Dickinson Finance & Endowment

June 27, 2013

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Moody's Investor Services

- January 16, 2013 – "US Higher Education Outlook Negative in 2013"
  - Previous outlook was "stable"
  - Negative outlook applies even to leading institutions
  - Mounting pressure on all revenue sources
  - Price sensitivity continues to suppress net tuition revenue growth
  - Bold action needed by higher education leaders to reduce costs and increase operating efficiency

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In January of 2016, Moody's Investor Services, a credit rating agency, issued a report on the financial outlook of the entire higher education sector. Whereas previous outlooks for the higher education sector were "stable," the January of 2013 outlook was "negative." This negative outlook applies even to leading institutions which are characterized by prestige, selectivity and wealth. The Moody's report noted mounting pressures on all revenue sources and the suppression of net tuition revenue growth due to price sensitivity (i.e. increasing difficulty for families in being able to afford high tuition). The report concluded that bold action was needed by higher education leaders to reduce costs and increase operating efficiency. Dickinson is no exception to the findings in the Moody's report. And, along with the need to reduce costs and increase operating efficiency, it should be added that there is an ever-increasing need for higher education institutions to tap into non-tuition sources of revenues. This fact underscores the importance of endowment growth and income to Dickinson and to all institutions of higher education.

Disparity of Wealth

EXHIBIT 4

Fiscal 2011 private university medians

	Aaa	Baa
Selectivity	13.1%	67.0%
Matriculation	50.2%	24.2%
Net tuition per student	$21,505	$18,216
Educational expenses per student	$75,435	$21,531
Tuition discount	42.8%	29.5%
Total financial resources per student	$1,028,416	$23,252

The table above, extracted from Moody's January of 2013 report, compares key metrics for institutions which are rated Aaa by Moody's, versus those that are rated Baa. Clearly, those institutions with greater wealth (as reflected by the last row, "Total financial resources per student") have a distinct advantage in selectivity, matriculation (the percentage of admitted students who actually enroll), the educational expenditures they are able to devote to each student compared to the average tuition they charge per student, and the ability to discount tuition to attract students who exhibit financial need and/or merit. Although Dickinson does not have a rating from Moody's, we do have a rating through S&P. Dickinson's S&P rating of A+ is the equivalent of a Moody's rating of A1, which falls approximately midway between the Aaa and Baa ratings reflected above. At $138,589 in endowment per student (6/30/12 value), Dickinson's financial resources also fall between the upper and lower ends on the chart above, as do Dickinson's figures on the metrics above. Dickinson's selectivity ranges from 40% to 44% per year. Our matriculation rate is around 25%. We are generally able to discount our tuition an average of 36% to 38% per year in order to meet students' financial need. But, Dickinson is even more dependent on tuition at over $27,000 net tuition revenue per student.

As the pressures documented in the Moody's report mount, the disparity between wealthy and less wealthy institutions will grow wider. Wealthy institutions will have the resources to continue providing an excellent education without having to price their net tuition beyond the means of their students. Less wealthy institutions will not. If Dickinson is going to remain competitive, we will need to grow our wealth.

Tuition, Discounts & Financial Aid

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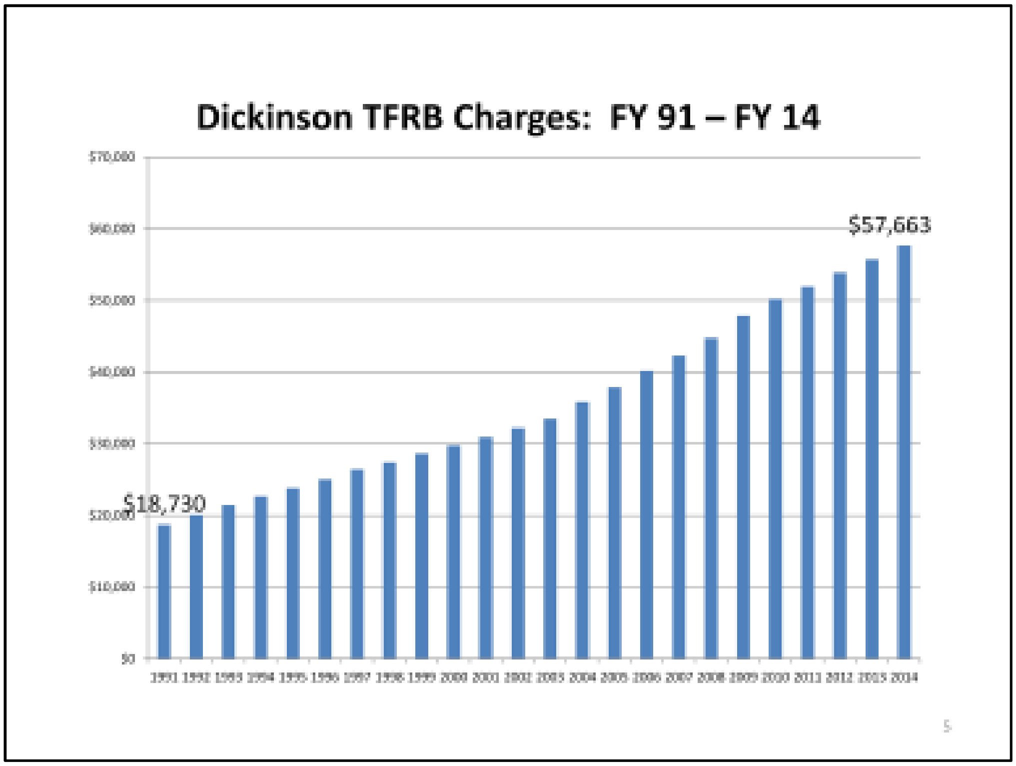
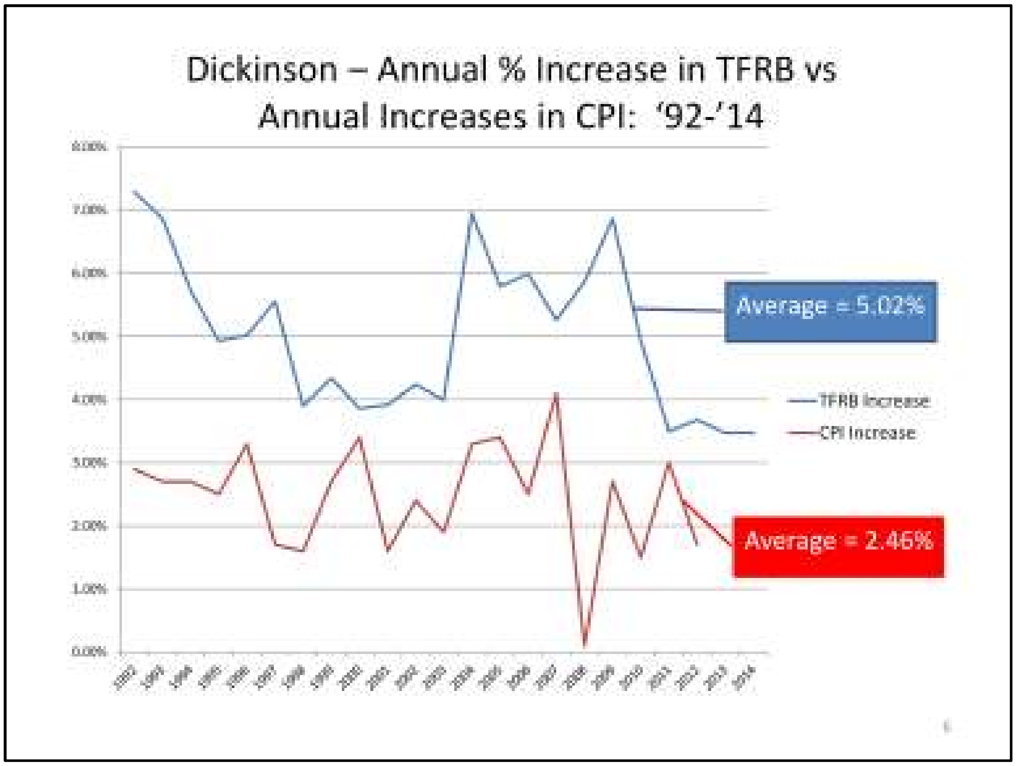
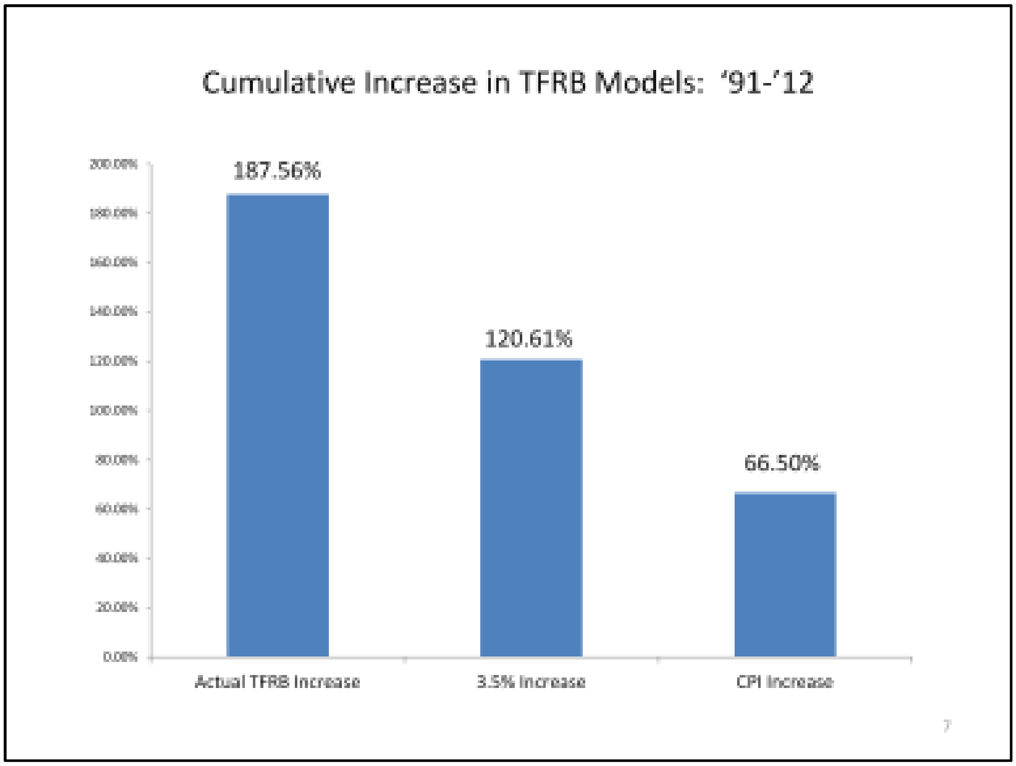


