



BROWN UNIVERSITY

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*Ruth J. Simmons*

March 3, 2008

The Honorable Max Baucus  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510-6200

The Honorable Charles Grassley  
Ranking Minority Member  
Committee on Finance  
United States Senate  
Washington, DC 20510-6200

Dear Senator Baucus and Senator Grassley:

Thank you for your letter containing a number of questions about Brown University's endowment. I am pleased to respond on the University's behalf.

First, I wish to note that I share your interest in ensuring broad access to affordable education for students from all income levels who have the drive and desire to pursue postsecondary education. We know that the expense associated with earning a college degree is a struggle for many families. We also know, however, that maintaining our country's leadership in higher education is in our national interest and does not come without its costs, which we at Brown work very hard to contain.

Therefore, I welcome the opportunity to inform you of Brown University's efforts to balance the pressing needs of access, affordability, and academic excellence demanded today and in the future. In addition, I appreciate your efforts to understand better the role that university endowments play in helping to make college more affordable for those students attending institutions like Brown that have relatively large endowments.

It is my hope that the responses that you will receive from Brown University and the other 135 colleges and universities to which you sent similar letters will illustrate the extraordinary investments being made by those institutions to benefit students and their families, especially in financial aid. At Brown, for example, the University will spend \$56.9 million of institutional resources this year to provide financial aid to undergraduate students; that figure will increase by 20 percent in the next academic year. In addition, the Corporation of Brown University, our governing body, just approved a significant

expansion of our financial aid policies that calls for the elimination of loans for students from families with incomes less than \$100,000, the elimination of parental contributions for most families with incomes of less than \$60,000, and the reduction in loans in all other income categories.

Much of this progress would not be possible without income from our endowment. In addition to supporting student aid, our endowment enables Brown to attract exceptional students and a superb faculty and to provide the highest quality education by offering small classes, opportunities to engage in research, and a learning environment designed to advance knowledge. Our endowment also provides basic operating funds for our infrastructure.

As president of Brown, it is my duty to ensure that such resources are available for many generations to come. In fact, university endowments have a time horizon of infinity. It is useful to think of endowments as the sum of donor intentions and as a record of the aspirations donors have for the institutions they support. It is also important to note that Brown, like other institutions, is legally and ethically prohibited from using restricted endowment funds for purposes other than the donor's intentions or from allowing the purchasing power of any unit of the endowment to be eroded by excessive spending. Currently, three-quarters of Brown's \$2.6 billion endowment is restricted to purposes other than undergraduate financial aid.

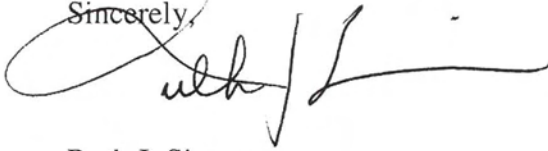
There is a great deal of discussion these days of the need to leave our world a better place for the next generation, and I believe a University's endowment is a major investment in that future. I, along with our leadership team at Brown, take great pride in the gains we have seen in our endowments because these gains enable us to increase spending today to improve financial aid and enhance the quality of education provided for all our students, without compromising the obligation we have to preserve the purchasing power of the endowment for future generations of students. We are constantly reassessing that balance between the needs and opportunities of today's students and our obligations to the students of the future.

Just as the federal government makes investments in higher education through grants, student loans, and university-based research funding, institutions like Brown use endowments to provide funds to support faculty, academic programs, cutting-edge research, medical education, graduate education, and for operating and maintaining our facilities, which include everything from libraries and classrooms to laboratories and residential facilities. These investments contribute to our state, local, and regional economies and to the broader society in the form of high quality employees and jobs, medical and scientific advances, and the development of new products through entrepreneurial technology transfer. As we face the prospect of an economic slowdown, such investments, both short and long term, are essential to our country's future economic prosperity. Our endowment will ensure that we will continue to make these investments.

Finally, I respectfully suggest that, as you review the issues surrounding university endowments, you and your fellow members of Congress consider the great strength of our system of higher education. We must maintain the partnership between the federal government and our institutions to ensure affordable high quality education for as many students as want to go to college. For our part, we will work to contain costs and manage our endowment in the most effective way possible.

Thank you again for your letter. I hope the information we have provided will answer your questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ruth J. Simmons', written over the word 'Sincerely,'.

