A NOTE OF THANKS

On behalf of Case Western Reserve University, I am pleased to present our Fiscal Year 2013 Endowment Report. This report is based on our assets, income and expenses from July 1, 2012, through June 30, 2013. I am gratified to share that our endowment continues to grow and create positive returns. These funds not only support today’s students and faculty, but also generate significant opportunities for our future.

Our combined endowment[1] includes funds that the university manages and funds held and managed by others. Our endowment operates like a mutual fund; each endowed gift owns a proportional share of the pool. The endowment is managed largely[2] by the university’s investment team, which stewards it with a focus on Case Western Reserve’s short- and long-term needs. The Board of Trustees’ Investment Committee oversees this vital work.[3]

The combined endowment—including funds held by others—totaled $1,561.8 million as of June 30, 2013, and realized an overall return of 8.5 percent, before spending. We recognize that our results are not as strong as we would like, or what our supporters would expect. We are taking steps now to try to ensure improved outcomes in the very near future.

Endowment spending represents expenditures from the endowment to meet the terms of gifts and/or strategic university investments. Examples of this kind of spending are: annual allocations from an endowment designated for scholarships to provide the funds to cover those scholarships; annual speaker fees that are covered by a lecture endowment; and research funds that accompany an endowed professorship to enable that faculty member to travel to conduct field studies in an area of expertise. Other spending comes from endowments that give individuals—for example, the president, provost or a college or school dean—discretion regarding what spending best meets the goals of the gift. Such spending may involve investments that enable the university to compete for new and time-sensitive funding opportunities or recognize an immensely talented professor for an exceptional achievement. To preserve the value of the endowment in perpetuity, only a portion of the pool’s total return is spent each year.

As many of you know, financial markets have been volatile for several years. To ensure that our endowment pool continues to thrive, our investment strategy balances diversification and aggressiveness with diligence and caution. This approach means that we see a consistent, less variable return even in an unstable market. Actively managing risk helps us protect and grow our portfolio value, regardless of dips in the market. As you can see in the charts within this report, our investment team adjusts allocations to respond to shifts in the market and maintain a balanced approach to managing the university’s endowment.

Despite the market’s challenges, our supporters continue to give generously. This year’s annual attainment marked a new record; donors also set new all-time marks for annual fund support and one-day giving. Support from our alumni and friends strengthens the endowment and helps safeguard the university’s future. It also means that Case Western Reserve can continue to provide transformative education and research for future generations. We appreciate your commitments to the university, and will continue to steward the endowment with great care.

Sincerely,

John F. Sideras
Senior Vice President for Finance and Chief Financial Officer

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[1] Combined endowment funds include dollars managed by the university whose purposes are temporarily or permanently restricted per the direction of donors. Combined-endowment funds also include funds held by others. The combined endowment excludes university investments, annuities and other assets that the university holds for others, commonly known as agency funds.

[2] Portions of the combined endowment are managed by other individuals or organizations, as designated by the terms of the gift to the university.

[3] Distributions from pooled endowments to support donor purposes are reviewed and reset annually at the recommendation of the Investment Committee, which is guided by the State of Ohio statutory requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The goal of this spending policy is to provide consistent and predictable annual distributions that keep pace with academic inflation. The policy also aims to preserve the balance between support for today’s students and for future generations.
INVESTMENT RESULTS

Annualized Returns (as of June 30, 2013)

<table>
<thead>
<tr>
<th></th>
<th>1-yr</th>
<th>3-yr</th>
<th>5-yr</th>
<th>10-yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Endowment</td>
<td>8.5%</td>
<td>8.6%</td>
<td>2.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Endowment Pool</td>
<td>7.5%</td>
<td>7.9%</td>
<td>1.9%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Endowment Benchmark</td>
<td>7.8%</td>
<td>7.6%</td>
<td>0.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Cambridge Associates Median</td>
<td>11.7%</td>
<td>10.0%</td>
<td>3.7%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

The Combined Endowment includes those funds managed by the university’s Office of Investments as well as funds held by others—that is, dollars held and invested by entities such as foundations or private financial institutions. The Endowment Pool includes those funds managed directly by the university’s Office of Investments. The Endowment Benchmark represents a composite of industry benchmarks for our asset allocation mix. The Cambridge Associates Median is a figure provided by Cambridge Associates, a leading investment consulting firm, that includes the performance of a broader range of colleges and universities.

