



**Response to United States Senate Committee on Finance
Request for Information Regarding Cost of Higher Education**

February 25, 2008

Responses to each question are set forth below, and tabular information is provided in numbered appendices.

1. Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

Approximately 4,780, or one-third of the University's 14,731 students, are undergraduates enrolled in the College. This balance reflects a long-term commitment to increase access for undergraduates by expanding enrollment in the College. Undergraduate enrollment in 1997, for example, was 3,756, almost 1,000 fewer students than we have today. For detailed enrollment figures from 1997 through 2007, please see Appendix 1.

2. Please provide the total cost of undergraduate tuition (including all fees)—both sticker and average, mean and median—year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the University has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

Total Cost of Undergraduate Tuition. The cost of providing an undergraduate education at the University of Chicago is, like that of many other leading research universities, substantially higher than our tuition rate. For this reason, we do not consider tuition in terms of a “sticker” price. A ten-year history of our annual tuition rates, grant expenditures per student, and net costs to students receiving aid is provided in Appendix 2. The University's total tuition and fees increased, on average, approximately 5.4% per year over the period reported in Appendix 2.

Tuition Assistance. Total grant expenditures on undergraduate aid for the past ten years are set forth in the bottom row of Appendix 2.

For students receiving need-based financial aid, their net education costs increased an average of 3.03% annually for the period set forth in Appendix 2. During this period, the

average need-based grant per student receiving such aid nearly doubled. This increase in grant aid is independent of the extraordinary \$400 million Odyssey Scholarship Program, announced in June 2007, to eliminate or substantially reduce loan debt for students from low- and moderate-income families. The Odyssey program is discussed in more detail in response to Question 3 below.

Percentage of Students Receiving Grants and Average Grant Amount. For fiscal year 2007-08, 2,716 students (approximately 57% of our total) receive some form of financial aid (need-based, merit, or a combination of the two). A total of 2,200 students receive need-based aid; of that total, 2,150 receive grant aid from the University. Those receiving need-based aid obtained average annual grant awards of \$22,160. Of the \$55.65 million in grant aid provided by the University to undergraduate students in 2007-08, merit-based aid represents less than 12% of the total.

3. Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

The University's Financial Aid Policy. The University belongs to a relatively small group of selective private colleges and universities with a "need-blind" admissions policy for U.S. students: we do not consider an applicant's wealth in deciding whether he or she should be offered admission to the University. Our need-blind admissions policy requires not only a robust financial aid program, but also a close collaboration between the University, the government, the student, and his or her family. As noted on our Office of College Aid website, "the formula is simple. We combine family resources along with need-based resources to meet the costs of attendance." (<http://collegeaid.uchicago.edu>.) Every matriculant with a demonstrated need receives financial aid, and we strive to meet 100% of demonstrated need through all four years of an undergraduate's studies.

Not surprisingly, need-blind admissions policies attract more applicants from underprivileged backgrounds. The University of Chicago has long been a leader in offering generous financial aid packages to families of modest means and providing access to first-generation college students.

Currently, 45% of our undergraduates receive need-based aid. Many students with need-based aid also rely on merit awards and privately-funded scholarships to reduce loans and work-study obligations. Privately-funded scholarships decrease a student's expected contribution dollar-for-dollar, that is, for each outside scholarship obtained by the student, he or she is expected to work and/or borrow that much less for the academic year. In 2004-05, our students obtained more than \$5 million in outside scholarship funds.

The loan and work-study expectations in our financial aid packages are calibrated to a variety of factors, including research on parent and student satisfaction, debt loads of

graduates, hours that students work per week, and repayment and default figures. Family contributions are calculated by reviewing income and net worth (home equity, non-retirement investments, savings, as well as expenses such as unusual medical costs). We also take into consideration the size of a student's family and the number of siblings attending college or likely to attend college in the future.

The federal student loan indebtedness of our graduates is slightly lower than the nationwide average. Nationally, the average college student graduating in 2006 had approximately \$21,100 in federal loans; the average federal loan indebtedness of students graduating from the College in 2006 was \$18,435. Slightly over half our graduating students (52.6%) have federal loan debt, and of those graduates, the median loan indebtedness is \$19,600. Eleven percent of our students receive Pell grants.

After deducting for grants, the average undergraduate at the University in the 2006-07 academic year who received aid contributed approximately \$8,940 from his or her personal and family resources and incurred loans of approximately \$4,495. This represents a discount of more than 60% on total anticipated tuition, fees, and expenses.

The University of Chicago is also one of eleven colleges and universities in Illinois (and the only research university in our state) to participate in the Independent 529 Plan, which protects families who prepay tuition from future tuition increases.

Access to Information about Financial Aid. We are committed to helping students and parents understand the cost and value of a University of Chicago education as they weigh college options. Our financial aid policies are posted on our website (<http://collegeaid.uchicago.edu>) and are provided in hard-copy form in the informational materials we provide all students applying for financial aid. A copy of our 28-page booklet, "A Guide to Financial Aid for Students & Parents," is attached as Appendix 3. We also provide an online summary of anticipated education expenses for students, including breakdowns of comparable costs for campus dwellers, commuters, or those living in the neighborhood. Our Office of College Aid website also lists typical college aid by family income level and provides a link to College Board calculators. We recognize the complexity of college financing, so we provide all students who have applied for financial aid a simple written summary showing grants, scholarships, and eligibility for Federal Perkins loans; recommendations for Stafford loan borrowing; expected parent and student contributions; and estimated total college expenses.