Ruth J. Simmons

## Answers from Brown University

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

**Brown University Enrollment Data  
For Degree-Seeking Candidates Only  
Does Not Include Visiting Students**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Undergraduate	5,810	5,868	5,782	5,766	5,806	5,730	5,772	5,927	5,798	5,813
Graduate	1,327	1,319	1,349	1,433	1,518	1,617	1,634	1,686	1,732	1,735
Medical	325	316	327	325	326	341	336	351	359	373
<b>Total</b>	<b>7,782</b>	<b>7,503</b>	<b>7,458</b>	<b>7,524</b>	<b>7,650</b>	<b>7,688</b>	<b>7,742</b>	<b>7,964</b>	<b>7,889</b>	<b>7,921</b>

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.

Academic Year	Tuition	Fees <sup>1</sup>	Average University Scholarship	Average Net Tuition and Fees for Scholarship Students	Average % of Tuition and Fees Covered by Scholarship	Total Undergraduate Scholarships (in millions)
1998-1999	\$23,616	\$546	\$13,500	\$10,662	56%	\$27.0
1999-2000	\$24,624	\$568	\$14,500	\$10,692	58%	\$29.0
2000-2001	\$25,600	\$584	\$15,010	\$11,174	57%	\$30.0
2001-2002	\$26,568	\$604	\$15,900	\$11,272	59%	\$33.4
2002-2003	\$27,856	\$624	\$17,570	\$10,910	62%	\$38.7
2003-2004	\$29,200	\$646	\$18,870	\$10,976	63%	\$42.0
2004-2005	\$30,672	\$662	\$19,030	\$12,304	61%	\$43.8
2005-2006	\$32,264	\$710	\$20,300	\$12,674	62%	\$46.7
2006-2007	\$33,888	\$732	\$21,800	\$12,820	63%	\$50.4
2007-2008	\$35,584	\$758	\$23,864	\$12,478	66%	\$56.9

<sup>1</sup> Brown has two mandatory fees: health services fee and student activities fee

University assistance (not including loans or work study) provided to undergraduate students year-by-year for the last ten years.

	<b>University Scholarship (Undergraduates)</b>
1997-98	\$25.12 M
1998-99	\$27.00 M
1999-00	\$29.00 M
2000-01	\$30.02 M
2001-02	\$33.40 M
2002-03	\$38.65 M
2003-04	\$41.98 M
2004-05	\$43.77 M
2005-06	\$46.70 M
2006-07	\$50.36 M
2007-08	\$56.9 M

The percentage of students provided need-based scholarship in 2007-08 is 41% with an average need-based scholarship from Brown of \$23,864. The average scholarship of \$23,864 covers 66% of a student's tuition and fees for academic year 2007-08.

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?

Brown University awards financial aid to students in the undergraduate College, Graduate School and Medical School. Although federal, state and institutional reporting is consolidated through the Undergraduate Office of Financial Aid, decisions regarding student eligibility for institutional grants, scholarships and stipends vary and are determined by the school to which the student is applying or attends. Below is information regarding the financial aid policies for Brown's undergraduate students, including information regarding outreach efforts aimed at potential students from low-income families.

**Admission and Financial Aid Applications**

An applicant's ability to pay for their education is not a factor in the admission decision at Brown. In other words, a candidate's financial need is not taken into consideration when deciding to admit, wait list, or deny an applicant for admission. This policy applies to all U.S. Citizens and Permanent Residents regardless of the program to which the applicant has applied. Brown considers financial need for transfer and foreign candidates when deciding to admit, wait list, or deny the applicant. All students and families are encouraged to apply for financial aid.

Financial aid at Brown is a partnership that draws on the combined resources of the student, his or her family, federal and state governments, and the University itself. Brown believes that the primary responsibility to pay for college lies, to the extent possible, with the family. Eligibility for financial aid for all undergraduates is based on financial need only. Brown does not offer aid based on academic achievement, athletic ability, or any other form of merit.

### **ESTABLISHING NEED AND AWARDING PRACTICES**

Students are required to complete the Free Application for Federal Student Aid (FAFSA). Students are also required to submit additional application materials such as the College Scholarship PROFILE or a Brown University application. Students must submit application materials each year, including all required federal verification documentation. Brown meets 100% of a student's demonstrated financial need. Financial need is determined by subtracting the calculated family contribution from the cost of attending Brown.

