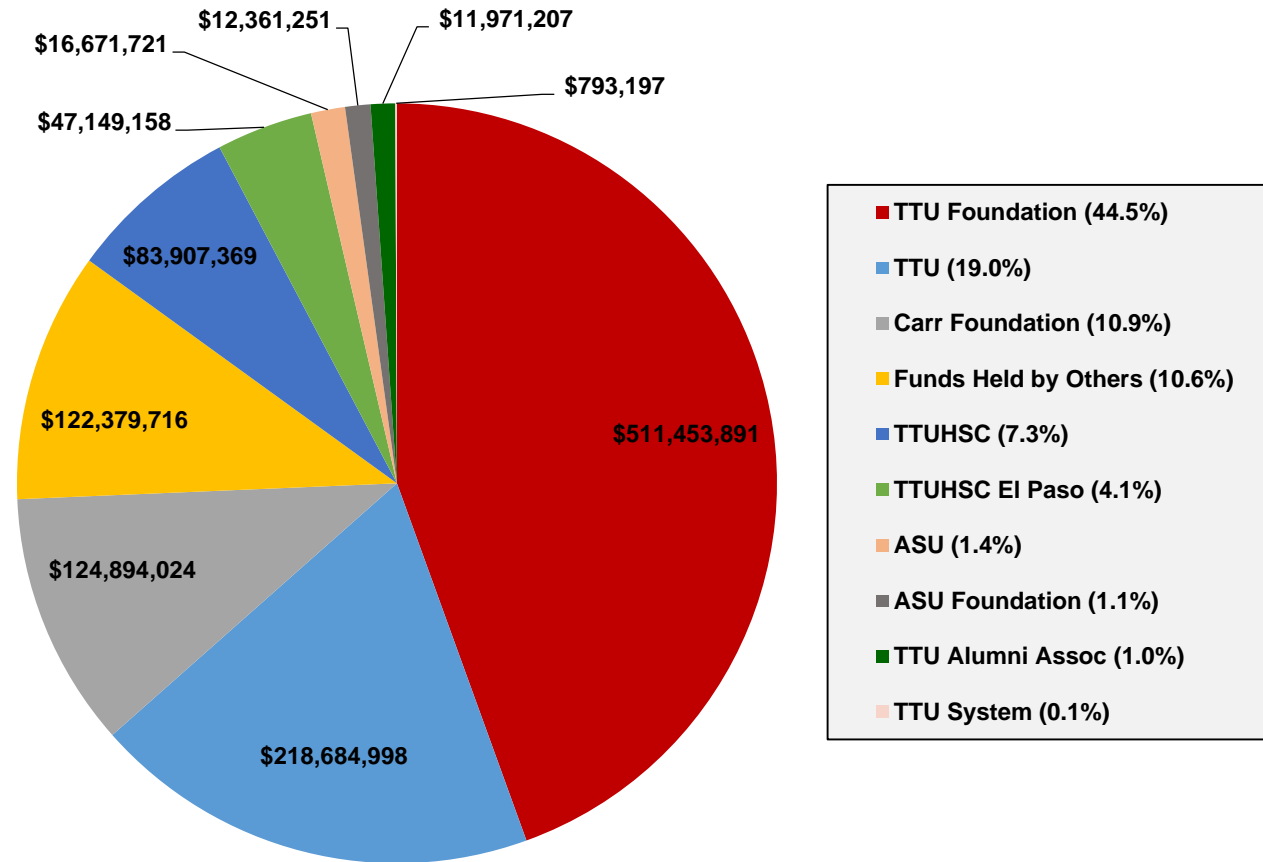


Endowment Fund Balance

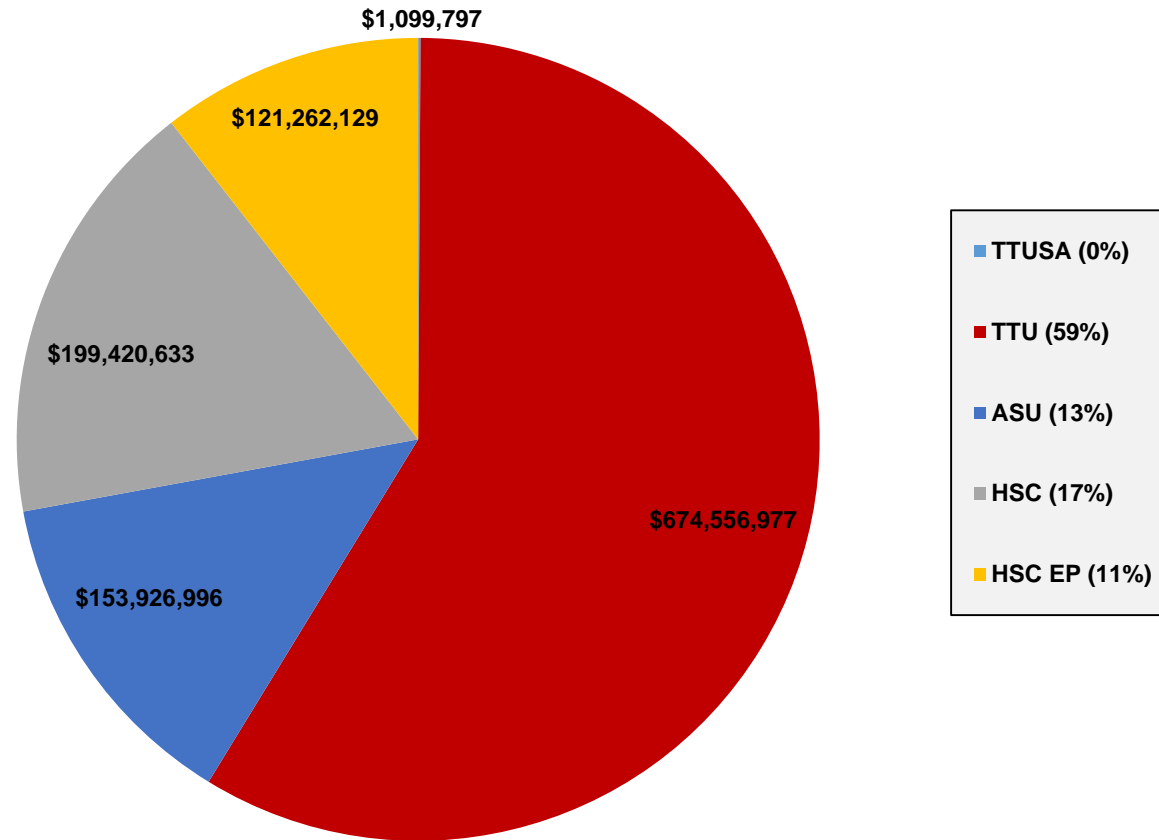
FY 1997 - FY 2016 in Millions



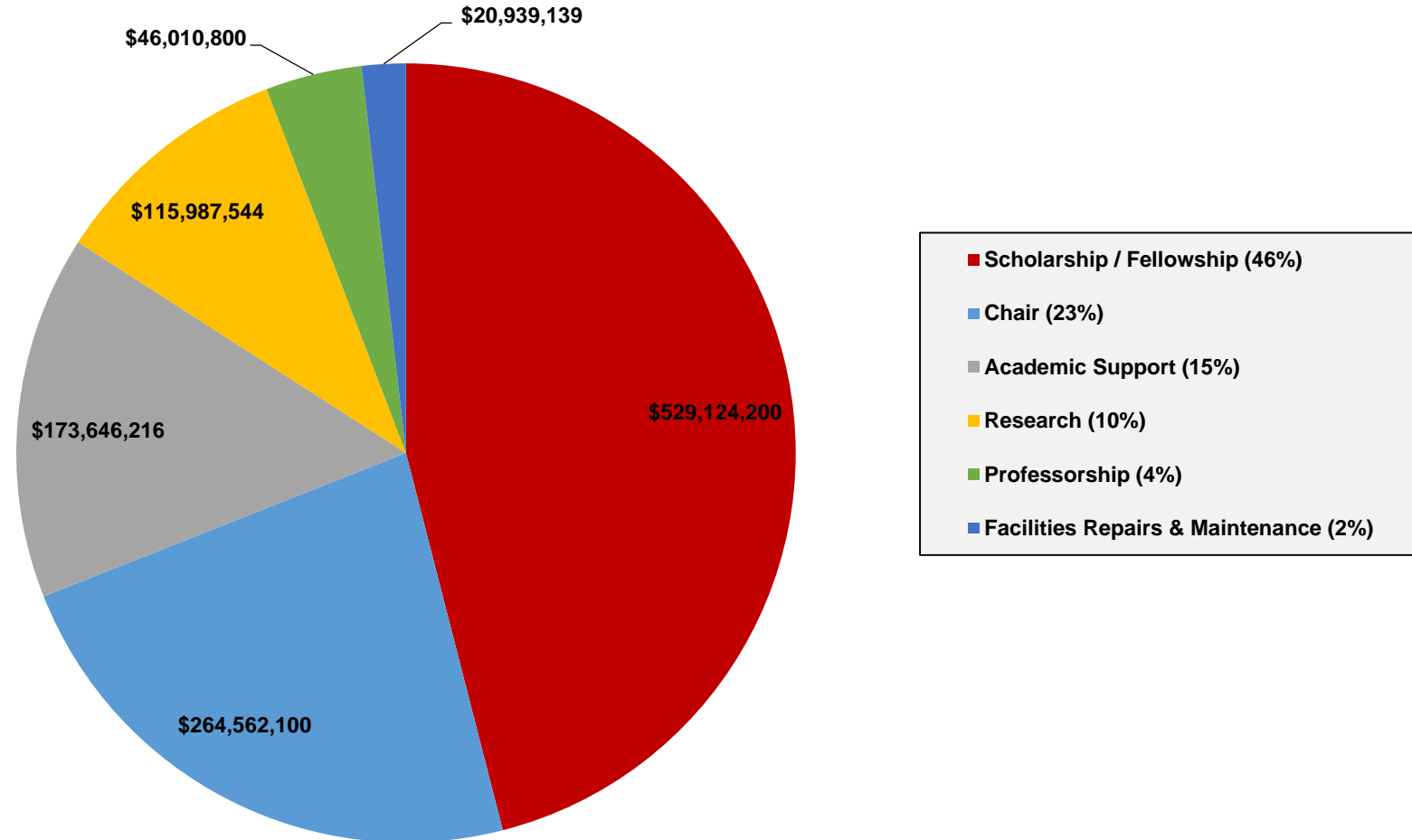
Endowments by Institution



Endowments by Component



Endowments by Category



Endowment Investments Rate of Return Calculations

In the financial industry there are three measures of return that are frequently used; Simple Rate of Return (SRR), Internal Rate of Return (IRR) and Time Weighted Return (TWR).

The SRP is the easiest return to calculate and understand. It is simply the percentage change in market value. The SRR is most commonly used to calculate the performance of a benchmark or index where there are no cash flows that affect the underlying performance. A SRR, although easy to calculate for a benchmark, cannot accurately measure the return of an individual's investment portfolio and is not a valid method for the TTUS Endowment Funds.