Our Office of College Aid has a full-time staff of nine professionals dedicated to working with students one-on-one to develop financing plans tailored to their—and their families'—needs. All students and parents are urged to contact the Office of College Aid for additional information and guidance.

The University's 2006 annual report, which is available to the public on our website (http://www.uchicago.edu/docs/education/2006_annual_report.pdf), also provides detailed

information about the overall discount to tuition (that is, the amount of financial aid as a percent of total tuition revenue) in the College and the percent change from the prior year. The annual report also sets forth annual total spending on financial aid for undergraduate and graduate students, percent change in need-based aid expenditures over the previous year, total number of students receiving financial aid, the average aid for students with scholarships, and total student costs and the percent change in those costs over the previous year.

Access and Affordability for Students from Low-Income Families. We expect that last year's announcement of the Odyssey Scholarship Program, catalyzed by a \$100 million challenge gift, will help inspire a new generation of students to believe that a world-class undergraduate education is within anyone's reach. Our anonymous donor came from modest means. His goal is to ensure that students from low- and moderate-income households obtain the same excellent "core curriculum" education that launched his successful career, but without cost concerns. The Odyssey Program, which commences in fall 2008, will free economically-vulnerable students from debt and work-study obligations; after graduation, they will be able to choose careers that satisfy their intellectual passions rather than their student loan debt. These objectives reflect a core educational mission to help our least-advantaged students succeed in college—and in life.

Definition of "Low-Income." As part of the Odyssey Scholarship Program, we define "low income" as families with annual incomes below \$75,000 (which encompasses three quarters of United States households).¹ Students from families with incomes below \$60,000 will receive grants rather than loans. Students from families having annual incomes between \$60,000 and \$75,000 will have half the usual loan expectation replaced by grants. We anticipate that more than 27% of our undergraduate students will participate in the Odyssey Program.

Students above the \$75,000 Odyssey threshold also have affordability and access concerns, and they will continue to receive substantial aid from the University. Approximately 80% of students receiving need-based financial aid (almost half our undergraduate student body) are from families with annual incomes less than \$120,000. The median family income for students who receive financial aid from the University is \$83,970.

The University's commitment to enhancing opportunities for students from low- and moderate-income families did not start with the Odyssey program. In July 2001, we

¹ Certain outreach programs supported by the University define "low income" differently. For example, the Questbridge matching program uses federal methodology to determine Expected Family Contribution; the University matched with families whose EFC's were lower than \$4,000, and most of the families had an EFC of zero.

joined 27 other leading colleges and universities in agreeing to new guidelines for determining financial aid eligibility. The guidelines were part of an effort to stave off a growing trend toward using merit aid to attract the most desirable students rather than to help the neediest attend our nation's finest schools.

Additional Recruiting and Outreach for Low-Income Students and Families. We spend millions of dollars annually to build and maintain pipeline programs encouraging students from disadvantaged and inner-city backgrounds to attend four-year colleges. We founded and operate three South-Side charter schools (and will soon be opening a fourth) to improve K-12 education and help young men and women enroll in college. The University also provides computer infrastructure, system management and maintenance, training, and advice and support on integrating technology into the classroom to 26 local public schools through the Chicago Public Schools/University of Chicago Internet Project. And, although "first generation" college students are not always from low- to moderate-income families, they are disproportionately represented in that cohort; the University has long been a leader in attracting students who are the first in their families to attend college.

The University also provides institutional and direct financial support for a variety of community-based urban education initiatives. As part of the Questbridge program targeting low-income students (typically, from households with annual incomes below \$60,000), we are providing full scholarships to at least 29 students in the coming year. The University also participates in Venture Scholars, College Horizons, A Better Chance, Inc., the National Hispanic Institute, Pathways to College, and Youth About Business. We are involved in many college fairs drawing potential students from low- and moderate-income families, including the New York University Summer College Fair, the Columbia University Summer Programs College Fair, EXPO College Fair at Yale University, the Hispanic Youth Symposium, the National Hispanic Institute LDZ College Fairs, National Hispanic College Fairs, 100 Black Men of Chicago, Inc. College Fair, National Scholarship Service, NACAC College Fair, Hispanic College Scholarship Fund "Steps for Success Saturday," Wight Foundation College Fair, and the Making Waves Case Studies College Fair.

The University also works closely with the Chicago Public Schools, which serve a substantial population of low- and moderate-income families, on a variety of outreach programs, including high school visits, college fairs, college access panels, application fee waivers, Collegiate Scholars Program, College Bridge Program, Higher Achievers Fair, Guidance Department Chair meetings, recruiting assistance for our Kenwood community magnet school, and special programs through the University's Upward Bound office. We offer five full-tuition, four-year scholarships for students from the Chicago Public Schools, and we actively recruit students throughout the Chicago Public School system and in our three urban Charter schools. In all, the University spends more than \$2.8 million annually on these programs.