### **Cost of Attendance (COA) - Expected Family Contribution (EFC) = Financial Need**

The **Cost of Attendance (COA)** is determined by including set tuition and fee figures as well as estimates of additional costs students will experience throughout the year such as room and board, books and supplies, personal expenses, transportation and loan fees. The EFC is composed of (1) the **Student Contribution from Income**, (2) the **Student Contribution from Assets**, and (3) the **Parent Contribution**.

In order to calculate the Expected Family Contribution (EFC) for each student, Brown utilizes standard needs-analysis policies and procedures via both federal and institutional methodologies. Each application is individually reviewed and carefully evaluated to determine the EFC. Factors considered in Brown's needs analysis formula include:

- Parent Income
- Allowances against Income
- Parent Assets
- Number of Family Members in the Household
- Number of Children currently Enrolled in College
- Non-Custodial Parent Contribution (if applicable)
- Student Income & Assets

Detailed information on each of these factors can be found on the Office of Financial Aid web site (see Appendix C).

Once demonstrated need is determined, a financial aid award, or package, is established. A typical need-based financial aid package includes:

- University Scholarship
- State and/or Federal Grants
- Standard amount of loan and work-study/campus employment (referred to as Student Effort)

Detailed information regarding Student Effort levels, Outside Scholarship impact and Packaging Components is available on the Office of Financial Aid web site (see Appendix C).

**The Office of Financial Aid ensures that financial aid awards and the total package comply with all federal, state and institutional eligibility and over-award regulations.**

#### **DISCLOSURE AND SUPPORTING DOCUMENTATION**

Brown seeks to be as informative as possible in disclosing information regarding the University's practices related to financial aid. Information about the financial aid application process, requirements, and awarding practices is disclosed in the Admission application instructions as well as on the Admission and Office of Financial Aid web sites. The Office of Financial Aid also makes this information available through various printed publications. These publications, as well as printed material from the web sites, are attached:

- Appendix A                   ➤ Financial Aid information available via the Admissions web site
  
- Appendix B                   ➤ Financial Aid information and requirements within the Admission Application Instructions via the Admissions web site
  
- Appendix C                   ➤ Information on the Office of Financial Aid web site detailing:
  - Financial Aid Philosophy
  - Financing Options
  - Need Blind Admission Policy
  - Needs Analysis Procedures
  - Types of Aid Available
  - Packaging and Award Practices
  - Student Effort Levels
  - Outside Scholarship Policy
  
- Appendix D                   ➤ Brown Financial Aid Basics Brochure – made available to students and parents visiting the Office of Financial Aid
  
- Appendix E                   ➤ Financial Aid Award Letter Jacket – sent to all newly admitted students along with their initial award letter.
  
- Appendix F                   ➤ Financing a Brown Education Brochure - made available to students and parents visiting the Office of Financial Aid and also via the Office of Financial Aid web site.
  
- Appendix G                   ➤ Admission Viewbook – available via Admission Office

## UNDERGRADUATE ADMISSION RECRUITMENT OF POTENTIAL LOW-INCOME STUDENTS

Brown University admission officers travel thousands of miles each year recruiting prospective students for the College. Every recruiting trip is planned to ensure that admission officers visit and recruit at schools and in areas with significant populations of underrepresented, first generation-college-going, and lower socioeconomic status students. In addition, Brown has created the **Talent Quest Program** -- an initiative that has identified approximately 120 high schools in America that enroll significant numbers of low income and first generation college students. Admission officers visit each of the Talent Quest high schools annually to talk about Brown, as well as college admissions and financial aid generally. Applicants from Talent Quest schools are given special consideration in the admission process. Brown also provides free transportation, including "fly-ins" for approximately 100 Talent Quest and low income students each year to visit the campus after they have been admitted. Low income is not strictly defined in our recruiting efforts, but normally students' families will have incomes that put them in the bottom quartile of the income distribution in the country. We are also focusing recruitment efforts on students who are the first in their families to attend college, and that distinction does not include an income definition, although in our experience, most of the students fall into the lower income quartile as well. Our travel, recruitment, and matriculation budget is approximately \$150,000 per year, and a significant portion of it is spent on the recruitment of low income and first generation college students. It is difficult to separate the portion of our travel expenses that are spent strictly on the recruitment of low-income students, since recruitment activities generally include travel to areas that have both underrepresented students, as well as the more traditional regions from which Brown students apply.

### 4. Who determines and decides when tuition increases are necessary?

Tuition rates are set by the Brown University Corporation (its governing board) each February for the upcoming academic year (begins in September).