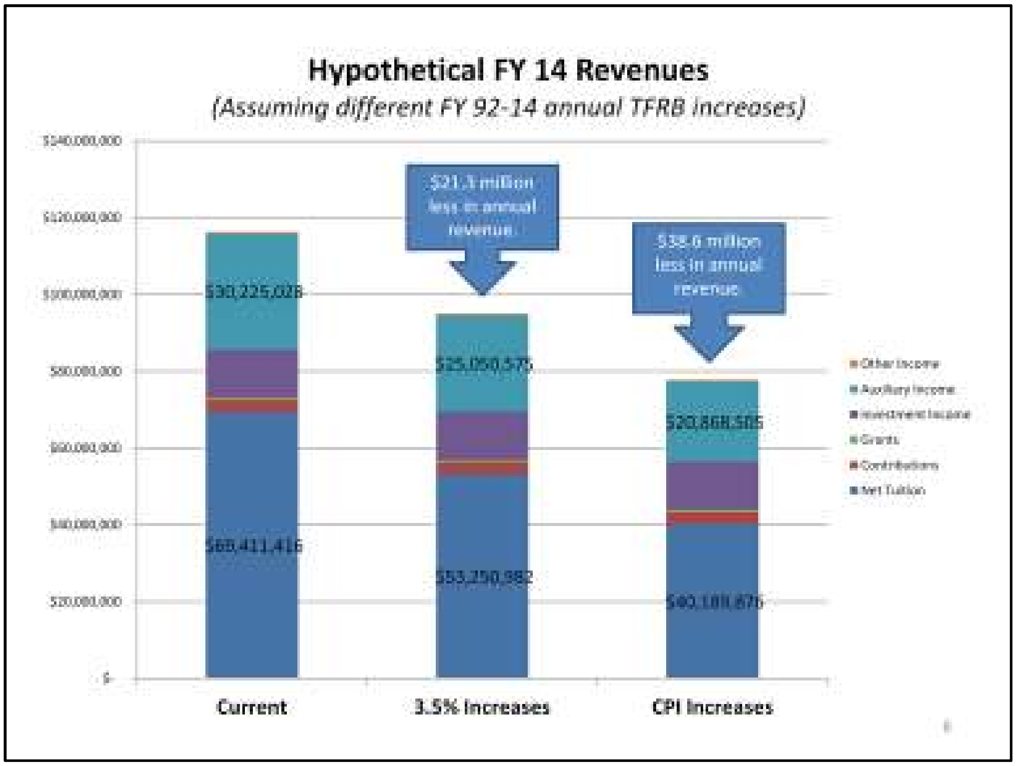
The chart above shows the growth in Dickinson's TFRB (tuition, fees, room & board) charges from fiscal year 1991 (1990-1991 school year) to fiscal year 2014 (2013-2014 school year). During this time frame, Dickinson's TFRB charges have more than tripled, from $18,730 to $57,663. Increases of this nature are not sustainable in the future, especially with Dickinson's limited ability to discount tuition for students with financial need.



