Cornell College

EDUCIMUS

WHITE PAPER SERIES

From President Jonathan Brand

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The Role and Importance of Cornell's Endowment

Last summer, at a dinner in Chicago with several alumni, one alumnus expressed his strong hope that I would demystify the endowment for all Cornellians. After all, he noted, Cornell's endowment is vital to the Cornell of today and to the Cornell of the future. He just wasn't sure that "people really get it"—what it is and what it does.

The purpose of this white paper is to explain the endowment in a manner that is approachable for all (as written by a French Literature and History major!). Ultimately, it is of paramount importance that we understand the role that the endowment plays, what it accomplishes, and why we must remain focused on its growth as a part of achieving comprehensive growth at Cornell College.

Perhaps the best way to begin is by sharing examples of two Cornellians whose lives have been changed by the gift of endowed funds.

> "Our effort today for the endowment is a legacy: a gift to all of the future generations who will study and work at Cornell College. We do it for them."
>
> Richard Williams '63

A dream of college made reality

Maria Goodfellow '16 attends Cornell because she has funding through the Dr. L.E. and Alice Caroline Bigger Endowed Scholarship. Without it, her Cornell education would not be possible, she said.

"Growing up in New Mexico and wading through our poor education system, the one thing that always kept me going, made me want to push harder and be better despite the difficulties around me, was the hope of attending a top-notch college," she said. "Cornell has met all of my high school dreams of what college could be. The support of my professors is unparalleled. My classmates challenge me and are just as motivated as I am to get the most out of every

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course. Cornell has prepared me to pursue all of the things I only ever wistfully dreamed of doing. I am deeply grateful for the support of the Bigger Endowed Scholarship."

A transformative internship

Katelynn Raney '16, who is majoring in international political economy and minoring in civic engagement, is solely responsible for financing her education. The summer after her junior year, she interned with the World Affairs Council in Dallas, Texas, with funding through the Berry Center for Economics, Business, and Public Policy. In her senior year she was a Cornell Fellow.

"Both of these experiences were absolutely transformative for me. Without financial support, I would not have been able to participate," she said. "Both challenged my research skills and attention to detail and allowed me to take charge of my own individual projects. But most of all, I was impacted by the opportunity to make my own mistakes in a work environment. It has really helped me grow my own skills of self-reflection of the work that I do at Cornell."

Katelynn's internship would not have been possible without the Berry Center, which was established with an endowment from Jim McWethy '65 and named in honor of his grandfather, Lester Berry. Jim said that he had decided to establish the Center, rather than plan it as an estate gift, in part for the pleasure of being involved with it. He currently chairs the Center's Advisory Board.

These examples are the life-changing end result of endowment gifts, policies, and investments. Each of these opportunities could have been financed through the Annual Fund, but there are deeper reasons why they were not. Endowments provide unique benefits.

What is an endowment?

As defined by the National Association of College and University Business Officers (NACUBO) in a 2007 report, an endowment comprises "all financial assets that are intended for the long-term support of a college or university. Endowments are built up over many years, primarily with donated funds. Some of those funds are given for a specific purpose, such as to establish a scholarship ... while other donations will be for the general support of the institution. As a result, each college and university will have a different mix of endowment funds," which, together, make up the endowment.

An endowment, as a pool of funds raised by an organization, is then invested and managed. The growth in that endowment—whether through actual income or capital appreciation—is used to either support a specific purpose or for the more general operations of the institution.

Cornell College's endowment comprises many smaller endowments. And, these endowments can be grouped into three different categories. First, there are *restricted endowments*, which were created, and can only be used for, a specific purpose. Such endowments include those that fund *specific* items, such as financial aid, faculty chairs (positions), lecture series (such as the Delt Lecture or the Small-Thomas Lecture Series), and even the maintenance of our campus.

Second, *general endowments* are not restricted for a specific purpose. They can be used to support virtually anything that an organization undertakes.