In addition to our Chicago Public School outreach programs, we offer up to 12 full-tuition, four-year scholarships each year for children of Chicago Police officers and firefighters; a full tuition scholarship to a student from the Kenwood Academy, a local Chicago Public School with close educational ties to the University; and a full-tuition scholarship for a low-income student from an inner-city college preparatory school, Providence St. Mel.

The University also offers on-campus high school enrichment programs to help low- and moderate-income students succeed in college. Those programs include the Students of Color Open House (all-expenses paid travel program for approximately 30 students), International Baccalaureate Summit at Chicago, Destination Chicago for April Yield Programs (all-expenses paid travel program), Providence St. Mel Day, Trio/Upward Bound, and CAAP Selection and Summer Program. Admissions personnel also travel to charter schools around the country in targeted recruiting efforts.

Building on these high school enrichment programs, the Odyssey Scholarship Program will also include an eight-week on-campus summer program hosted by University faculty to prepare approximately fifty disadvantaged students for College life.

Expenditures on Outreach Efforts. As noted above, the University is involved in many outreach and pre-collegiate programs as part of our broad-based community-support initiatives. In addition to our expenditures in connection with those programs, annual expenses incurred by the University in connection with the Students of Color, Chicago Public School, and Youth about Business programs alone total approximately \$110,000; we spent an additional \$165,000 on IB Summit, Questbridge, Chicago Public Schools Higher Achievers, and fee waivers. And, given that more than a quarter of our students will qualify for Odyssey loan reductions, approximately \$473,000 of our total direct recruiting expenses (excluding salaries) will ultimately be dedicated to attracting low- and moderate-income students.

Results. The University's outreach efforts, need-blind admissions, and the new Odyssey Scholarship Program are sending a powerful message about affordability and access for students from low- and moderate-income families. Applications to the college increased nearly 20% in 2008, a number aided by last summer's communications about the Odyssey Scholarship Program.

4. Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

The Tuition-Setting Process and the Trustees' Role. Prior to the annual March meeting of the Board of Trustees, the Provost and the Chief Financial Officer, in

consultation with the President and the Dean of the College, recommend tuition rates for the following academic year to the Board's Financial Planning and Executive Committees. The entire Board approves annual tuition rates. In making tuition recommendations, University leaders seek to balance needs against available sources of revenue, primarily tuition and endowment income.

Because the University maintains a need-blind admissions policy and backs it up with a commitment to meet 100% of demonstrated need, tuition increases typically do not have a significant impact on students receiving need-based financial aid. These students' costs of education are calibrated to the ability to pay, not the annual tuition rate. In this respect, our financial aid budgets are indexed to tuition.

Opportunity to Comment on Tuition Increases. Although there is no prescribed procedure for obtaining advance student or parental input on tuition decisions, we encourage an ongoing dialogue with all members of our campus community on issues of importance, including the cost of higher education. We announce tuition changes as soon as the Board votes, and our administrators are available for questions from students, parents, and the local and on-campus media. Our annual reports, available to the public on our website, show historical tuition data over a four-year period. Individual inquiries about tuition or its impact on the educational budget of students and their families are welcomed by our Office of College Aid.

Endowment Assistance to Students. The endowment has two effects on financial aid for students. First, endowment spending for ongoing operations reduces pressure on tuition revenue. Last year, endowment support for operations totaled \$193.7 million, or 12% of the University's operating budget.

Second, the endowment contributes directly to undergraduate and graduate financial aid. A table showing direct endowment contributions to student financial aid for the past decade is provided in Appendix 4. The contribution to undergraduate aid increased from \$3.84 million in fiscal year 1997-98 to \$12.01 million in 2006-07. Likewise, endowment contributions to graduate financial aid increased from \$5.22 million in 1997-98 to \$17.01 million in 2006-07. Over the past decade, our overall endowment funding for undergraduate and graduate aid more than tripled.

As noted in response to Question 3 above, the University is also committing substantial resources and effort to raise endowment funding for financial aid to undergraduates from low- and moderate-income backgrounds as part of the Odyssey Scholarship program. As it looks to the future, the University seeks financial aid endowments in excess of \$400 million to ensure that the University can continue to offer need-blind admissions to talented young men and women.

5. Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment

policies? What is the mission of your university's endowment? When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?

The University provides substantial information to the public about our endowment in our annual reports; the 2006 Annual Report is available online (www.uchicago.edu/docs/education/2006_annual_report.pdf). The annual report sets forth the mission of the endowment, the percent of the endowment invested in the Total Return Investment Pool, year-end market value, percent change in market value from the previous year, rate of return, and comparisons to other market benchmarks. The report also discusses the diversification of the portfolio, the allocation of assets, and general investment and payout policies. Finally, the annual report confirms the Trustees' fundamental role in directing the endowment and making payout decisions.

Endowment Management and the Role of the Board of Trustees. The University's Board of Trustees has a fiduciary responsibility to balance the short- and long-term needs of the institution, and the Trustees are actively involved in the governance of the University and its endowment. Our Board has twelve standing committees and meets at least four times per year; the Executive Committee meets monthly.