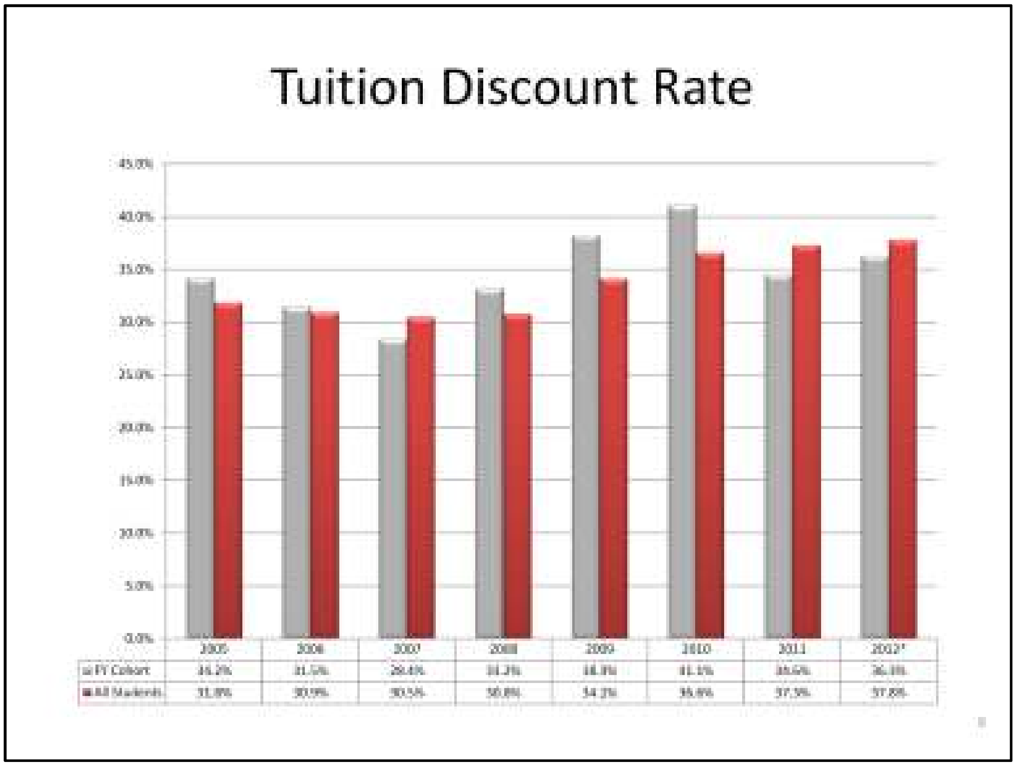
The TFRB increases reflected on the previous chart averaged over 5% per year. By comparison, the consumer price index increases (an approximation of the general population's increases in income and therefore their ability to pay) from 1992 to 2012 averaged 2.46% per year.



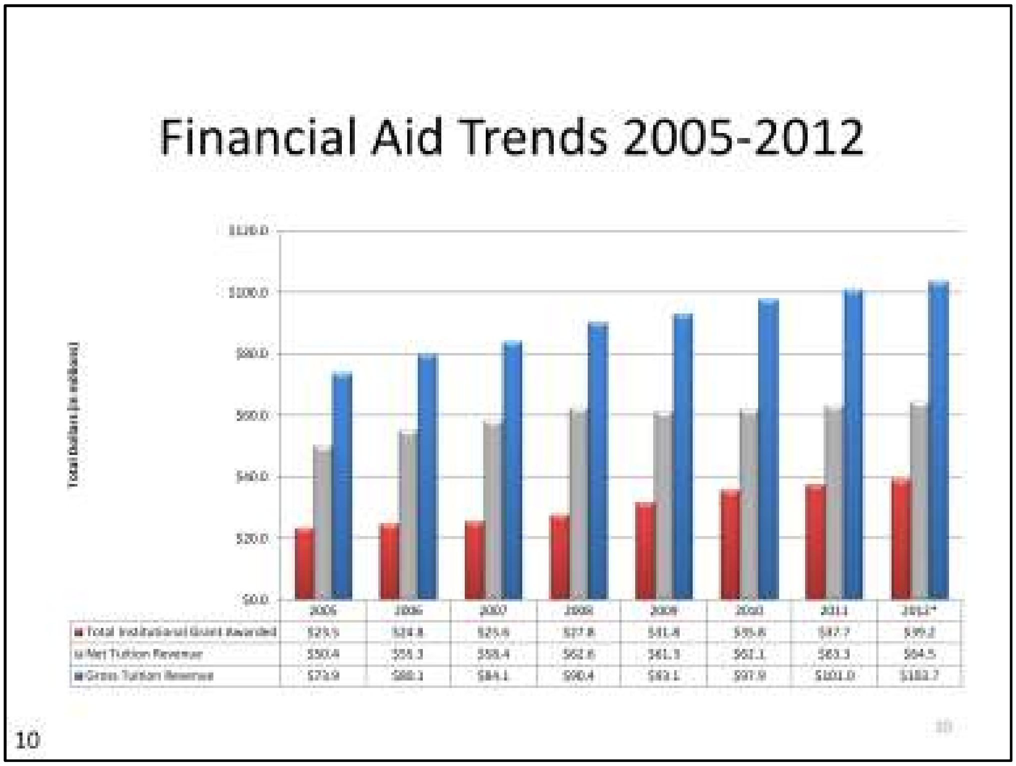
With the effects of compounding, the difference between annual increases of 5.02% and 2.46% per year are even more significant over time. The chart above compares the Dickinson's total TFRB increase from 1991 to 2012 to what it would have been had annual TFRB increases been 3.5% per year or 2.46% per year.