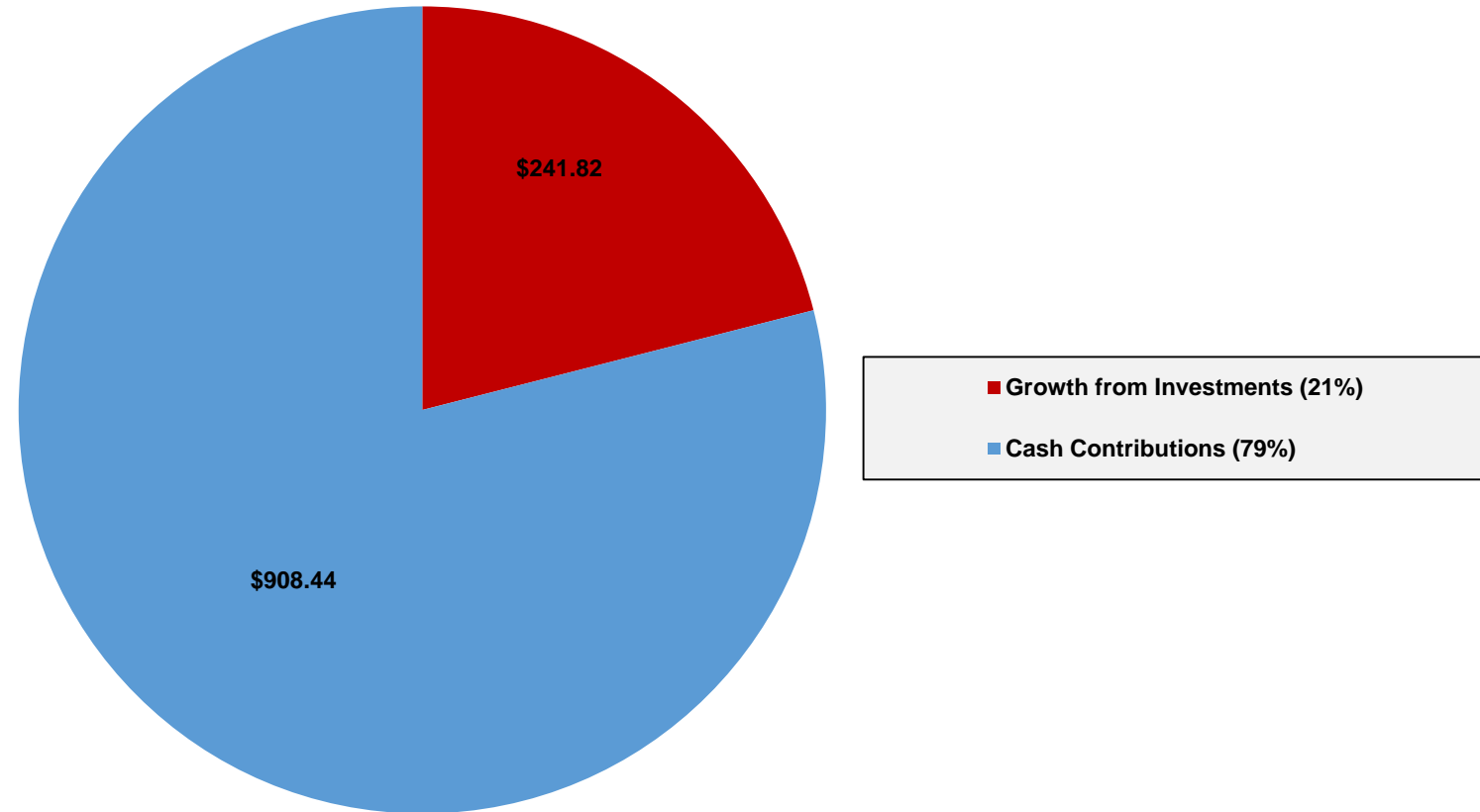
The IRR including the effects from all cash inflows and outflows. Because cash flows are factored into the calculation, greater weighting is given to those time periods when more money is invested in the portfolio. By this definition, the IRR of a portfolio can be significantly affected by both the size and timing of any cash contributions or withdrawals. This is typically the rate communicated due to the timing for the Annual Financial Reporting requirements. However, it is not an effective measurement tool for analyzing the long term performance of the portfolio's underlying assets or comparing your investment manager to a different investment manager or market index.

The TWR captures the true investment performance by eliminating all the effects of capital additions and withdrawals from the portfolio. Simply stated, the TWR is the return on the very first dollar invested into the portfolio. The method used to calculate the TWR is derived by dividing up the performance period into shorter sub-intervals, such as one month. Each sub-interval can be further divided into intervals based on the date of any cash inflows or outflows. Then, the IRR is calculated for each of these sub-intervals. Finally, the individual IRRs are then linked together with equal weighting (not dollar weighted) to derive at the portfolio's overall TWR. This is the benchmark measurement for NACUBO reporting. To calculate the TWR, all investments statements must be analyzed and therefore is reported 60+ days after the closed of the Annual Financial Reports.