Quasi-endowments are yet a third type of endowment, and are intended to function *like* an endowment but are established by the institution itself, rather than by a donor. The organization decides that these funds are to be retained and managed like an endowment—either as a restricted or unrestricted one. Thus, as defined by NACUBO, quasi-endowments, unlike "true" endowments, are: 1) created by the institution (and can be liquidated by that institution at any time), 2) can be invested alongside "true" endowments, 3) and can operate like "true" endowments in terms of how they are used by that institution.

What is the purpose of an endowment?

Cornell's endowment funds every aspect of the college, from general support of Cornell's operating expenses, to restricted programming such as scholarships for students like Maria Goodfellow, and academic and co-curricular programs like Katelynn Raney's Berry Center internship.

Cornell College pays its bills, so to speak, from funds that largely come from three sources: student revenue, gifts from alumni and friends, and the endowment. Optimally, a college would generate funds from student revenue, philanthropy, and the endowment in equal proportions. Such a balance would permit that college to weather various unforeseen vicissitudes that could diminish one or more revenue sources in a given year (like a market crash or a low enrollment year), which would otherwise mean having to reduce an institution's overall budget. In Cornell's case, in the 2014-2015 year, student revenue represented 70 percent, gifts were 16 percent, and the endowment contributed 8 percent of the college's $35,364,339 total operating budget. (Other auxiliary revenue generated the remaining 4 percent.) That is not an unhealthy mix relative to other institutions. But it is also, no doubt, an important long-term goal to better balance our revenue sources.

Within this context, the general purpose of an endowment is to generate income and growth to meet the short-term spending needs of an institution while also ensuring that that institution is viable in perpetuity. After all, the principal of an endowment (as opposed to its growth over time) is never supposed to be touched. Rather, it is intended to provide "a much-needed and perpetual stream of income to the institution" now and into the future.[1] In fact, this "financial stability" is particularly vital for colleges and universities because our horizon is so distant—and, because we continually engage in activities that are not easily started and stopped (such as offering financial aid to our students and heating and cooling our buildings).[2] Thus, a predictable ongoing stream of income is essential.

As an example, **a faculty development endowment** established by Campbell McConnell '50 and his wife Marilyn nearly 20 years ago has made a difference in the scholarship and teaching of numerous faculty members in the years since. More faculty are now able to attend conferences, finish books, conduct research with students, and plan for future sabbatical projects because of this reliable income stream.

How much can we spend from the endowment?

Colleges establish spending rates, typically between 4.5 percent and 5 percent annually, to govern endowment spending. Spending in that range is intended to meet the current needs of an institution while also growing its endowment, above inflation, to protect that institution's long-term financial strength.

At Cornell, we annually spend 5 percent of the three-year average of the endowment.

[1] The Investment Committee pamphlet, AGB, Jay A. Yoder.

[2] National Association of College and University Business Officers (NACUBO), May 2007 Report and its 2006 NACUBO Endowment Study (NES).