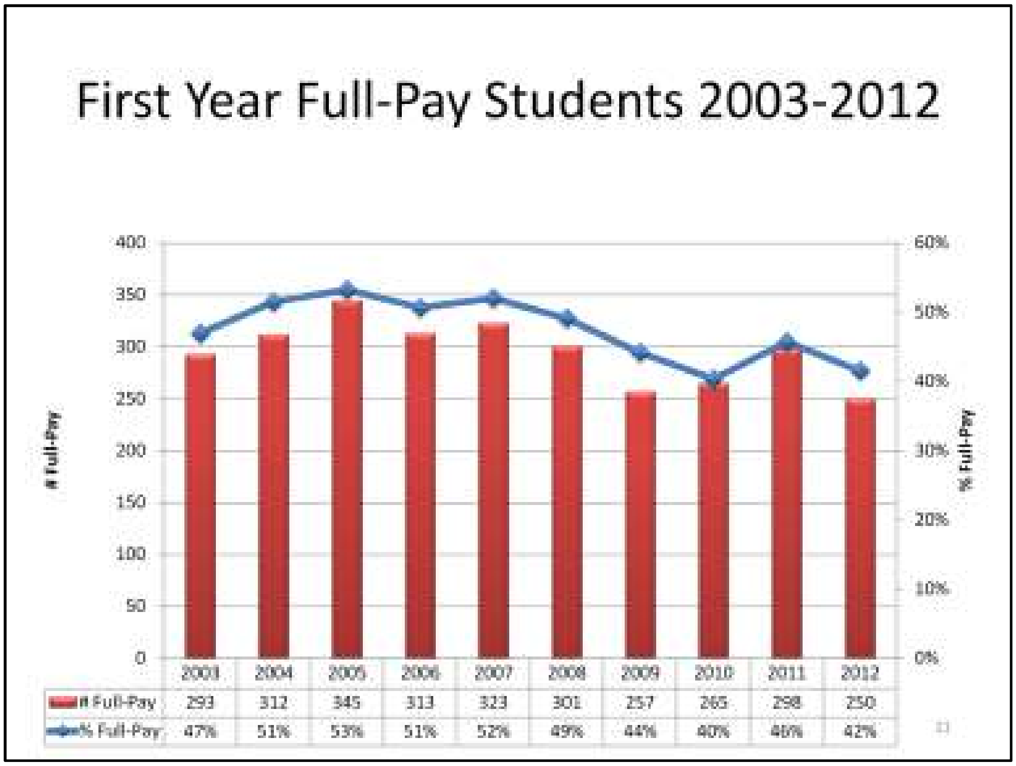
The chart above shows how much less annual revenue Dickinson would have if we confined our TFRB increases to 3.5% or 2.46% per year since 1992. Since the historical rate of annual TFRB increases will not be sustainable, Dickinson's future tuition increases will need to be more in the range of 2.5% to 3.5% per year. By looking retrospectively at the long-term effect of these smaller increases on annual revenues, we gain perspective on the revenue landscape which lies in our future. Our limited ability to increase future revenues through TFRB increases will magnify the importance of future revenues which do stem from student tuition and fees. The largest source of non-TFRB revenues is endowment earnings. Therefore, as important as endowment resources already are to an institution's success, they will become even more important in the future as TFRB revenue growth is limited.



The chart above depicts the tuition discount rate by year for the first-year class ("FY Cohort"), as well as the aggregate discount rate for all students combined ("All Students"). Although Dickinson has done a good job in managing its discount rate compared to other institutions, there has been an upward climb in the rate over the past several years. Due to price sensitivity, it will be a challenge for Dickinson to keep its discount rate consistent going forward. Reductions in the discount rate are not a viable option for increasing revenues.



Financial aid ("Total Institutional Grant Awarded") increased by 67% or $15.7 million from 2005 to 2012. 90% of this financial aid comes in the form of unfunded tuition discounts. The other 10% is funded in the form of scholarships, most of which are supported by endowed funds. The rapid growth in unfunded financial aid is not sustainable, meaning that we must not only raise more scholarship funds, but also maximize the growth of our endowed scholarship funds.



As TFRB costs have risen, the number of students able to afford the full cost of attending Dickinson has decreased.

Endowment

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Purpose and Origins of the Endowment

An **endowed fund** is established by a donor, with the agreement of the College, to provide income in perpetuity for a stated purpose. The College must spend the money according to the agreement and must responsibly steward the fund.

The **endowment** is the sum of all of Dickinson's endowed funds.

The College can only **spend** the income generated by an endowed fund; it cannot spend the principal (or *corpus*) of the fund.

Early records are scarce, but it appears that **the oldest endowed fund** at Dickinson is one created by the Methodist Church upon its assumption of responsibility for Dickinson in the 1830's.

All endowed funds are **invested** in one common pool (with exceptions) in order to maximize investment returns and minimize expenses.

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Endowment – 3 ways to define

- Pooled endowment
  - Assets controlled by the College
  - Investments managed by Investure
  - $322.3 million as of 05/31/13
- Non-Pooled
  - Funds held in trust (ex. the Woodward Trust)
  - Pledges
  - Annuities
  - Real estate abroad
  - $396.4 million when combined with pooled (05/31/13)
- NACUBO
  - Pooled endowment plus funds held in trust
  - $366.7 million as of 05/31/13

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Although there are three different ways in which to define Dickinson's endowment, the NACUBO method is generally used when comparing Dickinson's endowment to those of other institutions. This way, we receive an "apples to apples" comparison between institutions. When we speak of divestment, however, we can only speak of the pooled endowment funds which are managed by Investure. Although Dickinson is the beneficiary of the non-pooled endowment funds, we do not exercise control over how these funds are invested.

Endowment Funds

- 831 in pooled endowment
- 33 in non-pooled endowment
- Each fund established for a specific purpose
  - Scholarship
  - Faculty positions
  - Faculty development
  - Trout Gallery, Clarke Forum, etc.

Endowment Spending

- Spending vs Earnings
- Spending must be 2% to 7% under state law.
- Dickinson currently spends at 5% of the prior 12 quarters average