Members of our Board understand that their fiduciary responsibility extends to more than the financial assets of the University. The Board is responsible for ensuring the long-term development and protection of the University's capital, including the financial and physical assets of the University as well as its significant intangible assets. The University is endowed with great cultural, intellectual, and human capital that is essential to its excellence and the fulfillment of its mission. This cultural and intellectual capital is just as real an asset to the University as its financial capital, and as such, ensuring its preservation and enhancement through well-informed decision-making is an essential responsibility that our Board takes seriously.

Oversight of endowment investments is the primary responsibility of the Board's Investment Committee. This committee is composed of University Trustees and alumni who have substantial professional experience in managing sophisticated institutional investments. Active board oversight and collaboration ensure consistency with University objectives and enhance investment returns. The Board also determines annual endowment payout as part of the regular budget process based on the recommendation of the Chief Financial Officer.

Endowment Investment Policies. The University's investment policy is based on the fundamental purpose of endowed funds, which is to support the core educational and research mission of the University in perpetuity by supplying a steady, permanent source of income to supplement the operating budget. The current investment policy is based on an analysis conducted in 2005 and is updated at least annually.

The majority of the endowment is invested in a Total Return Investment Pool (TRIP). The University maintains a diversified portfolio of investments in the pool to manage market volatility and take a long-term view; this perspective also helps achieve consistent favorable returns. The portfolio consists of domestic public equities, international public equities, real assets, fixed income, and venture capital. A table showing current target strategic asset allocation is attached as Appendix 5. The actual investment allocation varies depending upon market conditions, investment opportunities, and liquidity needs. The strategic asset allocation is reviewed regularly and approved by the Investment Committee.

Endowment Payout Policies. Control over endowment spending, a critical factor in maintaining value over time, is a responsibility vested in the Trustees of the University. Information regarding the Trustees' role in managing the payout of endowed funds is provided to the public in our annual reports. The annual reports also disclose information about average endowment market value, special payouts not included in endowment spending, total dollars contributed to the University's annual operating budget, and percent change from the previous year.

The endowment payout policy is based on a total return concept for allocating income. In accordance with the University's total return objective, between 4.5% and 5.5% of a twelve-quarter moving average of the fair value of the endowment investments, lagged by one year, is available for expenditure in the form of endowment payout. The exact payout percentage is set each year by the Board of Trustees; for 2007, the payout percentage was 5.2%. The University's operating budget for fiscal year 2007 was \$1.6 billion; the 5.2% payout of \$193.7 million represented 12% of the total operating budget.

For the ten-year period from July 1993 through June 2004, the policy set the provisional payout at 5%, but limited decreases from prior year payouts to no more than 4%; there have been no limits on increases from prior year payout. Our targeted payout has been 5% for seven of the past ten years, rising to 5.10%, 5.15%, and 5.20% in the past three years. Payouts as a percentage of total endowment market value at a given point in time reflect investment returns and endowment growth through donations. The fiscal year 2007 payout, as a percentage of market value including new gifts, was 4.19%.

The defined range formula for determining endowment payout requires active management by the University's administration and its Trustees. Annual decisions about spending need to be guided, in part, by the balance that must be maintained between prudent spending for current operations and long-term asset preservation. The use of a range enables University decision-makers to lessen the impact of market volatility on the operating budget. A longer-term benefit of the range formula is that it enables the University to both preserve asset appreciation during periods of market expansion and increase spending despite market depreciation. This flexibility also enhances returns; by contrast, investment pools that generate fixed benefits tend to favor investments with predictable (and predictably lower) returns.

Mission of the Endowment. The mission of our endowment is inseparable from our overall academic mission of the as one of the world’s leading research universities. The University of Chicago is planning bold advances in its academic and research programs, initiatives that will likely involve exponential rather than incremental budget increases in the coming years. Our endowment must serve these agenda-setting educational and research goals while it meets current operational requirements of the University and the financial needs of our students. The Board of Trustees accomplishes these diverse objectives with a long-term philosophy that permits access to high-quality investment vehicles and the ability to better manage risk. That said, University endowments are not immune from market forces—catastrophic shocks, inflation, or recession. In 2000-01 and 2001-02 for example, the University of Chicago’s endowment rate of return was a negative 8.6% and 5.4% respectively.

Periodic Review of Endowment Policies. The University’s endowment policy is prepared by the Investment Committee of the Board of Trustees in collaboration with the staff of the Office of Investments. The endowment policy was re-evaluated in October 2005, at which time significant changes were made to asset allocation. Typically, major aspects of the endowment policy are reviewed annually by the Investment Committee.

6. Please provide the year-by-year net growth of the university’s endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

Endowment Growth by Donations and Investment Returns. Endowment growth at the University of Chicago, as at its peers, has been strong in recent years, in large part due to healthy economic growth, long-term and sophisticated investment strategies, and generous donations. Year-by-year net growth of the endowment by dollars and percentage is set forth in Appendix 6(A). Donations by year for that same period are set forth in Appendix 6(B).

Endowment Asset Allocation. Our endowment investments emphasize markets offering structural advantages to investors and those in which we feel that talented managers can add value. In order to meet our return objective, the asset allocation is biased in favor of a range of asset classes with equity-like characteristics. To reduce volatility and hedge against adverse equity markets, the endowment also has allocations to high-grade fixed income, real estate, and other real assets. The allocation of endowment investments, by asset class, is set forth in Appendix 6(C).