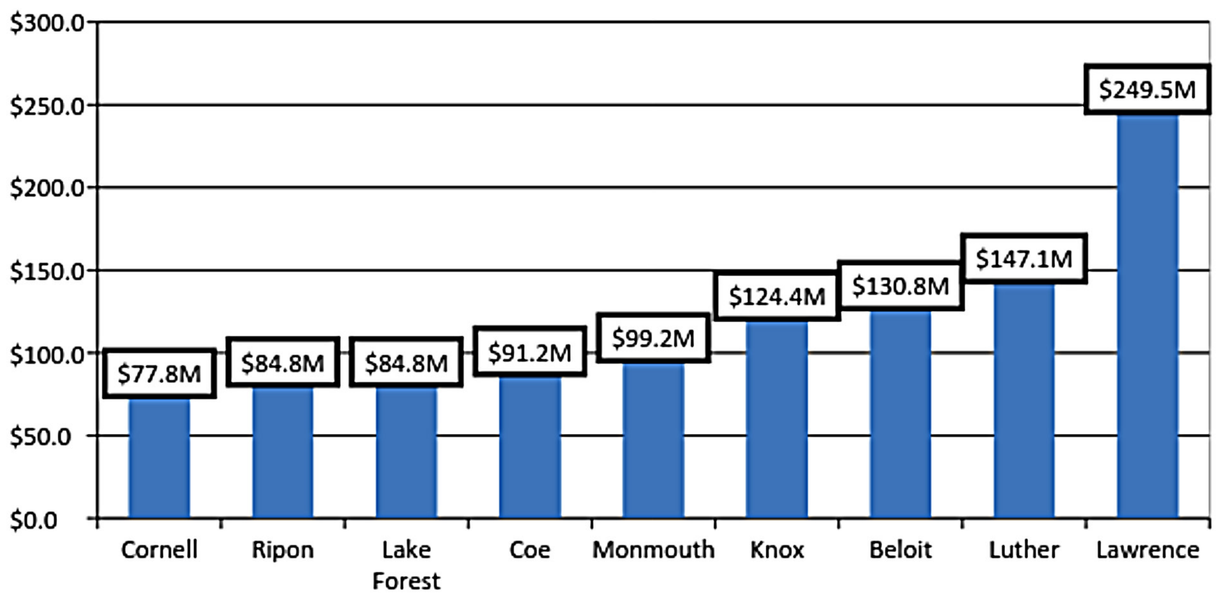
It falls to a board of trustees to decide what spending amount makes the most sense in light of the circumstances surrounding a given institution. In so doing, the Cornell College Board of Trustees pays attention to maintaining a proper balance between Cornell's current short-term spending needs and its long-term financial strength. Achieving a healthy balance between the needs of today and the anticipated needs of the future advances the goal of intergenerational equity of the endowment.

What is the size of our endowment, and how does it compare to those of our peers?

Fifty years ago, Cornell College's endowment was worth just over $6 million. It was at its all-time peak in 2007 at $77.6 million, right before the market crash, and it hit its market recession nadir in 2009 at just under $58 million. (According to NACUBO, college and university endowments experienced, on average, a -21.7 percent investment rate of return between 2007 and 2009. Our endowment dropped by 25 percent.) As of June 30, 2015, Cornell's endowment is $74.5 million—almost back to its pre-recession value.

In 2014, 832 colleges and universities participated in a NACUBO endowment survey. At that time, these schools maintained over $500 billion in endowed funds and, on average, had endowments of almost $110 million (as compared to inflation-adjusted endowment values of about $86 million in 1974).[3] We fall below that average, as well as below the endowments of other colleges in the Associated Colleges of the Midwest (ACM). These data only point to the importance of our focus on the growth of our endowment.

Endowment in Millions
2013-2014



[3] Please see "Forever Funds," NACUBO, Kenneth Redd.

How is our endowment managed?

Cornell College's endowment, like many other endowments, is well diversified across multiple asset classes, including: U.S. and international equities; fixed income; cash; and alternative investments such as real estate/land, private equity, hedge funds, and commodities. The long-term asset allocation has been constructed to deliver the endowment's long-term investment objectives, while providing stability during challenging market environments.

The stewardship of the endowment falls within the purview of Cornell College's Board of Trustees, which it delegates, in part, to its standing Investment Committee. The Board sets investment policies, percentage ranges for different types of assets, and spending policy guidelines. The Board's Investment Committee reviews the actual asset allocation of the endowment and the work of the college's investment advisor/manager—J.P. Morgan Chase—to ensure that it is following the Board's policies and reaching performance targets.

What role does philanthropy play?

Endowment fundraising is in many ways just like philanthropy that focuses on the Annual Fund (gifts that are entirely used in that year) or on capital projects (gifts that are entirely used to undertake facilities projects). After all, donors considering any one of these types of gifts are motivated to give because they care about the organization and have the ability to make a difference.

