The Gettysburg College Endowment

Gettysburg College’s Endowment was established through the generosity of generations of donors that shared a common desire to advance the College’s mission. At May 31, 2018, the College’s endowment consisted of over 815 individual funds with an aggregate market value of approximately $331 million.

The endowment provides financial support to advance the College’s mission in perpetuity, lessens the institution’s dependence on tuition and fees, and contributes to its financial strength. The endowment also enables the College to provide financial assistance to deserving students to access a Gettysburg education. With prudent investment oversight, sensible endowment spending and the continued generosity of our alumni and friends, donors can have confidence the endowment will continue to grow and provide income for the benefit of current and future generations of Gettysburg College students.
Gettysburg College
Endowment Overview

<table>
<thead>
<tr>
<th></th>
<th>FISCAL YEAR ENDED MAY 31st</th>
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</thead>
<tbody>
<tr>
<td><strong>Market Value (in thousands)</strong></td>
<td></td>
</tr>
<tr>
<td>Pooled Endowment</td>
<td>$260,501</td>
</tr>
<tr>
<td>Non-Pooled Investments</td>
<td>25,420</td>
</tr>
<tr>
<td>Funds Held in Trust By Others</td>
<td>39,703</td>
</tr>
<tr>
<td>Trusts &amp; Split-Interest Funds</td>
<td>5,597</td>
</tr>
<tr>
<td><strong>Total Endowment</strong></td>
<td><strong>$331,220</strong></td>
</tr>
<tr>
<td><strong>FTE Enrollment</strong></td>
<td>2,613</td>
</tr>
<tr>
<td><strong>Endowment Per Student</strong></td>
<td><strong>$127,000</strong></td>
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</table>

Gettysburg College’s endowment consists of four distinct types of funds:

- **Pooled Endowment** – Includes donor-restricted and board-designated funds that are intended to support the College’s activities in perpetuity. The pooled endowment is managed as long-term, diversified portfolio that is invested in accordance with policy guidelines established by the College’s Board of Trustees. Cambridge Associates serves as discretionary investment advisor.

- **Non-Pooled Investments** – Includes general operating and capital reserves, and donor-restricted gifts and grant funds. These funds are invested in one or more short-term, highly liquid investment funds.

- **Funds Held in Trust By Others** – Represents the College’s beneficial interest in various irrevocable trusts. The College does not control the investment of these funds but receives a certain percentage of the income earned each year based on the terms of the trust.

- **Trusts & Split-Interest Funds** – Consists of donated funds subject to trust agreements in which the College has a beneficial interest but is not the sole beneficiary. The agreements include charitable remainder unitrusts, annuity trusts and charitable gift annuities. State Street Global Advisors serves as trustee over the administration and investment of these funds.
HOW IS THE POOLED ENDOWMENT MANAGED?
The Board of Trustees charged the Endowment Committee with oversight responsibility for the College’s endowment. As with other similarly-sized endowments, the Endowment Committee uses an investment consultant to provide comprehensive investment planning, management, and oversight services. In addition, the College uses a custodian bank to safeguard the assets as well as assist in tracking the individual endowment funds that comprise the endowment pool.

Key Roles and Responsibilities

<table>
<thead>
<tr>
<th>Board of Trustees</th>
<th>Endowment Committee</th>
<th>Investment Advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establishes the Investment Policy</td>
<td>• Advises the Board of Trustees</td>
<td>• Advises the Endowment Committee</td>
</tr>
<tr>
<td>• Appoints the Endowment Committee</td>
<td>• Conducts Investment Planning</td>
<td>• Oversees Portfolio Implementation</td>
</tr>
<tr>
<td>• Appoints the Investment Advisor</td>
<td>• Oversees Policy Compliance</td>
<td>• Actively Monitors Portfolio Risks</td>
</tr>
<tr>
<td>• Reviews Investment Results</td>
<td>• Oversees the Investment Advisor</td>
<td>• Conducts Research</td>
</tr>
<tr>
<td></td>
<td>• Reviews Investment Results</td>
<td>• Provides Performance Reports</td>
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WHAT ARE THE INVESTMENT OBJECTIVES, GOAL AND STRATEGY OF THE POOLED ENDOWMENT?
The Board of Trustees establishes investment objectives focused on providing income to support current operations while preserving the endowment’s real purchasing power in perpetuity. Our investment goal is to maximize investment return while accepting an appropriate level of defined risks, taking into account the need for sufficient liquidity to meet our annual spending draw.

