The University of Alabama System

UAS Investment Fund Overview & Spending Rate Analysis
June 13, 2013
The UAS Pooled Endowment Fund was created in 1978 as an investment vehicle to manage the many individual endowments that are part of the University of Alabama System. The fund is organized similarly to a mutual fund where each individual endowment owns shares in the overall fund. Managing one overall fund allows for lower fees, greater diversification, and better Board oversight. Educational endowments are subject to state regulation under UPMIFA (Uniform Prudent Management of Institutional Funds Act).
The Pooled Endowment Fund has two competing goals:
- To provide a perpetual source of stable support to the endowment beneficiaries, and
- To maintain an inflation adjusted value over time

To balance these goals the Board has put in place a spending rate policy and investment strategy designed to achieve both goals.

This rate was set at 5% of a three-year (36 month) moving average of unit market values.
UAS Pooled Endowment Fund
$1.04B

Ownership:
UA 58.7%
UAB 33.0%
UAH 6.6%
Hospital 1.7%

Distributions
Fiscal Year
2011-2012
$48.5MM
1.4% of System
Revenues

74% Restricted*
26% Unrestricted

*Restricted Endowments – Distributions can only be spent for donor designated purposes such as scholarships and professorships.
Growth of a $10,000 Endowment Funded in 1988
(Net of Distributions)

- Forward projections assume a 2.5% (inflation) increase in market value net of distributions.

- We want the yellow line (36 month moving avg.) above the red line (inflation adjusted value).

- Inflation of only 3% cuts purchasing power in half in 24 years.

*Forward projections assume a 2.5% (inflation) increase in market value net of distributions.
Annual Distribution from a $10,000 Endowment
Funded in 1988

Distributions will increase by 2.6% per unit this year

Prior to 1994, only income was paid out

In 1994, current spending policy was put in place.

Actual (Smoothed) Distributions

5% of Current Market Value
Payout Yields UAS Pooled Endowment Fund
January 2000 – January 2018

The smoothing aspect of the Spending Rate Formula results in the payout yield deviating from a fixed 5% at any point in time.

Actual distributions above 7% for an extended period will result in the destruction of principal.

Projected

Actual distributions will be above 5% in down markets and below 5% in up markets, but will average 5% over time.
Contributions/Distributions to and from Endowment Fund

Over time, contributions (additions of new endowments) have almost offset distributions.

*Black line is representative of cumulative net contributions/distributions
Endowment Distribution Breakdown

This chart illustrates the importance of new endowments over time relative to rising distributions.
Expected Range of Values for the UAS Pooled Endowment over the next 25 years in $Millions

**Probability of Maintaining Purchasing Power**

<table>
<thead>
<tr>
<th>Long Term Asset Allocation</th>
<th>5 Years</th>
<th>10 Years</th>
<th>15 Years</th>
<th>20 Years</th>
<th>25 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>59%</td>
<td>62%</td>
<td>65%</td>
<td>67%</td>
<td>68%</td>
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**Expected Range¹ of Nominal Market Values**

Long Term Asset Allocation

Interpretation:
There is a 68% probability that the endowment will grow at or above inflation (after distributions) for the next generation.

There is a 67% probability that the market values of existing endowments end up in the shaded area (1 standard deviation), and a 90% probability they will fall between the lines (2 standard deviations).

Note: Based on a starting market value of $1,044mm as of 3/31/2013, provided by UAS.

¹ Range includes 50% of the distribution (25th to 75th percentile).
Summary

- The Spending Rate Formula has distributions for fiscal year 2013-2014 increasing by 2.6% per share for next year. For the $10K endowment example funded 25 years ago, distributions would increase from $1,226 to $1,258 next year.

- The University of Alabama System continues to meet its long term objectives of maximizing distributions from the Endowment Fund while maintaining purchasing power.

- No change in the Spending Rate is recommended at this time.