What is the process for making this decision?

The annual budget process begins in the fall with the University Resources Committee (URC). Chaired by the Provost and composed of six faculty members, five administrators serving as ex-officio members, four students (two from the College and one each from the Graduate School and the Medical School) and two staff members, the URC members provide a range of academic and administrative perspectives on the University's resources allocations. The committee reviews and analyzes Brown's finances and presents the president with a recommendation on parameters for the upcoming year's operating budget.

The URC reviews all the major components of the consolidated operating budget. The committee also reviews the University's capital plans and capital budget, with a particular emphasis on the operating budget implications – both short-term and long-term – of current and proposed capital projects. The committee meets with senior officers, holds open forums for community members to share their perspectives on budget priorities, and reviews the University's overall financial condition.

By the end of the fall semester, the URC provides a preliminary set of recommendations on all aspects of the budget – tuition and fee levels, endowment payout, fundraising expectations, salary pools, operating budget increases, new initiatives and budget recommendations, if necessary – for the president to review and provide feedback. In late January, the URC meets again to consider the president’s comments and come to consensus on the final recommendations for the upcoming fiscal year. The URC sends its final report and recommendations to the President in early February. In February, after reviewing the final URC report, the president forwards the report and her comments and recommendations to the Budget and Finance Committee of the Corporation. The Budget and Finance Committee then sends specific recommendations for tuition and fees as well as other budgetary parameters to the full Corporation for approval.

4. (cont’d ) Does the full Board of Trustees vote on tuition increases?

Yes, the full Brown University Corporation approves tuition rates.

4. (cont’d) Are students, parents, and the public provided an opportunity to comment on tuition increases prior to final decisions being made?

Students and other members of the Brown community are invited to attend several University Resources Committee open meetings on budgetary parameters and priorities, including tuition and financial aid.

4. (cont’d) What role does your university endowment play in providing financial assistance to students?

Approximately 40% of the undergraduate scholarship budget comes from endowment restricted to undergraduate financial aid

5. What are your university’s endowment payout and investment policies?

Brown University’s payout policy is based on the principle that spending of the endowment should not depend solely on market returns. It should be governed by a well-designed and disciplined policy that considers both the long-term and the short-term needs of the University. Each February, the Brown University Corporation establishes the endowment payout rate that will apply during the upcoming fiscal year. The current policy limits the payout to between 4.5% and 5.5% of the average market value for the twelve quarters of the three prior calendar years (e.g., the payout for fiscal year 2008 is based on calendar years 2005, 2006 and 2007). The use of a twelve-quarter average market value smoothes out the effect of market performance, which is critically important in providing a stable source of income to the operating budget each year. The endowment payout in any one year is not affected dramatically by sudden, unsustained drops or surges in the financial markets.

The State of Rhode Island has adopted a Uniform Management of Institutional Funds Act, which places restrictions on permanent endowment funds, requiring that the purchasing power of the initial value of the gift be maintained over time. In order to

comply with this law, the University must ensure that its payout does not cause the market value of any endowed gift to fall below the inflation-adjusted value of the gift.

5. (cont'd) What is the mission of your university's endowment?

The Brown University endowment provides current income to support the University's educational and research mission and seeks to maintain at least the same level of support for future generations of students at Brown.

When was the last time the university's endowment policy was reviewed?

Brown University's payout policy was adopted in its current form in 1985. The University's investment policies were adopted in their current form in 2007.

5. (cont'd) When will it next be reviewed?

The University's endowment payout is reviewed every February. Investment policies are reviewed every few years.

5. (cont'd) Please explain how your university's endowment is managed and the role of the Board of Directors.

Brown University takes its fiduciary responsibility to current and future generations very seriously. The endowment is jointly managed by the professional staff of the Brown University Investment Office and the members of the Brown University Investment Committee, a committee of the Brown Corporation, the University governing body. The Investment Office staff recommends investment policies and strategies to the Investment Committee and evaluates and recommends the hiring of external investment managers, all of whom have expertise and demonstrated success in managing particular asset classes. The Investment Committee focuses on high-level investment policy and strategy, and the Investment Committee must approve the hiring of any external manager that will manage more than 1% of the endowment. The members of the Investment Committee have a thorough understanding of investment management, generally gained through direct experience in the field.

5. (cont'd) What are your university's endowment payout and investment policies?