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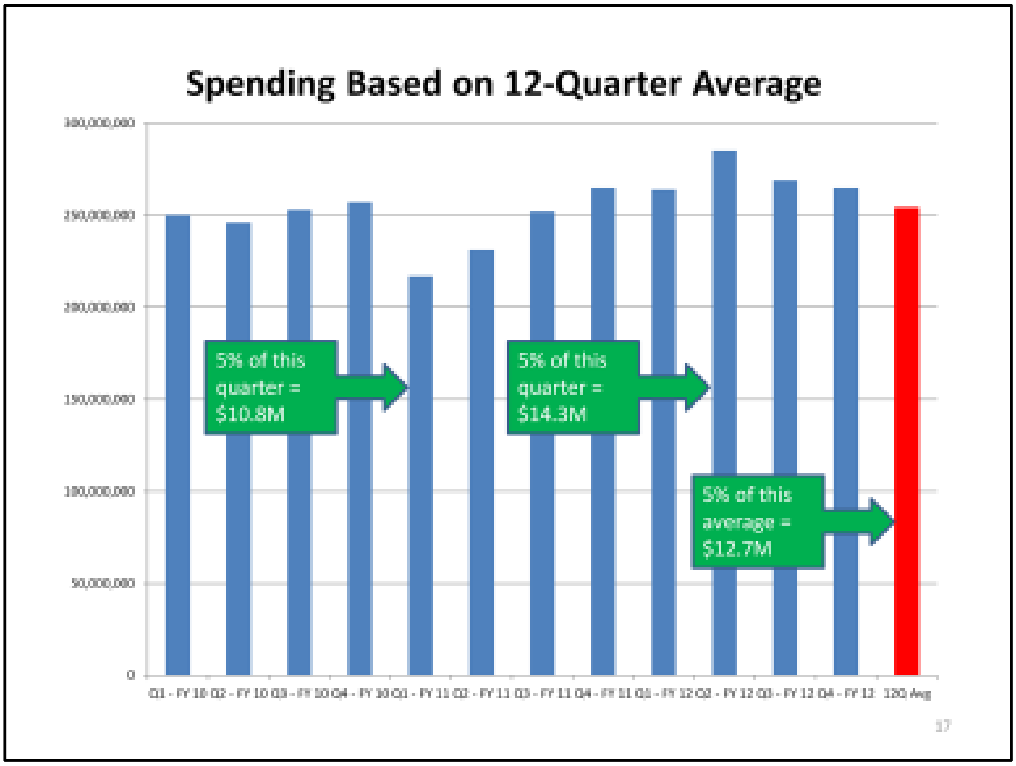
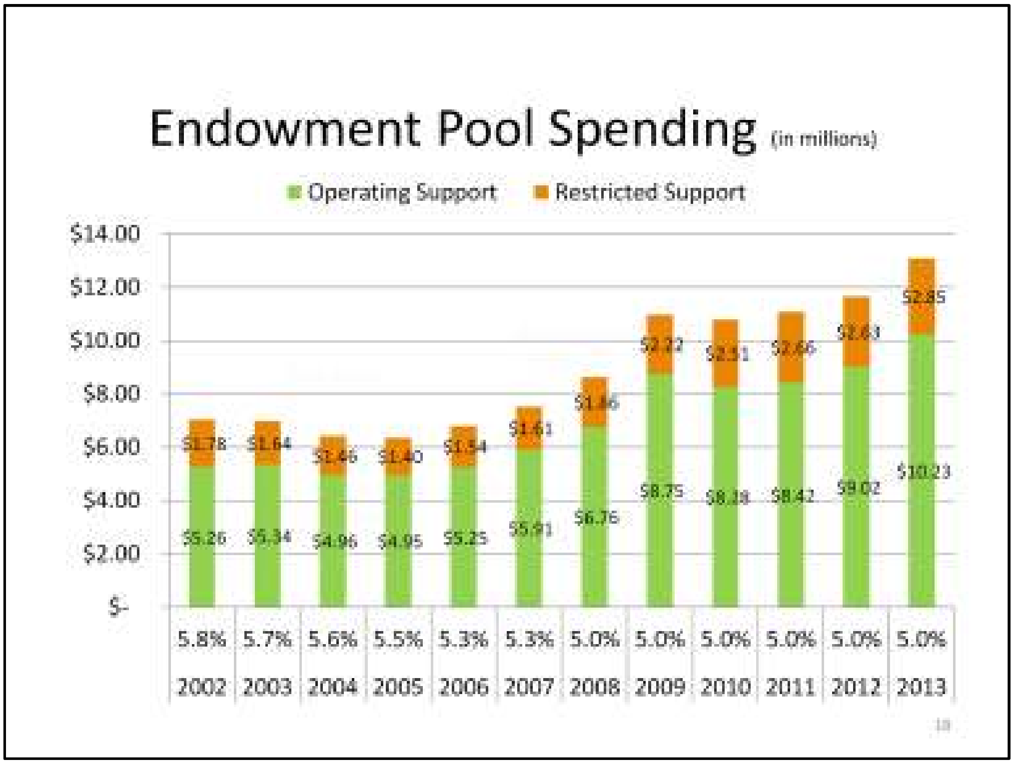
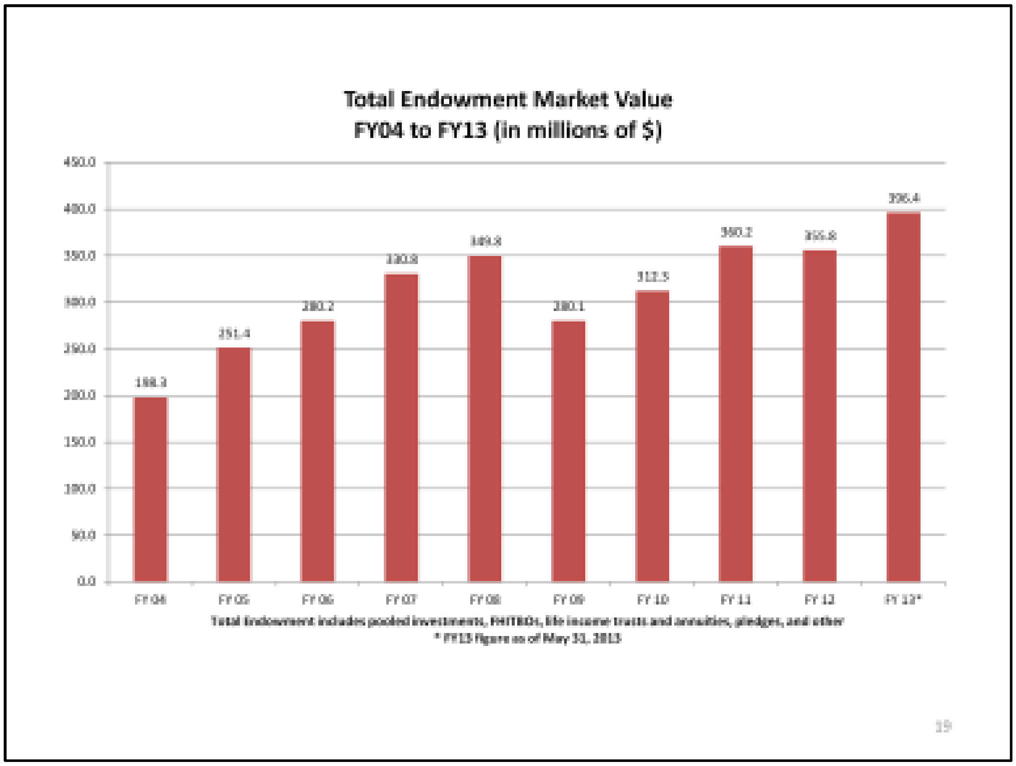
The annual spending from Dickinson's endowment is based on 5% of the endowment's average market value over the previous 12 quarters. Annual earnings on endowment investments only affect spending to the degree that they change the endowment's market value. So, if endowment earnings were non-existent or negative over the previous 12 quarters, that does not mean that there would be no spending from the endowment. That only means that spending would decrease or remain the same, depending on the endowment's average market value for those 12 quarters.