But, an endowment gift is fundamentally different from other gifts in that it asks alumni and friends to support something now AND in a manner that will ensure that that endeavor can exist forever—in an enduring way—because the gift is placed in a permanent endowment. In Cornell's case, endowment giving reflects a belief that Cornell will exist forever and that future generations of Cornellians should enjoy the same or better opportunities and experiences as the current one. Further, many alumni make endowment gifts to Cornell because they wish to "pay forward" the support they received. That is, many Cornellians have benefited from the endowment while they were students, and they wish to pay that debt forward by contributing to the endowment for future Cornell students.

It is quite easy to focus entirely on the annual performance of the endowment relative to the U.S. markets. However, it is really philanthropy that is at the heart of the endowment. Though it is difficult to pinpoint when Cornell established its first official endowment, the enduring and deep affection that Cornellians have for their school is represented in the over 700 different endowment funds that we maintain. The names of the funds reflect that Cornellians over the decades have invested in Cornell's future through their endowment gifts. There are funds named for classes going back to 1907 (a tradition that has been repeated by many classes, of course), funds named in honor of beloved faculty members (Professors Deskin, Kollman, and Lane, to name just a few), and funds named in memory of classmates, spouses, parents, and grandparents. The endowment is a snapshot of Cornell's history and individuals' hopes for its future. It reflects the love and commitment that Cornellians have for our special corner of the world.

Gifts to Cornell's endowment can be established by alumni and friends now or in the future. For example, alumni may establish an endowed scholarship right now with a minimum commitment of $50,000, payable over three to five years. Once the pledge has been fulfilled, the endowed fund begins to provide support. Additionally, many alumni make bequests to Cornell College through their estate plans, and these gifts are often placed into the endowment.

Does our endowment really need to grow?

Yes! Our current strategic plan focuses on comprehensive growth. That does not simply mean growth in the size of our student body. The resources surrounding our students must grow alongside them. Relative to our peers, Cornell's endowment is small. Simply put, our endowment does not match the current quality or excellence of the student experience. With greater endowment growth comes even greater opportunities for our students. Thus, we are entering into a campaign in which the endowment will be the long-term pillar of the campaign. Our science facilities are the essential short-term priority.

Ultimately, endowments and philanthropy focused on the endowment achieve so many important goals all at the same time. These endowment gifts fund current needs; they ensure future prosperity; they permit donors to invest in specific programs that are important to them; and endowment gifts provide naming opportunities that endure into the future. And, the size of an endowment as a part of an institution's financial strength is a commonly accepted measure of excellence.

A breakthrough thesis

Growth of the endowment will create more stories like those of Maria and Katelynn. I leave you with one final story about the impact of an endowment fund.

Last year, Thomas Cooke '15 traveled to the Nixon Presidential Library in California where he researched documents on the president's early political career. His research informed a lengthy thesis on Nixon's development as a politician. Thomas' thesis exists because of the Richard H. Thomas History Scholar Award for Off-Campus Research, an endowed fund established by family of the professor emeritus of history. Thomas Cooke was its first recipient.

"This was clearly the best honors thesis I have read in the three and a half decades I have been at Cornell College," said Professor of History Robert Givens. "This project would not have been possible without the support provided by the Thomas endowment. We hope it will be an example of the opportunities for student research that have been created by the generosity of the Thomas family."

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In sum, and as Richard Williams '63, Trustee and Chair of the Cornell College Board of Trustees' Investment Committee notes, "it is critical that we preserve and grow the endowment, as it is a significant source of funding for the college's operations presently and in the future. Both in good times and in challenging times, the endowment helps to ensure steady financial backing for the college's superior and expensive level of education. The key to progress is focus. And, that is what we are doing—taking strong steps to grow the endowment, including through our campaign. Our effort today for the endowment is a legacy: a gift to all of the future generations who will study and work at Cornell College. We do it for them."

Jonathan Brand
President

This presidential white paper is part of a series on matters of importance to Cornellians.
I welcome any comments or observations you might have on this white paper topic.
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