Endowment Investments Outside the United States. We understand “investments outside the United States” to mean investments in which the underlying security is issued by an entity domiciled abroad. Given the nature of hedge fund investing, this definition may not address the Committee’s question. Accordingly, Appendix 6(D) summarizes

investments outside the United States based on the endowment's dedicated asset classes, and it also includes an estimate of investments in non-dedicated asset classes. The "dedicated asset classes" category excludes international investments that may have been made by an investment advisor in an asset class that was not dedicated to international investing (*e.g.*, it does not include international investments that may have been made by a manager in Absolute Return or Real Asset classes). The "non-dedicated asset classes" category estimates international investments made by managers in non-dedicated asset classes using information provided by the underlying funds, which may not be complete. We began tracking this information in 2004; the data in the "International Investments—Non-Dedicated" column does not include prior years.

7. Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?

Definition of the University's Endowment. Consistent with the American Institute for Certified Public Accountants' May 1, 2007 "Audit and Accounting Guide for Not-for-Profit Organizations" and our internal policy, the University has three types of endowment funds: permanent endowments, term endowments, and funds functioning as endowment. Permanent endowments refer to amounts contributed with donor-specified restrictions that the principal be invested in perpetuity; income from these investments may also be restricted by donors. Term endowments are similar to permanent endowments, except that at some future time or upon the occurrence of a specified future event, the amount originally contributed becomes available for a purpose designated by the donor. "Funds functioning as endowment" refers to funds designated by the University's Board of Trustees to be retained and invested for a specified purpose for at least ten years.

Charitable donors are the primary source of funds for the endowment. Most donors restrict their gifts to specific purposes (*e.g.*, facilities, professorships, programs, scholarships), though some fund unrestricted endowments that give the institution latitude in supporting general operations or specific opportunities. In 2007, endowment gifts accounted for almost 30% of endowment growth.

Other Long-Term Investments Not Included in the Endowment. Long term investments not included in the endowment market value reported to NACUBO are the long-term investments for Annuity and Life Income Funds, summarized in Appendix 7.

8. What has been the cost of management of the endowment year-by-year for the last ten years? A table listing the cost of management of the endowment (including all direct costs of our Office of Investments) for each of the past ten years is provided in Appendix 8.

9. What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?

Endowment Payouts. Endowment payout information for the last ten years is provided in Appendix 9. As noted in response to Question 5 above, the Board has determined that endowment payouts should fall within a range of 4.5% to 5.5% of a twelve quarter moving average of the fair value of the endowment investments, lagged by one year. The exact payout percentage within that range is determined annually by the Board of Trustees. Changing market values will create variations between “targeted” payouts pursuant to our formula and payouts as a percentage of total endowment value at a given point in time. Thus, payouts as a percentage of the beginning of year market value have, in the past ten years, fluctuated above and below 5% as set forth in Appendix 9.

Meeting the Needs of Students When Targeted or Actual Endowment Payouts Are Less than 5%. As noted in Appendix 9, our “targeted” formula payouts over the past decade have all equaled or exceeded 5%. Payout percentages based on beginning-of-year market values have fluctuated above and below 5% over that same period depending on market conditions. Regardless of how payouts are computed, the University has been meeting the needs of our current students and protecting assets for future generations in several respects.

First, the bulk of our endowment spending funds the entire University, which is primarily a graduate research institution. This unusual (and costly) structure provides our undergraduates with academic resources of unmatched intellectual breadth and depth.

Second, endowment spending fluctuations do not correlate directly with fluctuations in our student financial aid budgets. Endowment spending contributes an important, but relatively small, component of our overall financial aid budget (approximately 15%).

Third, our need-blind admissions policy and our commitment to provide 100% of every student’s demonstrated need have been served year after year by the University’s endowment payout strategy.

Finally, as is discussed in response to Question 3, the University has taken the lead in ensuring that a world-class undergraduate education will be available to future generations of students through the creation of the Odyssey Scholarship Program.

Variations Between Targeted Payouts and Payouts as a Percent of Market Value. As noted above, variations between “targeted” payouts pursuant to our formula and payouts as a percent of current endowment market value arise because the targeted payout applies to

a twelve-quarter average market value with a one year lag and is not comparable with payout calculated as a percentage at a particular point in time.

Top Ten Endowment Expenditures Last Year. The top ten expenditures from the endowment last year were instruction and research (\$58.3 million), institutional support (\$58.0 million), professorships (\$38.1 million), student aid (\$29.0 million), expenditures relating to The University of Chicago Medical Center (\$7.2 million), library (\$4.8 million), facilities (\$3.2 million), lectureships (\$1.0 million), visiting professors (\$1.0 million), and student prizes (\$700,000).

10. How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official—such as a set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.