Endowment Pool Value, Return and Distributions

The market value represents the actual value of the Endowment Pool—those funds directly managed by the university—as of June 30 of the designated year. This value includes growth through additional income provided through cash gifts or payments on existing gifts, as well as growth through investment returns. It also includes decreases in the total value that arise from spending—including withdrawals from the endowment to fulfill donor intentions such as supporting students through scholarships and faculty through endowed professorships—as well as administrative fees involved in the management of the endowment and other trustee-approved expenditures. Decreases in value also may arise from negative investment returns.

Gifts and Pledges from Private Sources

The chart above shows fundraising results for the past seven years. Attainment includes cash gifts, pledges, estate commitments and other designations guaranteed by a legally binding document. Many of these funds are designated for the endowment or overall investment pool, and others will go into those categories after the gift is received.

Our endowment is built on the generosity of generations of alumni and friends. Each year, our supporters invest in Case Western Reserve’s research and education, engagement and impact. In Fiscal Year 2013, their commitments reached a historic level—a new record of $145.9 million.

Gifts and pledges allow the university to create striking new spaces, launch innovative academic programs, and attract top faculty and students. In every instance, the funds allow the university to achieve its goals of developing new knowledge and increasing understanding. More, it gives Case Western Reserve a foundation on which to create a future that is even more impressive and influential than its venerable past.

The endowment’s roughly 2,700 individual funds together provide the university resources required for critical investments as well as ongoing financial stability. In addition, they contribute to meaningful opportunities and experiences for those on our campus today.

[CONTINUED ON NEXT PAGE]
2013

ASSET ALLOCATION: The university diversifies the nature of its investments—also known as asset allocation—to achieve results that balance a number of goals. Specifically, the approach seeks to achieve consistent, sustainable long-term returns, limit volatility, maintain necessary liquidity and protect against inflation.

YOUR SUPPORT (CONTINUED)

Among other initiatives, the endowment supports:

> **Endowed Positions** (such as deans, department chairs, professors and coaches): Essential to the university’s success is its ability to recruit and retain the most talented, dynamic and intellectually gifted scholars, scientists, engineers and leaders. Funds for such positions provide highly valued recognition for Case Western Reserve’s leading minds, as well as financial support that allows them to perform still more groundbreaking research and innovative teaching.

> **Scholarships and Fellowships**: Case Western Reserve is providing educational access to highly qualified students, and also is sensitive to the significant burden skyrocketing debt loads can place on graduates. Scholarships and fellowships not only provide unparalleled opportunities to smart and dedicated students, but also allow the institution to compete more effectively for those leading scholars.

> **Research Funds**: In an increasingly competitive funding environment, support for scholars to collect preliminary data and test initial hypotheses can be the difference between a promising idea and a lifesaving discovery. Such endowments can allow faculty to develop new realms of knowledge and even give undergraduates fieldwork or laboratory experiences essential for their future academic development.

> **Program Support**: History is rife with examples of speeches that have changed the world. Our donors have created incomparable opportunities for our campus community—and, often, Greater Cleveland audiences—to experience their own transcendent moments hearing the ideas and oratory of some of the world’s most distinguished thinkers and accomplished leaders. Program support is not limited to lecture series, however. It can introduce aspiring physicians and engineers to opportunities on our campus, allow current students to pursue invaluable enrichment opportunities, and give faculty critical assistance in transforming a pilot program into a flourishing interdisciplinary initiative for students and professors alike.

The charts at left demonstrate Case Western Reserve’s dedication to continued financial improvement. In each of the past six years, the university has realized a larger surplus than the previous year’s result. These gains are painstakingly achieved because the needs and opportunities faculty, staff and students experience each day are limitless. Responsible leaders recognize that resources are constrained by reality and that our most effective path toward sustained excellence involves strategic investment and substantial accountability.

We will continue to seek new ways to grow revenues, achieve savings and restrain expenditures, while at the same time maintaining fidelity to our mission to increase knowledge and understanding. Our supporters play an integral role in our ability to achieve that mission, and our gratitude is enormous. On behalf of the students, staff and faculty of Case Western Reserve, we thank you.

The total operating surplus includes both the operating margin (the difference between total revenues and expenses as listed in the top chart) and the retained surplus (excess revenues not spent in the year earned but reserved for future use).

If you have questions about this report or your endowed funds, please contact Donor Relations and University Events at donorrelations@case.edu or 216.368.5468.
Case Western Reserve University thanks you for your continued investment in our institution.

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