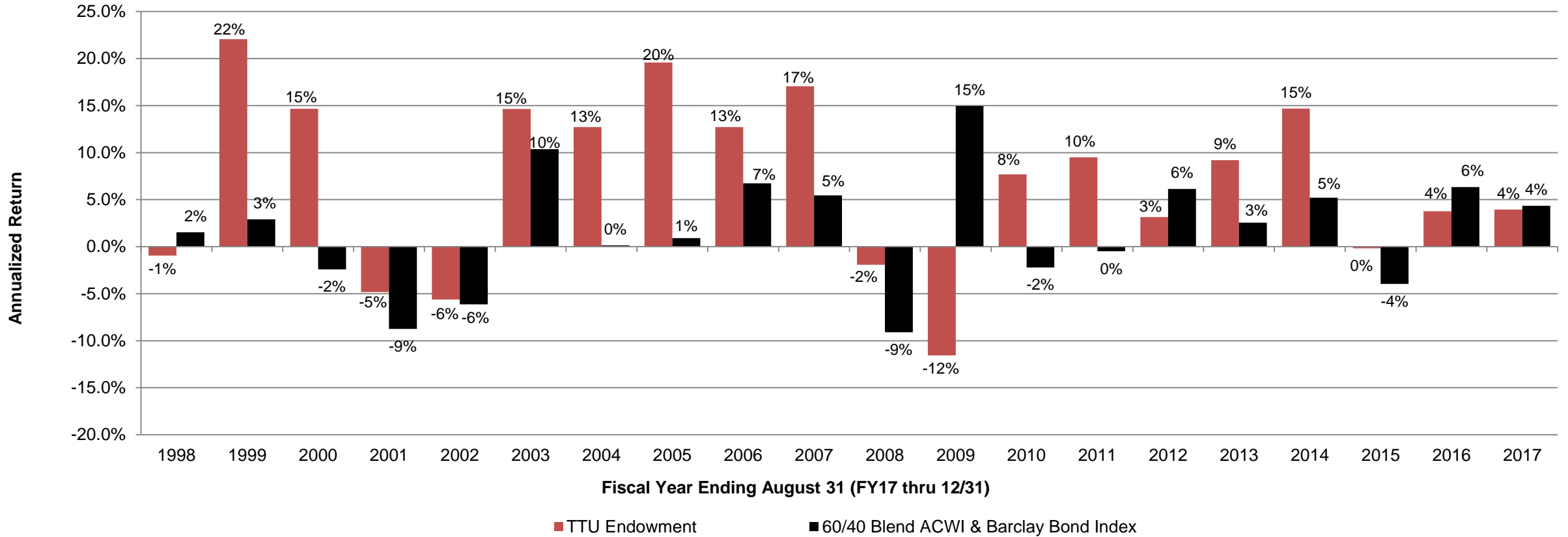
How Did We Get Here?

