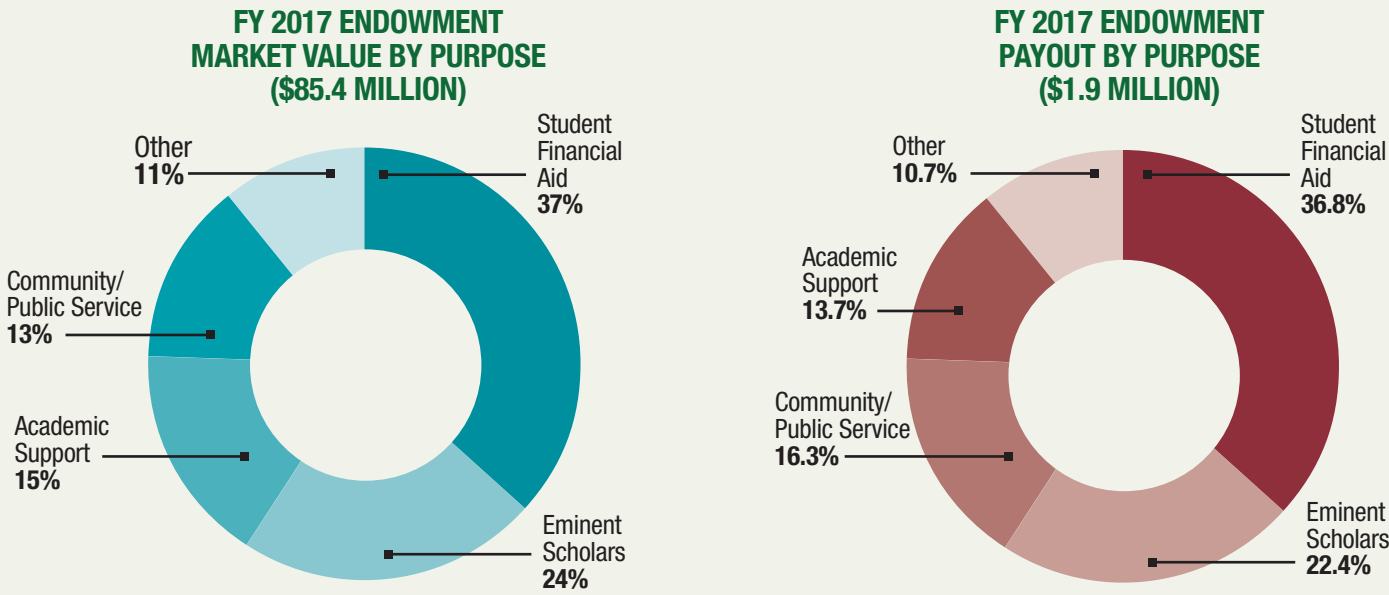
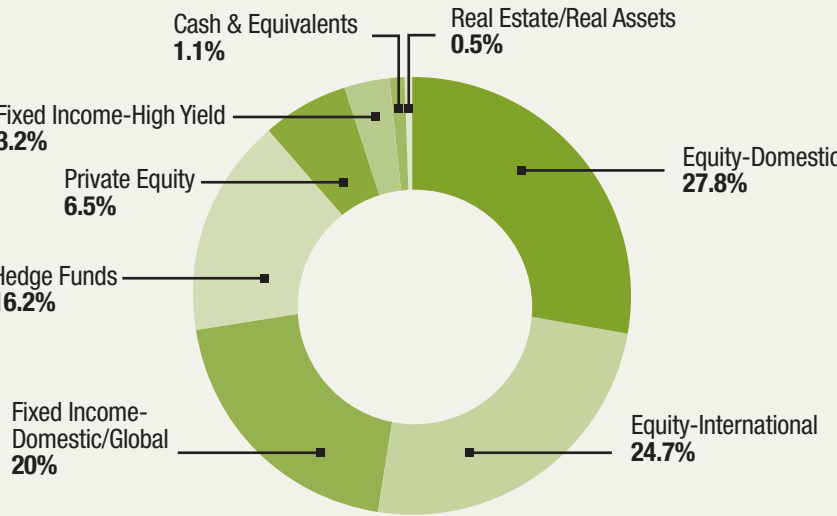