Permanent Spending Restrictions on the Endowment. The endowment is comprised of approximately 2,700 individual accounts, each of which has restrictions placed by the donor regarding the use of the income. Of the \$6.204 billion endowment market value on June 30, 2007, \$3.389 billion (54.64%) represents endowments subject to permanent spending restrictions or limitations set by the original donor. Of the portion subject to permanent limitations, \$335.63 million (9.9%) is restricted for undergraduate scholarships and \$413.52 million (12.2%) is restricted for graduate scholarships. These totals do not include funds from the Odyssey Scholarship Program that is discussed in more detail in response to Question 3 above.

Endowment funding of student aid in fiscal year 2007 was \$29 million, representing 15% of the student aid budget.

Top Five Types of Restrictions on the Endowment. The five most significant restrictions on the endowment are, in declining order: instruction and research (\$1.725 billion), institutional support (\$1.563 billion), professorships (\$1.167 billion), student aid (\$866.80 million), and The University of Chicago Medical Center (\$210.08 million).

Other Limitations, Set-Asides. A table listing the categories of funds functioning as endowment, their market value, and the percentage of market value, is provided in Appendix 10(A).

Investment Return on the Endowment. A table showing the TRIP average rate of return on the endowment for the past ten fiscal years is provided in Appendix 10(B).

11. Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

Fee Arrangements with Investment Advisors. Advisors generally receive a flat fee calculated as a percentage of assets invested with the advisor. Advisor compensation may include an additional incentive payment, often referred to as “carry.” The incentive payment may require the manager to deliver performance above a certain threshold return or may be effective as soon as the manager achieves positive performance. Typically, incentive fees are calculated on a net basis after deducting management fees. In certain circumstances, the advisor’s compensation consists solely of carry and there is no base management fee.

Measurement and Determination of Advisor Fees. Advisor compensation is measured and determined according to the investment management agreement, partnership agreement, or mutual fund documents governing the relationship between the endowment and the investment advisor. The documents specify the amount of the fee and the basis on which it should be calculated and paid. Typically, the investment advisor retains an independent auditor to confirm the accuracy of fee calculations.

Process for Reviewing the Reasonableness of Advisor Fees. The University employs ten investment professionals who identify and evaluate investments. They are responsible for evaluating investment advisors, their products, and the terms under which such products are offered. Investments are not selected primarily on the basis of fees, although a substantially over-market fee structure may be sufficient cause to reject an investment. Investments are evaluated based on numerous criteria, including the strength of the investment advisor’s team, their track record, their process, the investment sector, expected risk/volatility, and other fund terms such as liquidity, fund size, and final maturity.

Review and Approval of Advisor Fees. Fees are one variable considered in the investment approval process, but fees are not typically considered independently of the underlying investment opportunity. Briefly described, the University’s investment approval process involves the origination by any team member and a due diligence inquiry. After it has been determined that the investment is appropriate for the portfolio, a recommendation is made to senior Office of Investments staff for approval. Senior staff members meet with the Vice President and Chief Investment Officer to review the investment, including the fee structure. Depending on the dollar amount of the investment, final approval is provided by either the Chief Investment Officer or the Chair of the Investment Committee.

Payment of Advisor Fees. Investment advisor fees are paid out of the endowment, charged back to the investment account from which they were generated. This procedure reduces the reported return on the investment because advisor and endowment returns are reported net of fees.

Relationship of Endowment Growth and Performance to Executive Compensation or Bonus Compensation. The President's compensation is not tied to endowment growth or performance. The Vice President and Chief Investment Officer receives a salary and also participates in an incentive compensation plan, a component of which relates to the performance of endowment investments. Appendix 11 sets forth the bonuses received by the Vice President and Chief Investment Officer for the past ten years.

APPENDIX

Appendix 1: Undergraduate and graduate enrollment

Fiscal Year	Undergraduate	Graduate*	Total Undergraduate and Graduate Enrollment
FY 06-07	4,780	9,951	14,731
FY 05-06	4,642	9,885	14,527
FY 04-05	4,515	9,596	14,111
FY 03-04	4,344	9,276	13,620
FY 02-03	4,216	9,018	13,234
FY 01-02	4,064	8,925	12,989
FY 00-01	3,996	8,834	12,830
FY 99-00	3,917	8,410	12,327
FY 98-99	3,852	8,589	12,441
FY 97-98	3,756	8,477	12,233

* Includes Graduate Divisions, Professional Schools, and Non-Degree

Appendix 2: Annual tuition rates, grant expenditures per student, and net cost to students

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (projected)
Total tuition & fees*	\$22,476	\$23,304	\$24,234	\$25,239	\$26,475	\$27,825	\$29,238	\$30,729	\$32,265	\$34,005	\$35,868
Tuition	\$22,086	\$22,902	\$23,820	\$24,807	\$26,022	\$27,324	\$28,689	\$30,123	\$31,629	\$33,336	\$35,169
Fees	\$390	\$402	\$414	\$432	\$453	\$501	\$549	\$606	\$636	\$669	\$699
Enrollment	3,756	3,852	3,917	3,996	4,064	4,216	4,344	4,515	4,642	4,780	4,891
Students receiving need-based aid	2,144	2,208	2,087	2,016	1,920	1,945	2,055	2,097	2,170	2,232	2,220
Average need-based grant award per student	\$12,197	\$12,464	\$13,141	\$13,308	\$13,410	\$14,487	\$15,896	\$17,225	\$18,723	\$19,934	\$22,160
Net tuition paid per student receiving need-based aid	\$10,279	\$10,840	\$11,093	\$11,931	\$13,065	\$13,338	\$13,342	\$13,504	\$13,542	\$14,071	\$13,708
Total grant expenditures (includes merit aid) (in thousands)	\$28,273	\$29,704	\$30,033	\$30,513	\$30,240	\$32,983	\$38,347	\$41,683	\$46,241	\$50,219	\$55,656

*Fees include activity and health service fees only

Appendix 3: A Guide to Financial Aid for Students & Parents

Please see printed copy enclosed. Also available online at: http://collegeaid.uchicago.edu/pdfs/guide_prospective_0708.pdf.