*Historical Perspective of Endowment Composition
FY 1997 - FY 2016 in Millions*



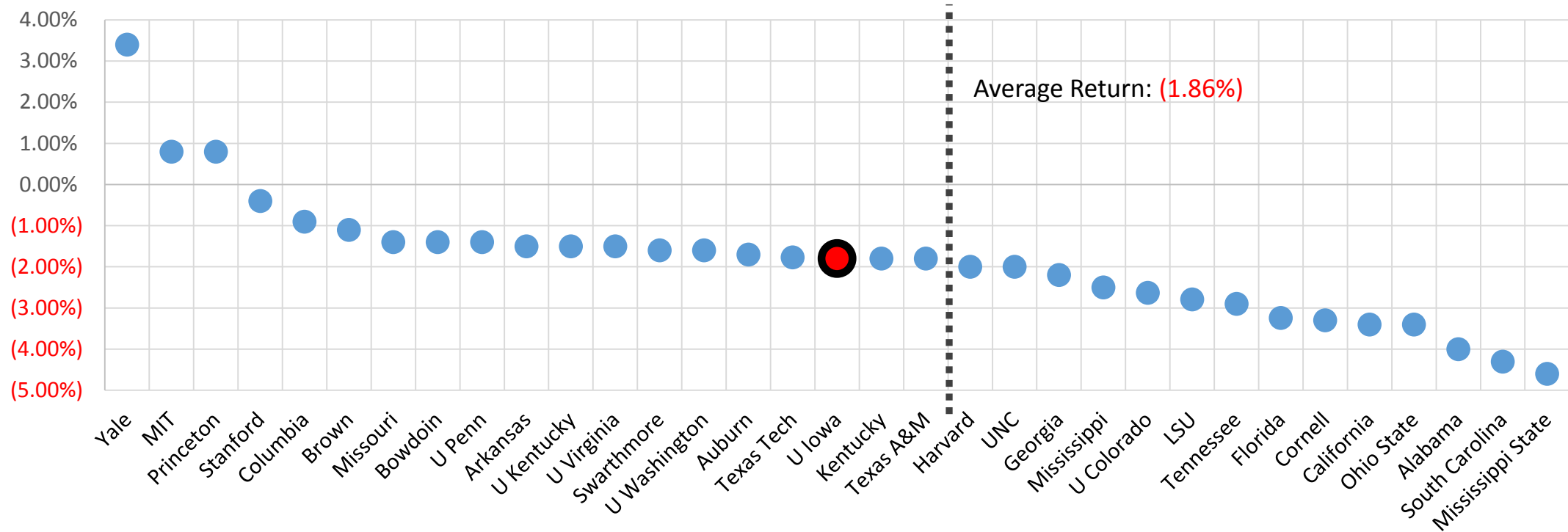
Market Volatility & Investment Returns

Texas Tech University System
Endowment Returns by Fiscal Year - Last 10 Years



Performance vs Peers

Preliminary 2016 Returns



Performance year ending 6/30/2016
Data is preliminary, sourced from news releases



Performance vs Peers

NACUBO Ranking - All E&F				
	One Year		Three Year	
2016	43.8%	↑	59.6%	↑
2015	52.3%	↑	68.4%	↑
2014	66.0%	↑	80.8%	↑
2013	68.6%		96.8%	

NACUBO Ranking - 750M-1.5B				
	One Year		Three Year	
2016	50.8%	↑	74.6%	
2015	63.1%	↑	74.6%	↑
2014	68.8%	↑	84.1%	↑
2013	77.4%		100.0%	

↑ IMPROVED RANKING

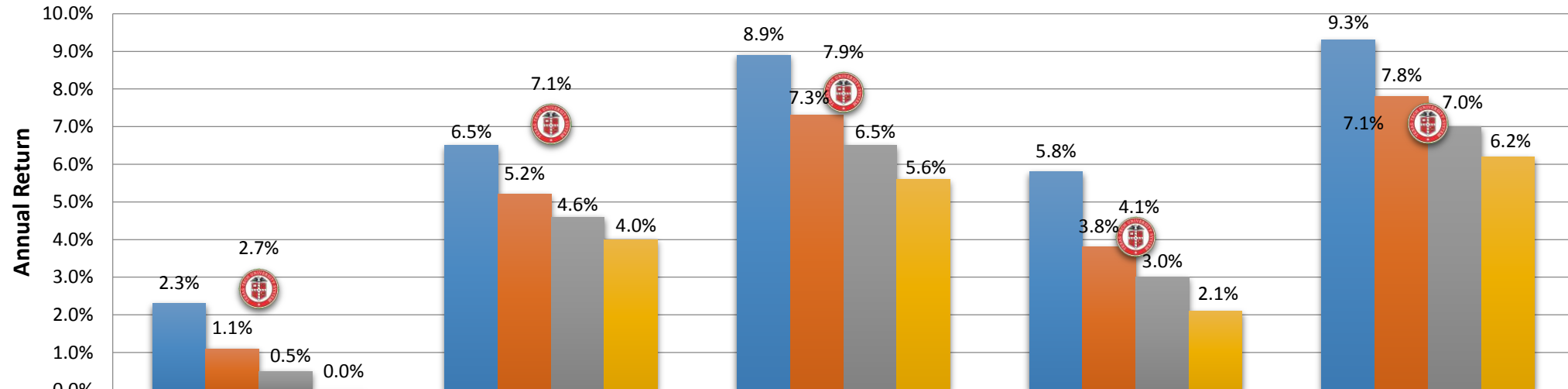
- 3-year rankings have improved from bottom to third quartile
- We have achieved consistent improvement in our one-year performance rankings, improving by 8.5% and 12.3% over the last year in the “All E&F” and “\$750m-\$1.5B” peer universe