The University's endowment investment policies are designed to reach a balance between the goals of maintaining the endowment's purchasing power in perpetuity and providing a stable source of income for the University. Maintaining purchasing power necessitates greater expected returns and, as a result, higher levels of risk. In contrast, to provide a stable source of income for the University's operating budget, the endowment should seek a lower level of risk and, therefore, lower expected returns.

To balance these two goals, Brown's investment policy includes a high allocation to equities to provide higher returns for spending, but it also is broadly diversified to protect

against the volatility inherent in equities. The endowment includes substantial allocations across developed equity markets with smaller investments in emerging markets and private equity. Emerging markets and private equity investments tend to have higher risk and return profiles than those of developed public equity markets. In addition, Brown invests in alternative asset classes such as hedge funds, real estate, and commodities to further diversify the overall portfolio. The Brown University Investment Committee regularly reassesses the asset allocation targets. Brown's current asset allocation targets are listed below.

<b>Brown University Asset Allocation</b>	
<b>As of December 31, 2007</b>	
<b>Asset Class</b>	<b>Policy Target (%)</b>
Public Equity	32.0
Hedged Strategies	32.0
Private Equity <sup>1</sup>	17.0
Real Assets <sup>2</sup>	19.0
Fixed Income	10.0
Cash	-10.0
<b>Total</b>	<b>100.0</b>

<sup>1</sup> Includes private equity and venture capital

<sup>2</sup> Includes real estate, commodities, oil & gas, and timber

5. (cont'd) What is the mission of your university's endowment?

The endowment has a two-fold mission that is designed to support Brown's academic goals. First, the endowment must provide a stable income stream to the University budget to support current programs and today's students. Secondly, the purchasing power of the endowment must be preserved in perpetuity, allowing the endowment to provide assistance to future students.

6. 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.

<b>Brown University Asset Allocation</b>	
<b>As of December 31, 2007</b>	
<b>Asset Class</b>	<b>Current Weight (%)</b>
Public Equity	35.5
Hedged Strategies	32.2
Private Equity <sup>1</sup>	11.7
Real Assets <sup>2</sup>	13.9
Fixed Income	8.6
Cash	-1.9
<b>Total</b>	<b>100.0</b>

<sup>1</sup> Includes private equity and venture capital

<sup>2</sup> Includes real estate, commodities, oil & gas, and timber

As of December 31, 2007, Brown had approximately 34% of the endowment invested outside the United States.

6. (cont'd) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars).

The following table represents the market value of the University's endowment (in thousands) for the last ten fiscal years:

FY Ending	Market Value (\$000)	% Change
6/30/1997	\$ 949,562	-
6/30/1998	1,111,665	17.1%
6/30/1999	1,181,991	6.3%
6/30/2000	1,416,127	19.8%
6/30/2001	1,430,705	1.0%
6/30/2002	1,412,353	-1.3%
6/30/2003	1,461,154	3.5%
6/30/2004	1,647,347	12.7%
6/30/2005	1,839,129	11.6%
6/30/2006	2,166,356	17.8%
6/30/2007	2,634,030	21.6%

6. (cont'd) What is the amount of donations the endowment has received year by year for the last ten years?

The following represents the dollar amount of gifts (in thousands) made to the University's endowment for the last ten fiscal years:

FY Ending	Gifts (\$000)
6/30/1998	\$ 14,517
6/30/1999	26,906
6/30/2000	22,698
6/30/2001	24,362
6/30/2002	27,129
6/30/2003	29,183
6/30/2004	25,239
6/30/2005	150,124
6/30/2006	45,926
6/30/2007	86,654

7. Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined?

Brown University's endowment is primarily a collection of donations given since the founding of the University (in 1764) by alumni, parents, students, and friends of Brown. Each of those donors has specified that Brown must manage and maintain their gift in perpetuity. By law, the University cannot invade the principal of each original gift adjusted for inflation, and the University must apply these gifts and their earnings as specified by the donors in perpetuity. In addition, the endowment includes quasi-

endowment funds set aside by the Brown University Corporation to support the University in perpetuity.

7. (cont'd) 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?

No.