To this end, the Board, in consultation with the Endowment Committee, established a strategic asset allocation, or a diversified basket of investment asset classes, to optimize risk-adjusted investment returns. Each asset class plays a unique role in providing growth to maintain the real value of corpus over time; in moderating equity volatility to provide stable investment returns; and in mitigating macroeconomic risks including inflation and deflation. The policy asset allocation is reviewed periodically in light of evolving capital market and economic conditions.

Long-Term Policy Targets and Allowable Ranges

<table>
<thead>
<tr>
<th></th>
<th>Target Allocation</th>
<th>Allowable Range</th>
</tr>
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<tbody>
<tr>
<td>Public Equity</td>
<td>40%</td>
<td>30% - 70%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td>0% - 30%</td>
</tr>
<tr>
<td>Diversifiers</td>
<td>20%</td>
<td>5% - 35%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>10%</td>
<td>5% - 20%</td>
</tr>
<tr>
<td>Fixed Income &amp; Cash</td>
<td>15%</td>
<td>5% - 25%</td>
</tr>
</tbody>
</table>
HOW DOES THE COLLEGE MEASURE ENDOWMENT PERFORMANCE? HOW HAS IT PERFORMED?

Gettysburg measures performance relative to a policy benchmark and to the endowment’s long-term investment objective of generating average annual rates of return that equal or exceed the annualized spending policy draw and inflation.

For the year ending May 31, 2018, Gettysburg’s endowment realized an annual return of 8.1%, net of fees, which was slightly below the portfolio’s benchmark of 8.6%. The portfolio’s performance for the year was driven primarily by:

- Positive results across all asset classes for the fiscal year period.
- Strong returns from public equities, as both U.S. and Non-U.S. stocks gained.
- Outperformance from the College’s active U.S. equity and Non-U.S. equity managers.
- Muted returns from fixed income investments due to rising interest rates.

The following is a recap of the endowment’s average annualized rates of return relative to the policy benchmark and its long-term investment objective:

**Performance at of May 31, 2018**

- **1-Year**: Gettysburg Endowment 8.1%, Portfolio Benchmark 8.6%, Spending + Inflation 7.1%
- **3-Year**: Gettysburg Endowment 5.0%, Portfolio Benchmark 5.5%, Spending + Inflation 6.2%
- **5-Year**: Gettysburg Endowment 6.0%, Portfolio Benchmark 6.2%, Spending + Inflation 5.8%
- **10-Year**: Gettysburg Endowment 4.8%, Portfolio Benchmark 5.0%, Spending + Inflation 6.2%
- **15-Year**: Gettysburg Endowment 6.2%, Portfolio Benchmark 6.7%, Spending + Inflation 6.7%
HOW DOES GETTYSBURG DETERMINE THE AMOUNT OF ENDOWMENT SPENDING DRAW?
The Board of Trustees approves the amount of endowment income to be used to support operations annually based on an endowment spending formula. The spending formula applies a targeted spending rate (presently 5%) to the average market value of the endowment over the previous 20-calendar quarters. The purpose of the targeted spending rate and smoothing formula is to prudently balance the competing objectives of providing a meaningful and predictable level of funding to support the College’s operations with the need to maintain the real purchasing power of the endowment over time.

WHAT PERCENTAGE OF THE COLLEGE’S REVENUES IS DERIVED THROUGH THE ENDOWMENT?
In FY 2018, the endowment provided $10.6 million, or 8%, of the $131.1 million operating revenue.