Performance year ending 6/30/2016
Data is preliminary, sourced from news releases



Performance vs Peers

Endowment Study Range of Returns
as of 12/31/2016

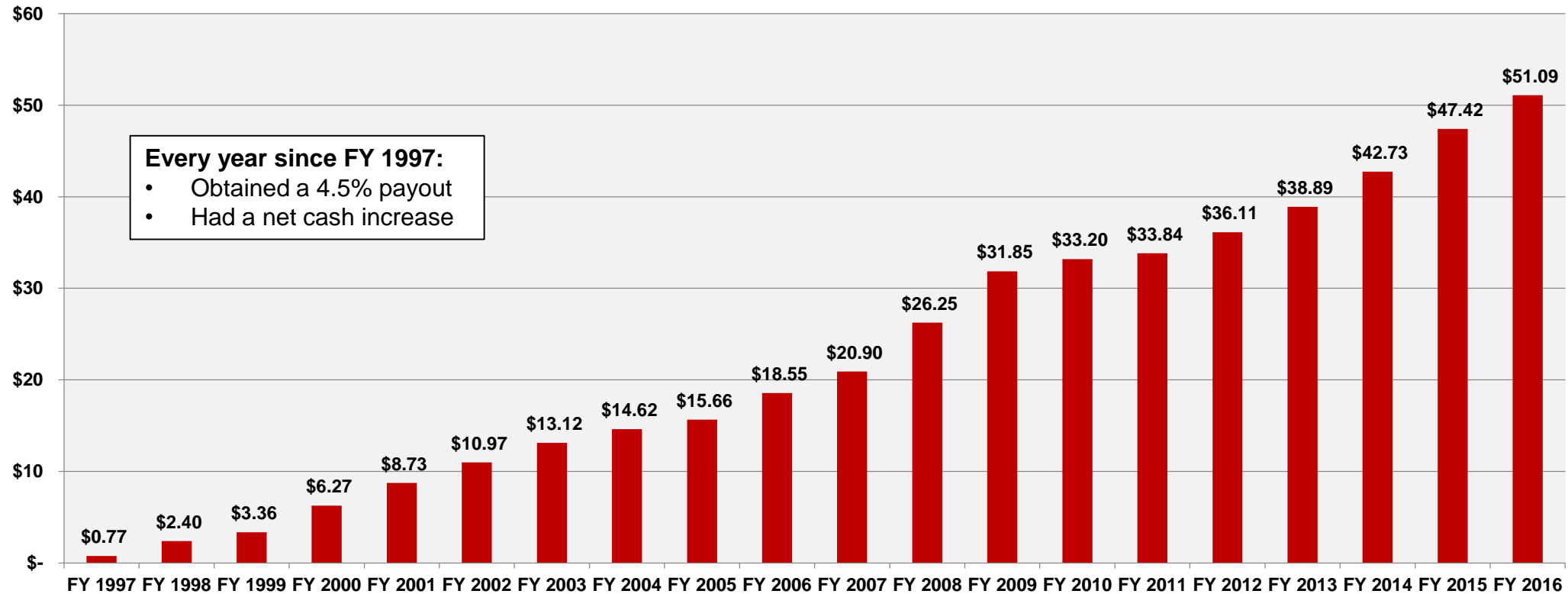


	Last Quarter	NACUBO YTD (6/30)	1 Yr	3 Yr	5 Yr
■ 5th Percentile	2.3%	6.5%	8.9%	5.8%	9.3%
■ 25th Percentile	1.1%	5.2%	7.3%	3.8%	7.8%
■ Median	0.5%	4.6%	6.5%	3.0%	7.0%
■ 75th Percentile	0.0%	4.0%	5.6%	2.1%	6.2%
Ⓜ TTU LTIF	2.7%	7.1%	7.9%	4.1%	7.1%



Funds Directly Provided to Component Institutions

FY 1997-FY 2016 in Millions



Questions?