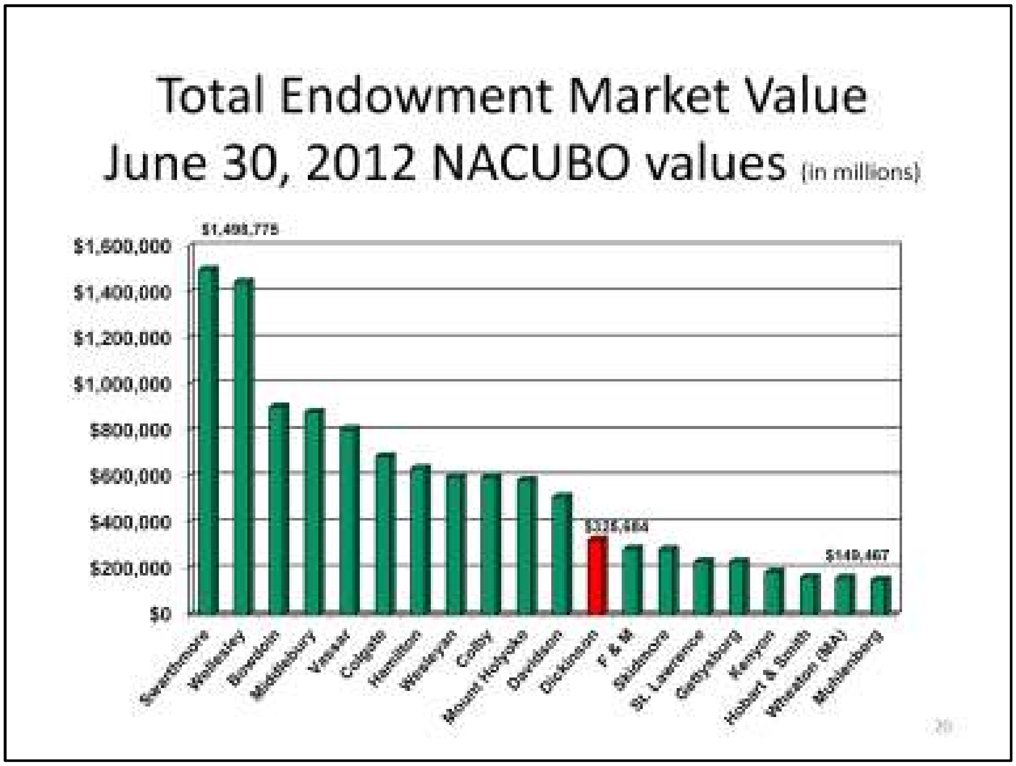
The chart above illustrates the "smoothing" effect of basing annual spending on the average market value over 12 quarters. Using hypothetical endowment values over a period of three years, we see what our 5% spending would be if it were based on the endowment's value at a single point in time, whether that point occurred during an upswing or downswing in value. Each of these scenarios yields a significantly different result than the 5% spending from the 12-quarter average.



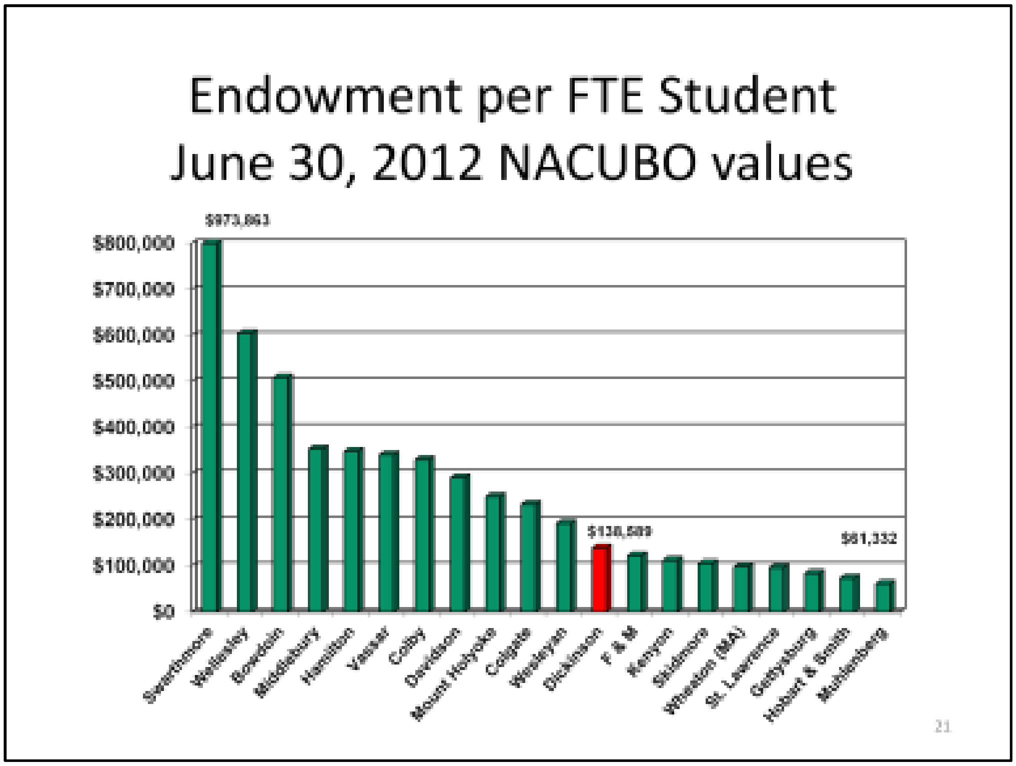
The chart above shows the actual spending which has been drawn from the endowment by year. Note that prior to 2008, Dickinson was spending at a rate greater than 5% of the endowment's market value. We have exercised the discipline to reduce our spending to 5% in order to help grow the endowment for the future. Annual support is divided into general operating support, which effectively offsets general operating expenditures, and restricted support, which can only be spent for the support of specific programs.



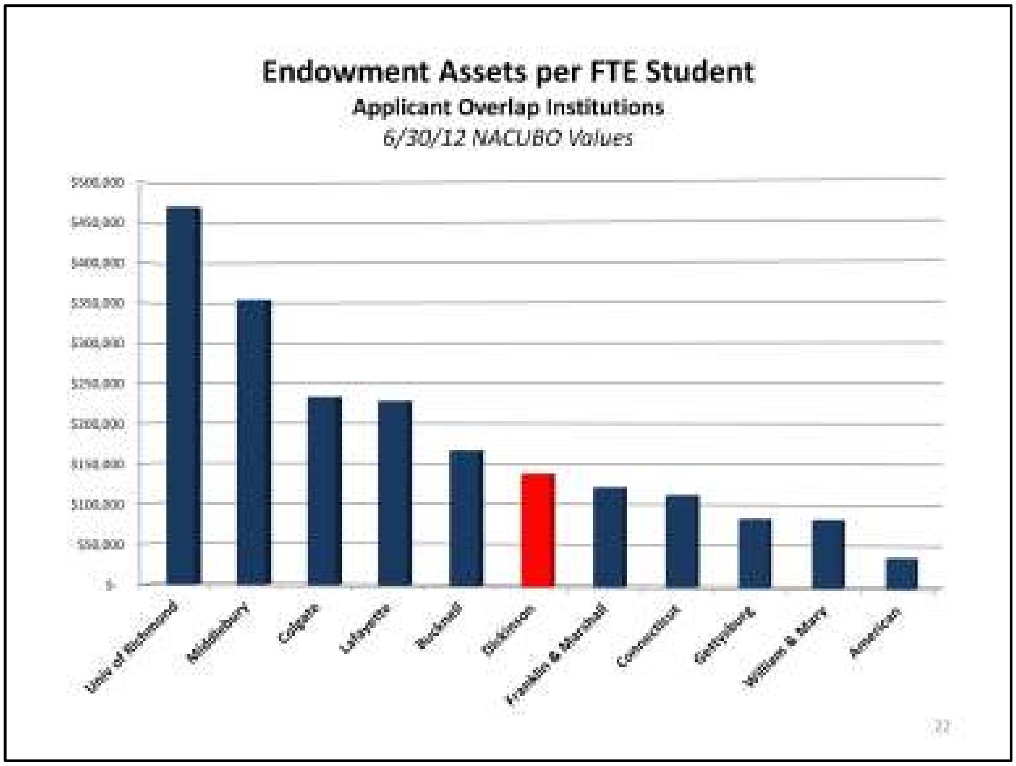
The chart above depicts the year-end market value of the total endowment (pooled and non-pooled combined) by year.