Appendix 4: Direct endowment contributions to student financial aid (in thousands)

Fiscal Year	Undergraduate	Graduate	Total
	Financial Aid	Financial Aid	
FY 06-07	\$12,013	\$17,009	\$29,021
FY 05-06	\$10,814	\$15,554	\$26,368
FY 04-05	\$10,736	\$15,177	\$25,913
FY 03-04	\$10,797	\$14,867	\$25,663
FY 02-03	\$9,865	\$13,211	\$23,076
FY 01-02	\$8,475	\$11,098	\$19,573
FY 00-01	\$6,774	\$8,581	\$15,355
FY 99-00	\$5,356	\$7,318	\$12,674
FY 98-99	\$4,501	\$6,093	\$10,593
FY 97-98	\$3,841	\$5,223	\$9,064

Appendix 5: Investment policy: target strategic asset allocation by asset class

Asset Class	Allocation
U.S. Equities	11.0%
International Developed Equities	11.5%
International Emerging Equities	12.5%
Private Equity	13.5%
Real Assets	10.5%
Absolute Return	33.5%
Fixed Income	7.5%

Appendix 6(A): Net endowment growth (in thousands)

Fiscal Year	Endowment Market Value	Total Dollar Growth	Percent Growth
FY 06-07	\$6,204,189	\$1,337,186	27%
FY 05-06	\$4,867,003	\$729,509	18%
FY 04-05	\$4,137,494	\$516,766	14%
FY 03-04	\$3,620,728	\$398,877	12%
FY 02-03	\$3,221,851	\$(35,624)	-1%
FY 01-02	\$3,257,475	\$(261,966)	-7%
FY 00-01	\$3,519,441	\$(315,836)	-8%
FY 99-00	\$3,835,277	\$1,072,282	39%
FY 98-99	\$2,762,995	\$394,764	17%
FY 97-98	\$2,368,231	\$325,091	16%

Appendix 6(B): Donations (in thousands)

Fiscal Year	Gifts and Pledge Payments Received (Cash Only)
FY 06-07	\$141,335
FY 05-06	\$64,426
FY 04-05	\$50,948
FY 03-04	\$47,667
FY 02-03	\$34,074
FY 01-02	\$41,262
FY 00-01	\$45,415
FY 99-00	\$49,683
FY 98-99	\$34,034
FY 97-98	\$36,938

Appendix 6(C): Allocation of endowment investments, by asset class

Fiscal Year	U.S. Equities		International Equities		Venture Capital		Private Equity		International Private Equities		Real Estate	Natural Resources	Absolute Return	Fixed Income	Total
	U.S. Equities	International Equities	International Equities	Venture Capital	Private Equity	Corporate Finance	International Private Equities	Real Estate	Natural Resources	Absolute Return					
FY 06-07	10.8%	26.9%	26.9%	4.6%	4.3%	3.2%	5.9%	4.9%	30.4%	9.0%	100.0%				
FY 05-06	13.3%	26.4%	26.4%	5.1%	4.8%	2.5%	5.8%	5.1%	27.4%	9.6%	100.0%				
FY 04-05	22.6%	18.4%	18.4%	5.3%	7.3%	3.7%	3.5%	4.1%	22.9%	12.2%	100.0%				
FY 03-04	23.9%	18.6%	18.6%	5.7%	7.5%	3.6%	4.1%	3.4%	21.6%	11.6%	100.0%				
FY 02-03	22.7%	17.3%	17.3%	6.2%	7.5%	2.3%	5.1%	3.6%	22.9%	12.4%	100.0%				
FY 01-02	16.9%	16.6%	16.6%	8.8%	7.3%	1.6%	3.9%	3.2%	23.0%	18.7%	100.0%				
FY 00-01	25.2%	14.5%	14.5%	12.0%	7.3%	1.1%	4.1%	3.1%	16.9%	15.8%	100.0%				
FY 99-00	34.8%	13.4%	13.4%	18.1%	6.8%	0.7%	3.2%	2.9%	4.2%	15.9%	100.0%				
FY 98-99	45.3%	11.7%	11.7%	7.9%	5.4%	0.7%	9.4%	3.5%	0.2%	15.9%	100.0%				

Appendix 6(D): Endowment investments outside the United States across asset classes (in millions)