8. What has been the cost of management of the endowment year-by-year for the last ten years?

<b>Brown University – Cost of Management</b>				
<b>Fiscal Year<sup>1</sup></b>	<b>Internal Costs (\$000s)<sup>2</sup></b>	<b>External Costs (\$000s)<sup>3</sup></b>	<b>Total Costs (\$000s)<sup>4</sup></b>	<b>Percent of Endowment<sup>5</sup></b>
1998	556	1,328	1,884	0.17%
1999	556	2,414	2,970	0.25%
2000	548	3,675	4,223	0.30%
2001	938	4,125	5,063	0.35%
2002	1,967	3,690	5,657	0.40%
2003	3,670	4,693	8,363	0.57%
2004	3,892	6,523	10,415	0.63%
2005	4,734	8,628	13,362	0.72%
2006	3,792	9,950	13,742	0.60%
2007	6,445	10,887	17,332	0.62%

<sup>1</sup> Brown operates on a June 30 fiscal year calendar.

<sup>2</sup> Internal costs are internal management and administrative expenses, including bank and custodian fees.

<sup>3</sup> External costs are external management expenses excluding carry.

<sup>4</sup> Sum of internal and external costs.

<sup>5</sup> Total costs as a percentage of the fiscal year-end endowment market value.

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 current student body. If there is material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?

In keeping with its endowment payout policy, the Brown University Corporation authorizes a payout in February (for the fiscal year that starts in the coming July) using the twelve-quarter trailing averages ending on the most recent December 31<sup>st</sup>. The authorized payout is set at a percentage rate that is within the policy range of 4.5% and 5.5%. Since this payout is set using actual twelve-quarter data, the authorized payout is always equal to the actual payout as a percentage of the twelve-quarter average. As shown below, over the last 10 years the authorized payout has been within the policy range each year. In 2003, when Brown University committed to a need-blind admissions policy, which would significantly increase its financial aid budget over the next four or more years, the University increased its authorized endowment payout to near the top end of its range. In recent years, the University has maintained its authorized payout toward

the upper end of its policy range in order to increase the size of its faculty and to enhance undergraduate and graduate education.

During periods of rapid growth in the endowment market value, Brown's payout as a percentage of the current market value will always be lower than the rate applied to the twelve-quarter average. The opposite is true during financial market declines.

<b>Fiscal Year</b>	<b>Total Endowment Payout</b>	<b>Authorized Payout as % of 12-Quarter Average</b>	<b>Payout As a % of Current Market Value</b>
1999	35,502	4.8%	3.2%
2000	40,440	4.7%	3.4%
2001	50,052	4.6%	3.5%
2002	57,469	4.6%	4.0%
2003	72,242	5.3%	5.1%
2004	74,320	5.1%	5.1%
2005	77,819	5.3%	4.7%
2006	85,847	5.27%	4.7%
2007	95,000	5.16%	4.4%
2008	102,700	5.39%	3.9%

The top ten major expenditures from the endowment last year were for:

- 1) Undergraduate scholarships
- 2) Faculty salaries and benefits
- 3) Academic program expenses
- 4) Medical education
- 5) Libraries
- 6) Graduate student fellowships
- 7) Faculty, staff and programs at the Annenberg Institute for School Reform
- 8) Medical student scholarships
- 9) Building maintenance
- 10) Athletics and physical education

10. Please provide the investment return to the endowment year-by-year for the last ten years.

<b>Brown University – Endowment Investment Return</b>			
<b>Fiscal Year<sup>1</sup></b>	<b>Return (%)<sup>2</sup></b>	<b>Fiscal Year<sup>1</sup></b>	<b>Return (%)<sup>2</sup></b>
1998	18.9	2003	6.5
1999	7.1	2004	16.1
2000	21.3	2005	13.3
2001	2.4	2006	14.4
2002	0.9	2007	21.7

<sup>1</sup> Brown operates on a June 30 fiscal year calendar.

<sup>2</sup> Investment returns are net of external management expenses and carry.

10. (cont'd) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor?

As per the table below, more than 75%, or \$2.055 billion (all in the “true endowment” column) of Brown’s total endowment is subject to permanent spending restrictions set by the original donor.

10. (cont'd) Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships?

As per the table below, almost 31%, or \$628 million of those funds subject to permanent limitations are restricted for need-based undergraduate scholarships. An additional 2.5%, or \$50.9 million, is restricted to need-based scholarships for medical students.

10. (cont'd) What portion is restricted for undergraduate financial aid?

As noted above, almost 31% of our endowment subject to permanent limitations by the donor is for undergraduate need-based scholarships.

10. (cont'd) Please provide the top five types of restrictions on the endowment by category.

As per the table below, the top five categories of restrictions on the endowment are: General purpose, undergraduate scholarships, instruction, professorships, and medical education and professorships.