The chart above compares endowment market values (using the NACUBO definition) between Dickinson and peer institutions.

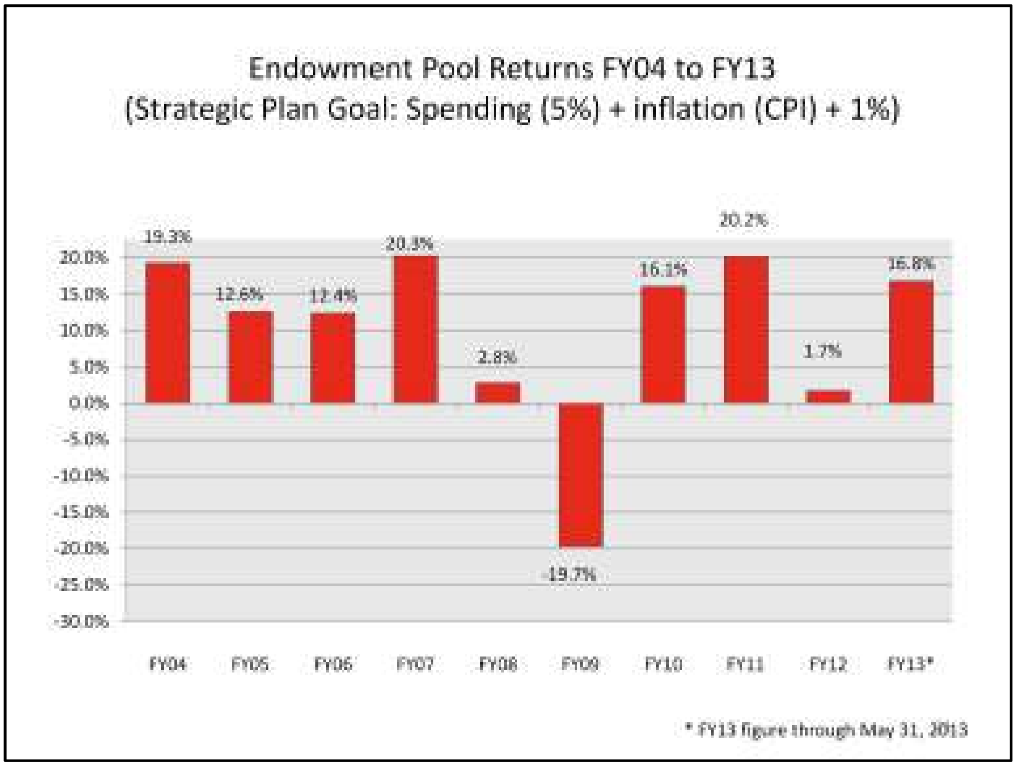


The chart above shows the same comparison, while controlling for the size of the institution by comparing endowment per student. Note that as discussed under Slide 3, the institutions with the largest endowments per student are also the institutions which are most competitive and prestigious. Endowment resources are very important to an institution's success, and will become even more important in the future due to limitations on other sources of revenue.

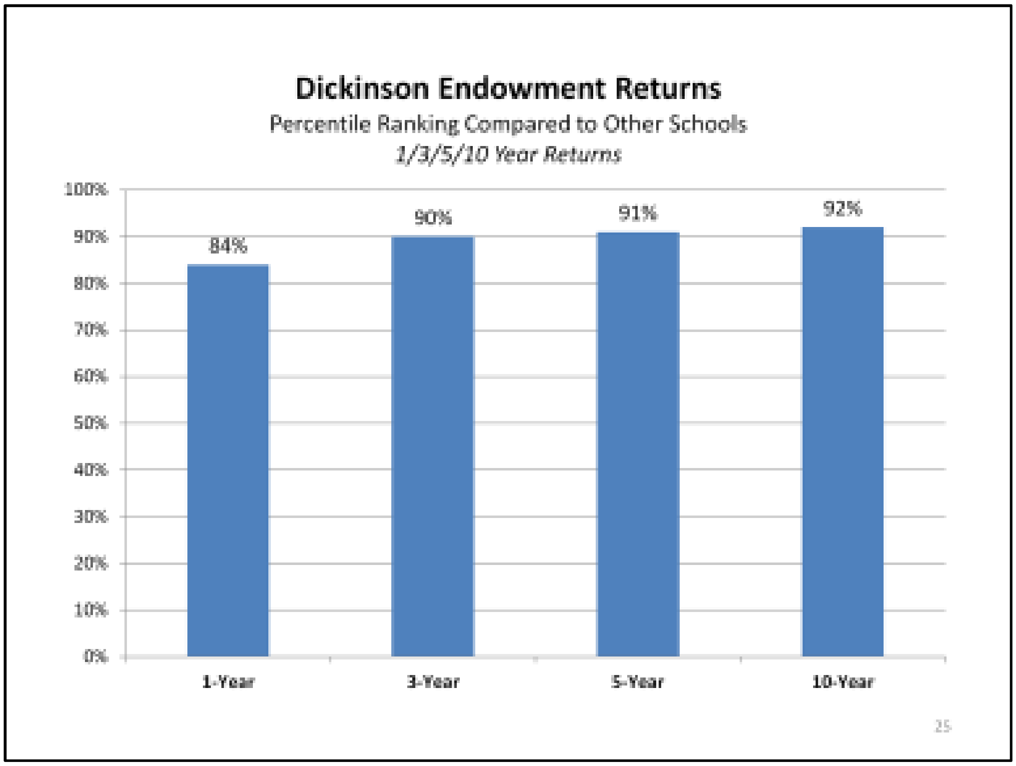


The chart above compares Dickinson's endowment value per FTE with that of Dickinson's "applicant overlap" schools. These are the schools which share the most applicants with Dickinson, which can be viewed as the schools with which we most directly compete for students. As indicated by the chart, though we compete directly with these other schools for students, several of them have a large advantage in terms of financial resources. Once again, to remain competitive in the long run, Dickinson needs to grow its endowment.