Fiscal Year	International Equities – Dedicated Asset Classes			Sub-Total	International Investments – Non-dedicated Asset Classes		Total
	Public Equities	Private Equities					
FY 06-07	\$1,639.8	\$196.7	\$1,836.5	\$928.0		\$2,764.5	
FY 05-06	\$1,265.3	\$122.0	\$1,387.3	\$649.7		\$2,037.0	
FY 04-05	\$747.2	\$149.0	\$896.2	\$436.7		\$1,332.9	
FY 03-04	\$660.2	\$129.2	\$789.4	\$279.5		\$1,068.9	
FY 02-03	\$545.3	\$71.9	\$617.2	-----		\$617.2	
FY 01-02	\$528.9	\$50.1	\$579.0	-----		\$579.0	
FY 00-01	\$496.2	\$37.7	\$533.9	-----		\$533.9	
FY 99-00	\$503.3	\$25.7	\$529.0	-----		\$529.0	
FY 98-99	\$315.8	\$19.4	\$335.2	-----		\$335.2	
FY 97-98	\$265.2	\$10.4	\$275.6	-----		\$275.6	

Appendix 7: Long-term investments for Annuity and Life Income Funds (in thousands)

Fiscal Year	Market Value
FY 06-07	\$101,212
FY 05-06	\$89,012
FY 04-05	\$84,371
FY 03-04	\$74,638
FY 02-03	\$68,200
FY 01-02	\$72,447
FY 00-01	\$77,235
FY 99-00	\$92,346
FY 98-99	\$96,639
FY 97-98	\$88,043

Appendix 8: Cost of endowment management (including direct costs of Office of Investments)

Fiscal Year	Cost
FY 06-07	\$6,824,018
FY 05-06	\$5,574,971
FY 04-05	\$4,277,909
FY 03-04	\$3,424,290
FY 02-03	\$3,079,091
FY 01-02	\$2,768,044
FY 00-01	\$2,555,949
FY 99-00	\$2,221,248
FY 98-99	\$2,068,915
FY 97-98	\$1,418,783

Appendix 9: Endowment market values, as reported to NACUBO (in thousands)

Fiscal Year	Reported to NACUBO	Less: Related Entities and Non-cash Accounting Adjustments	Market Value	Payout	Payout Percent of Beginning of Year Market Value	"Target" Formula Payout
FY 06-07	\$6,204,189	\$161,883	\$6,042,306	\$202,964	4.19%	5.20%
FY 05-06	\$4,867,003	\$27,089	\$4,839,914	\$185,664	4.51%	5.15%
FY 04-05	\$4,137,494	\$23,555	\$4,113,939	\$185,927	5.16%	5.10%
FY 03-04	\$3,620,728	\$20,214	\$3,600,514	\$189,169	5.90%	5.00%
FY 02-03	\$3,221,851	\$17,694	\$3,204,157	\$177,454	5.48%	5.00%
FY 01-02	\$3,257,475	\$17,527	\$3,239,948	\$154,576	4.42%	5.00%
FY 00-01	\$3,519,441	\$19,366	\$3,500,075	\$122,967	3.21%	5.00%
FY 99-00	\$3,835,277	-----	\$3,835,277	\$104,615	3.79%	5.00%
FY 98-99	\$2,762,995	-----	\$2,762,995	\$86,454	3.65%	5.00%
FY 97-98	\$2,368,231	-----	\$2,368,231	\$76,067	3.72%	5.00%

Appendix 10(A): Categories of funds functioning as endowment, market value, and percent of market value (in thousands)

Categories	Market Value	Percent of Total Market Value
Otherwise expendable gifts and bequests with donor-imposed restrictions as to purpose	\$934,767	15.1%
Otherwise unrestricted expendable gifts and bequests	<u>\$557,250</u>	<u>9.0%</u>
Subtotal	\$1,492,017	24.1%
Funds set-aside for Self-insurance reserves	<u>\$216,126</u>	<u>3.5%</u>
Total funds functioning as endowment	\$1,708,143	27.6%

Appendix 10(B): TRIP average rate of return

Fiscal Year	One Year	Three Years	Five Years	Ten Years	Twenty Years
FY 06-07	21.0%	19.5%	15.4%	12.9%	12.2%
FY 05-06	19.2%	18.0%	9.8%	13.1%	12.1%
FY 04-05	18.1%	12.3%	4.1%	13.0%	12.5%
FY 03-04	16.6%	4.3%	7.9%	12.8%	12.9%
FY 02-03	2.9%	-3.8%	7.7%	11.4%	11.9%
FY 01-02	-5.4%	6.8%	10.5%	12.3%	13.8%
FY 00-01	-8.6%	14.1%	16.4%	14.2%	14.5%
FY 99-00	40.9%	23.8%	22.5%	15.7%	15.7%
FY 98-99	15.3%	18.3%	18.0%	13.5%	14.6%
FY 97-98	17.2%	19.4%	15.3%	13.2%	14.5%

Appendix 11: Bonuses paid to Chief Investment Officer

Fiscal Year	Bonus Paid
FY 06-07	\$308,000
FY 05-06	-----
FY 04-05	\$141,000
FY 03-04	\$101,000
FY 02-03	\$79,000
FY 01-02	\$63,000
FY 00-01	\$45,000
FY 99-00	\$96,000
FY 98-99	\$61,000
FY 97-98	-----