![Operating Budget Revenue Pie Chart]

WHAT ACTIVITIES DOES THE INCOME FROM THE ENDOWMENT SUPPORT?
Income from the endowment can be unrestricted to provide general support or restricted by the donor for a specific purpose. Unrestricted support provides the College with the greatest flexibility in meeting its current priorities and funds new initiatives. Restricted support is designated by the donor primarily in support of scholarships, professorships, academic and instructional support, and special programs including the Sunderman Conservatory of Music, Majestic Theater, and other programs of distinction at Gettysburg.

![Endowment Support Allocation Pie Chart]
HOW DOES THE COLLEGE MANAGE THE ENDOWMENT PRUDENTLY?
The College’s investment policies and objectives were established in accordance with the Pennsylvania Uniform Trust Act which prescribes standards that govern the conduct and duties of the Board of Trustees as fiduciary of the endowment. These standards of “prudent investment” require fiduciaries to consider various factors in making investment and management decisions, including:

- Size, nature and duration of the endowment
- Diversification and the role each investment or action has in the overall investment strategy
- Liquidity and distribution requirements
- The endowment’s special relationship in advancing the mission of the organization, its beneficiaries (students), and its economic impact on the community in which it is located

WHAT IS SOCIALLY RESPONSIBLE INVESTING? HOW DOES THE COLLEGE INVEST RESPONSIBLY?
An increasing number of the College’s stakeholders – our students, alumni, faculty, staff and friends – are interested in understanding matters related to responsible investing and how it influences the management of Gettysburg’s endowment. The following is a broad overview of this area of endowment management, its historical context in the management of Gettysburg’s endowment, and how we believe it will continue to evolve in the future.

**Socially Responsible Investing** is the use of one or more strategies to advance a particular social, environmental, moral or political effect. The strategies used by an investor include:

- **Avoidance screens** to prevent investment in an individual company or class of securities
- **Qualitative screens** to include or exclude an investment based on predetermined characteristics
- **Proactive investments** to advance an organization’s program objectives
- **Shareholder advocacy** to leverage one’s influence over a company as a security owner

**Sustainable and Responsible Investing** is the integration of environmental, social and corporate governance considerations (ESG) into the investment decision making process. Investment companies and money managers apply these strategies across asset classes to promote stronger corporate social responsibility and to increase long-term value for their shareholders while yielding benefits to greater society and the environment.
**Avoidance and Qualitative Screening**

Historically, the College has not used investment screens to advance or support a particular social, environmental or moral issue. This is due to the challenges it presents in meeting fiduciary standards of care over the endowment, the practical and structural limitations of managing an endowment of Gettysburg’s size, and the inherent complexity and cost associated with administering such screens.

The individual donors who established Gettysburg’s endowment did so with the social objective of advancing the College’s mission – as a residential, undergraduate liberal arts college – and for the College to prudently manage those funds in perpetuity. Accordingly, the primary investment objective in managing the endowment is to maximize risk adjusted returns, which in turn maximizes the level of support used to advance the College’s mission and maintains the real purchasing power of the endowment over time. While PA Trust law provides fiduciaries with clear direction on prudently managing the endowment, it currently does not prescribe standards or guidance on how a fiduciary shall incorporate environmental, social, or similar goals in making investment decisions.

The College’s investment strategy centers on the use of a diversified pool of investments that are primarily managed in public and private commingled vehicles, which pool the College’s assets with those of many other institutional and private investors. This strategy is used to enhance risk adjusted returns, manage portfolio risks and minimize management costs. The use of commingled accounts places a significant constraint on the College’s ability to filter out specific companies or sectors.

**Proactive Investments**

The College has made proactive investments to both advance its mission and to positively contribute to society and the Gettysburg community, including investments in the Majestic Theater and the Gettysburg Hotel.

**Majestic Theater Renovation Project**

The Majestic Theater renovation was a partnership of the College, the Commonwealth of Pennsylvania, and the Greater Adams County community. The College purchased the building in 1992 as part of its long-term commitment to the revitalization of downtown Gettysburg. The Majestic renovation was the culmination of a three-year feasibility study that assessed the community’s needs and involved more than 200 community members.