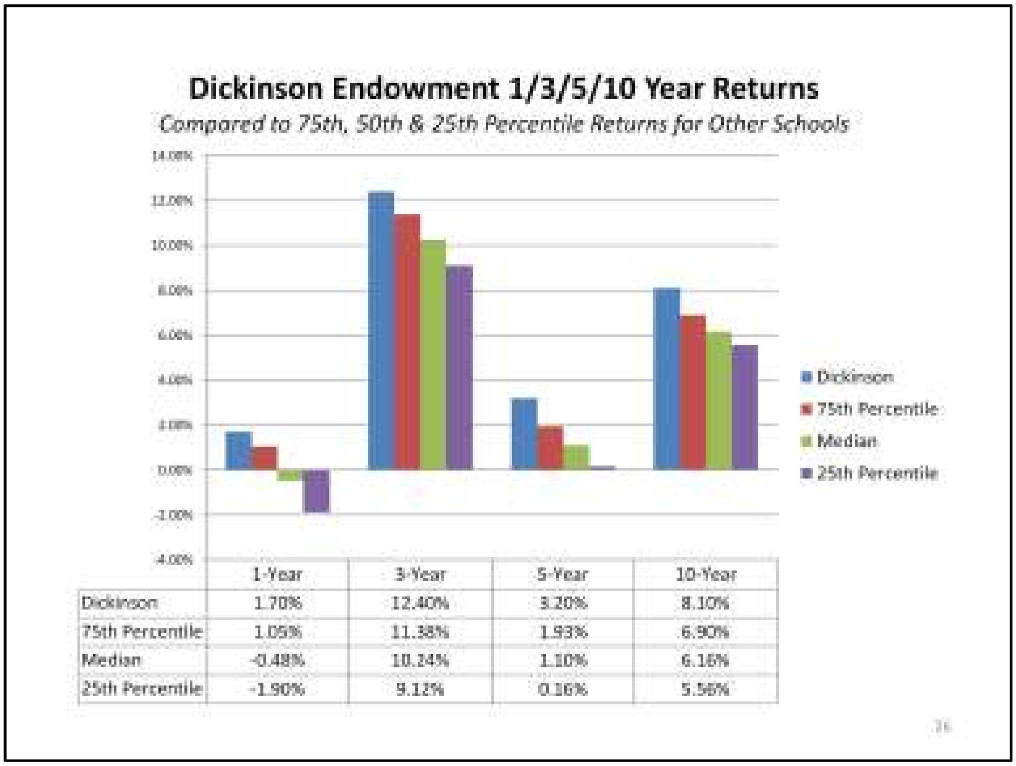
Endowment Returns



Above are the annual investment returns which have been earned on the pooled portion of Dickinson's endowment. As noted previously, the pooled funds are invested through Investure, a consortium of 13 institutions which pool their collective endowments and invest them together in one commingled portfolio. Due to the commingling of funds, individual consortium members cannot construct specialized portfolios. In discussions with Investure about the issue of divestment, it has been confirmed that a decision to divest from fossil fuels would require Dickinson to leave the Investure consortium.



Dickinson's membership in the Investure consortium has been very beneficial and is critical to our long-term goal of growing our endowment assets. Dickinson's annualized endowment returns over the past 1, 3, 5 and 10 year periods have ranked among the highest for all colleges and universities.



	1-Year	3-Year	5-Year	10-Year
Dickinson	1.70%	12.40%	3.20%	8.10%
75th Percentile	1.05%	11.38%	1.93%	6.90%
Median	-0.48%	10.24%	1.10%	6.16%
25th Percentile	-1.90%	9.12%	0.16%	5.56%

The chart above shows Dickinson's annualized endowment returns for the past one, three, five and ten year periods, compared to the 75th, 50th and 25th percentile returns for other institutions.

Dickinson Returns vs. Other Institutions (6/30/12)	1-Year	3-Year	5-Year	10-Year
Dickinson	1.70%	12.40%	3.20%	8.10%
75th Percentile	1.05%	11.38%	1.93%	6.90%
Median	-0.48%	10.24%	1.30%	6.16%
25th Percentile	-1.90%	9.12%	0.16%	5.58%
Current Endowment Value:			$322,300,000	
Dickinson 10-Year Annualized Return:			8.10%	
Hypothetical Alternate Return:			6.16%	
Annual Spend Rate:			5%	
Projected Year 2043 Endowment Values				
Assuming Dickinson 10-Year Annualized Return:				$805,416,021
Assuming Hypothetical Alternate Return:				$455,538,330
Hypothetical Difference in 2043 Endowment Value:				($349,877,690)
30-Year Growth in Endowment Value				
Assuming Dickinson 10-Year Annualized Return:				$483,116,021
Assuming Hypothetical Alternate Return:				$133,238,330
Ratio of "Dickinson Growth" to Hypothetical Growth:				3.626

As noted previously, Dickinson has experienced excellent endowment returns as a member of the Investure consortium. If we chose to divest from fossil fuels, thereby requiring us to leave the Investure consortium, it is very unlikely that we could maintain this high level of performance. Assuming our performance were equal to the median 10-year return for other institutions (6.16%) instead of the 10-year return we have realized with Investure (8.10%), the difference in our endowment growth would be dramatic. At an annual return of 8.10% our $322 million pooled endowment would grow to a value of $805 million over 30 years. At an annual return of 6.16%, it would grow to a value of $456 million. An increase in annual returns of less than 2% means a 30-year growth rate that is 3.6 times as high. (Note that we spend 5% from our endowment each year, so an 8.10% return yields a net annual growth of 3.1%, while a 6.16% annual return yields a net annual growth of only 1.16%.)

Dickinson Returns vs. Other Institutions (6/30/12)				
	1-Year	3-Year	5-Year	10-Year
Dickinson	1.70%	12.40%	3.20%	8.10%
75th Percentile	1.05%	11.38%	1.93%	6.90%
Median	-0.48%	10.24%	1.30%	6.16%
25th Percentile	-1.90%	9.12%	0.16%	5.56%

Current Endowment Value:	$322,300,000
Dickinson 10-Year Annualized Return:	8.10%
Hypothetical Alternate Return:	6.90%
Annual Spend Rate:	5%
Projected Year 2043 Endowment Values	
Assuming Dickinson 10-Year Annualized Return:	$805,416,021
Assuming Hypothetical Alternate Return:	$566,873,070
Hypothetical Difference in 2043 Endowment Value:	($238,542,951)
30-Year Growth in Endowment Value	
Assuming Dickinson 10-Year Annualized Return:	$483,116,021
Assuming Hypothetical Alternate Return:	$244,573,070
Ratio of "Dickinson Growth" to Hypothetical Growth:	1.975

Even if we were able to achieve returns at the 75th percentile level, the difference in long-term growth would be dramatic. At an annual return rate equal to the 10-year 75th percentile (6.9%), our pooled endowment would grow to a value of $567 million over 30 years, compared to $805 million for an 8.1% annual return rate. The 8.1% annual return yields a 30-year growth rate that is almost twice that of the 75th percentile figure.

Summary of Key Points

- All institutions of higher education are now in a period of greater financial limitations. Net tuition revenue growth has slowed dramatically, with very limited potential for future growth.
- Institutions with larger endowments have a distinct advantage, which is magnified in the new environment.
- In order to remain competitive, Dickinson will need to grow its endowment faster than other institutions.
- A decision to divest from fossil fuels would mean that Dickinson would need to leave the Investure consortium.
- Endowment performance under Investure has been superior when compared to other institutions, falling in the top 10% for higher education.
- Even if we achieved returns at the 75th percentile for other institutions, this would dramatically affect our long-term endowment growth and overall competitiveness.