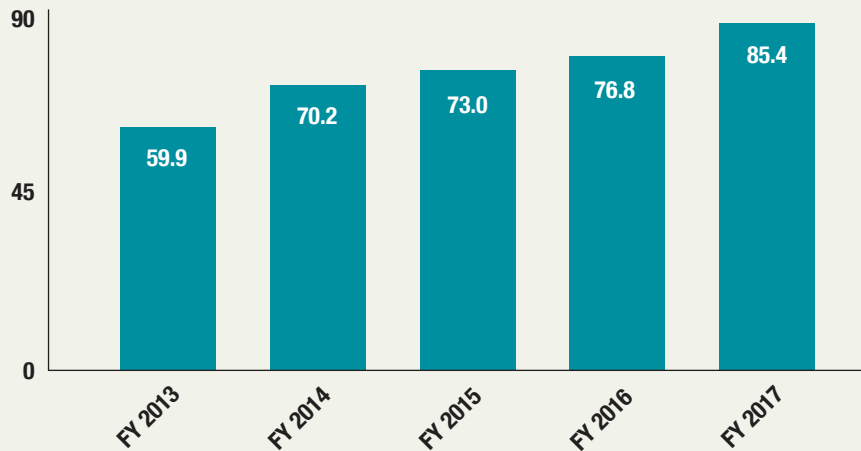
KEY FY 2017 ENDOWMENT FIGURES



FY 2017 ENDOWMENT ASSET ALLOCATION (\$85.4 MILLION)



GEORGE MASON UNIVERSITY FOUNDATION INC.  
JUNE 30 ENDOWMENT BALANCE  
BY FISCAL YEAR IN MILLIONS OF DOLLARS



**George Mason University Foundation Inc.**  
4400 University Drive, MS 1A3  
Fairfax, Virginia 22030

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703-993-8850

**FASTER  
FARTHER** | THE CAMPAIGN  
FOR GEORGE MASON  
UNIVERSITY



**ENDOWMENT REPORT**

Fiscal Year 2017

George Mason University Foundation Inc.





## A NOTE FROM THE INVESTMENT COMMITTEE CHAIR

As a member of the George Mason University Foundation Board of Trustees and the chair of the Investment Committee, it has been my privilege to oversee the management of our investment process and observe the work of our investment advisors. I would like to share with you a few updates and figures from the past year.

Our fiscal year 2017 return of 9.2 percent represents a competitive outcome. Because the endowment's mandate is to provide an inflation-adjusted income stream in perpetuity to fund student scholarships, faculty fellowships, and university programs, the investment allocation is primarily a blend of various stock and bond markets. This provides the essential diversification to both grow and protect the portfolio, and our process is consistent with fiduciary principles.

A new endowment spending policy was implemented as of June 30, 2017. This change is a proactive, fiscally responsible action intended to help heal our endowment. Our relatively young endowment has experienced several significant market downturns in the last two decades, leaving many of our endowment accounts below their original gift value. In recent years, the low interest rate environment and previous spending policy prevented the endowment from fully recovering. After careful and lengthy study, the Investment Committee approved the adoption of a Banded Inflation Method and corresponding implementation plan to guide future endowment payouts. More information about how this change will impact current and future endowed funds is included on the next page. We feel confident that this well-researched approach will help to ensure the long-term health and perpetuity of our endowment.

I want to close by once again thanking you for your support of George Mason University. The success of the Faster Farther campaign, the achievements of our students and faculty, and the positive impact of Mason in its community have all been made possible by partners like you who chose to make long-term investments in our university.

Sincerely,

John Paul Phaup, MBA '91  
Chair, Investment Committee  
George Mason University Foundation Board of Trustees



## ENDOWMENT SPENDING POLICY CHANGES

The Board of Trustees Investment Committee members, in their capacity as fiduciaries and stewards of the foundation's endowment, worked closely with the foundation's investment advisors (the Sardana Group) and the foundation to study the impact of spending on the health of the endowment. After careful study and extensive analysis, the committee approved the adoption of a new spending methodology and recommended that the foundation transition away from its previous moving-average methodology. That earlier methodology—based on a 12-quarter moving average—is unsustainable and left many of our young endowed funds below the original gift value with little hope of achieving healthy growth. To ensure the long-term health and perpetuity of the endowment, the foundation adopted a Banded Inflation Method and implementation plan commencing June 30, 2017, to calculate endowment payouts. This change is a proactive, fiscally responsible action intended to heal our endowment.