The construction project modernized the theater’s backstage production facilities, brought life-safety systems up to code, and improved patron amenities. The total cost of the construction project was $16.5 million. The College’s contribution to the project exceeded $6 million.
Gettysburg Hotel Rebuilding Project
The Gettysburg Hotel is both an asset of the College’s endowment and an investment in the community of Gettysburg.

In 1983, the hotel was destroyed in a major fire and left vacant. In response to an appeal by the Gettysburg community in 1988, the College invested in the rebuilding and restoration of the hotel. In 1991, it was reopened to the public and is currently operated as a wholly-owned subsidiary of the College.

In March 2013, the College completed a $4 million interior renovation of the 119-room hotel in order to improve the guest experience and reposition it as an independent, upscale boutique hotel. The public spaces and rooms were updated with a nod to Gettysburg College’s ownership by utilizing the school colors and integrating historical images of the campus.

Shareholder Engagement (Proxy Voting & Shareholder Proposals)
In general, the responsibility for voting proxies and participating in shareholder proposals is delegated to the investment managers. Investment managers’ guidelines generally require all proxies to be voted in the best interest of the College, as an investor, in a manner consistent with investment objectives, including proposals that enhance shareholder economic value, maintain or improve shareholder rights, and provide reasonable accountability for management.

The College’s right to vote proxies or participate in shareholder proposals are limited to those equity holdings that are directly owned in separately managed accounts. As of May 31, 2018, approximately 3% of the endowment is invested in separate accounts. As such, the opportunity to participate in shareholder engagement is very limited.
Sustainable and Responsible Investing

Sustainable and responsible investing is an investment discipline that considers environmental, social and corporate governance criteria (ESG) with the belief that these factors can generate sustainable, long-term competitive financial returns and have a positive societal impact. This area of investment management continues to evolve over time as money managers supplement traditional valuation techniques with qualitative factors such as its commitment to corporate citizenship, sustainable business practices and how it aligns its business practices with accepted guidelines on responsible investment.

The following are examples of sustainable business practices being advanced by a selection of the College’s investment and fund managers:

- The Carlyle Group, a private equity manager, was one of the first global alternative investment management firms to publish an annual report of its commitment to responsible investing, strong corporate governance and environmental stewardship. [Carlyle Group's Citizenship Report](#)

- Encap Investments, L.P., an private equity and venture capital manager that serves the U.S. oil and gas industry, integrates guidelines for responsible investing and the UN Principles for Responsible Investment in developing and executing its funds and portfolio companies strategy. Employee actions are guided, in part, by the organization’s ESG Policy, which emphasizes aligning employee interests with the guiding principles of responsible investment. [Encap ESG Management Practices](#)

The College continues to monitor how institutional investors and other college endowments are incorporating responsible investing practices into the investment management process and to make informed decisions on investment policy and strategy.

WHY GIVE TO THE GETTYSBURG ENDOWMENT?

Donors who establish funds within our endowment create legacies that will provide sustainable benefits to the campus community. Each endowment fund provides a perpetual stream of income to support scholarships, existing programs and new initiatives. Each fund is designed to implement the donor’s vision and to align with the College’s long-term priorities.

Endowment contributions are also critical to the growth of the endowment and the income it generates. Over the past ten years, approximately $66 million of contributions have been added into the endowment. These gift additions will generate approximately $3.4 million of annual endowment income in perpetuity.
Endowment giving also serves the dual purpose of improving the College’s financial and its competitive position. On the basis of endowment per student, which is a metric used to measure comparative institutional strength and the extent to which the endowment underwrites the cost of a student’s education, Gettysburg’s endowment is small relative to its peer and aspirant institutions. A larger endowment will contribute to the College’s financial viability and competitiveness to peers.

* Source: NACUBO-Commonfund Endowment Study - June 30, 2017

Like Peers – Connecticut College, Denison U., Dickinson College, Franklin & Marshall College and Union College