10. (cont'd) 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?

The amounts in the endowment subject to significant limitations due to a decision by the board (corporation) are shown in the table below as “quasi-endowment” and total \$579 million or 22%. Included in this amount is approximately \$82 million restricted for support of the University’s Medical School, the only medical school in the state of Rhode Island; and \$65 million restricted through joint decision of the University and the Walter Annenberg Foundation, following a grant from the foundation to establish an institute for the study of school reform at Brown University.

The following table shows the current (as of 6/30/2007) market value of the endowment (in thousands) identified by the major categories of restrictions. Quasi-endowment funds have been designated by the Corporation to be used as endowment. The quasi-endowment on the general-purpose line has no restrictions on its use; all other quasi-endowment funds maintain restrictions stipulated by a donor.

	Total Endowment	Quasi-Endowment	True Endowment
General Purpose	\$497,563	\$280,400	\$217,163
Undergraduate Scholarships	\$641,781	\$13,290	\$628,491
Instruction	\$328,019	\$44,906	\$283,113
Professorships	\$363,314	\$22,349	\$340,965
Medical Education and Professorships	\$256,858	\$81,721	\$175,137
Libraries	\$125,827	\$8,832	\$116,995
Fellowships	\$95,197	\$5,303	\$89,894
Annenberg Institute of School Reform	\$64,950	\$64,950	
Medical Student Scholarships	\$50,881	\$0	\$50,881
Athletics	\$77,001	\$23,923	\$53,078
Facilities	\$36,886	\$1,213	\$35,673
Other Purposes	\$95,753	\$31,773	\$63,980
Total	\$2,634,030	\$578,660	\$2,055,370

11. Please explain the fee arrangement to investment advisors.

Fees vary by asset class. Brown's passive tracking (index) funds typically charge approximately six basis points annually. Actively managed public equity funds charge higher fees, ranging from 50 to 125 basis points depending on the strategy and the geographic focus. U.S.-focused funds are less expensive than developed international funds, which are less expensive than emerging markets funds. Hedge funds generally charge a management fee between 100 and 200 basis points. In addition, these funds assess an incentive fee of about 10% to 20% of profits. Nearly all hedge funds also include a high water mark provision, which forbids the fund from receiving incentive fees until the fund has recouped any losses from prior years. Private equity, venture capital, and private real estate funds charge a management fee ranging between 100 and 250 basis points of committed capital and an incentive fee of 20% to 30% of profits. These funds often provide investors with a preferred return, whereby investors must receive a specified return before the manager is permitted to receive the incentive fee.

11. (cont'd) How is the fee and compensation measured and determined?

The fees of external investment managers are set by the manager with limited and varying degrees of input from the investors. All fees are established before an investor hires the manager; thus, an investor has full transparency on a manager's fees before making an investment. The manager requires the payment of fees periodically during the course of the year, and the amount paid is reviewed by the fund's auditors annually. The Investment Office staff internally reviews fees paid to Brown's separate accounts. (Separate accounts are investment portfolios where Brown directly owns the underlying securities though investment management activities and are handled by an external manager.)

11. (cont'd) What is the process to review reasonableness of the fee and compensation and what comparables are used?

The Investment Office judges the reasonableness of a manager's fees based on the performance and skill of the manager and the attractiveness of the space in which the manager is investing. Staff must believe that the manager will be able to generate high risk-adjusted returns before it is willing to approve an investment that would result in higher fees. In part, the manager must have a demonstrated track record. Additionally, the manager must operate in an environment where high returns are possible. It should be noted that a manager investing in such a region or sector often faces higher costs in the course of business, thus forcing the manager to charge higher management fees. In general, higher fees are correlated with higher returns; managers who have demonstrated the ability to outperform peers, net of fees, are able to charge fees that are higher than their peers.

11. (cont'd) Who reviews and approves the fee?

The Investment Office reviews fees before any manager recommendation is made, and a discussion of those fees is included in the investment recommendations provided to the Investment Committee. The Investment Committee approves the fee structure when it grants its consent to the investment.

11. (cont'd) Please list what endowment related bonuses, if any, either the college or university president of the investment manager has received year by year for the last ten years.

University President – none

Investment Manager (Chief Investment Officer):

Fiscal year ending	Bonuses Paid (in thousands)
6/30/2001	\$ 45
6/30/2002	46
6/30/2003	49
6/30/2004	216
6/30/2005	111
6/30/2006	27
6/30/2007	396