### Why is this necessary?

Endowed funds are established to last in perpetuity and are intended to provide stable annual income for the benefit of the university. Mason's endowment is very young compared to our peers, and has experienced two significant downturns in its short lifetime: the "dotcom crash" of the early 2000s and the housing and credit crises of 2007–09. The consequences of these market failures, combined with the low-return environment of recent years, as well as an outdated spending policy, left some of our endowment accounts below their original gift value at the end of fiscal year 2016. The new spending methodology will provide young endowments more opportunity to grow and allow time for underwater endowments to recover.

### How does the Banded Inflation Method work and what does it mean for my fund?

The foundation's implementation of the Banded Inflation Method holds payouts at a fixed dollar amount during fiscal years 2017 through 2019. For existing endowments, the payout to be distributed each of those three years is 3.75 percent of the fund's fiscal year 2016 endowment market value, assuming the fund is above the original gift value; if the fund is below the original gift value, the payout through fiscal year 2019 will be 2 percent of the fiscal year 2016 market value.

Once the method is fully implemented in fiscal year 2020, these endowments' payouts will be calculated based on the prior-year payout plus an inflation adjustment. The payout will not be lower than 3 percent or higher than 6 percent of the prior year's endowment market value; these figures are the "bands" that give the Banded Inflation Method its name. The band minimum will be 2 percent of the prior year's endowment market value for any remaining accounts with a value less than their original gift value.

### Conclusion

The Banded Inflation Method and implementation plan provides a temporarily reduced, but predictable distribution from the endowment accounts to improve the long-term health and perpetuity of the endowment for generations. We look forward to a healthy, perpetual endowment that will benefit Mason long into the future.

## FISCAL YEAR 2017 ENDOWMENT

The George Mason University Foundation was established in 1966 to assist the university in generating private support and to manage, invest, and administer private gifts, including endowment and real property. Foundation endowment assets are invested in a widely diversified portfolio reflecting traditional and alternative equity strategies, international and emerging-market strategies, traditional and alternative fixed-income strategies, real estate, and private equity. The Investment Committee of the Board of Trustees, which meets a minimum of four times per year, serves as financial steward of the endowment; its members are obligated to foster and promote a culture of fiduciary responsibility.

Our endowment represents the generosity and vision of donors and stewards who, by investing in George Mason University through the foundation, help ensure financial stability for Mason. State funding, tuition, and student fees provide only a portion of the revenue necessary to provide world-class education and research opportunities. Income from our more than 497 endowed funds provides perpetual support for schools and colleges, students, faculty, and programs across the university. Increasing the number and strength of those funds has been a major priority of Faster Farther, the current campaign for George Mason University. New gifts to the endowment, added to your ongoing support, can ensure that Mason's inspiring trajectory continues.

Our fiscal year 2017 return of 9.2 percent, though under our established benchmark, is competitive, given the economic and political volatility of the past year. We have a conservative portfolio allocation intended to minimize downside risk. This perspective was demonstrated in our fiscal year 2016 results, when our endowment's performance compared very favorably to our peers in a down market. Conversely, in a rising market such as fiscal year 2017, our endowment will capture less of the upside trend while minimizing risk to the portfolio. Over the coming year, we expect continued global expansion, solid U.S. growth, rising interest rates, and persistent market volatility. We believe our portfolio is appropriately positioned for that market and economic outlook.

### FOR THE FISCAL YEAR ENDING JUNE 30

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Endowment Return	9.65%	14.77%	1.45%	-0.21%	9.20%
Policy Benchmark	9.60%	15.14%	3.09%	-1.76%	11.30%
NACUBO Survey	11.50%	15.20%	2.00%	-1.80%	TBD
Endowment Distribution for Mason Programs (millions)	\$1.6	\$2.1	\$2.1	\$2.0	\$1.9
Endowment Year-End Market Value (millions)	\$59.9	\$70.2	\$73.0	\$76.8	\$85.4