Princeton University

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To: The Honorable Max Baucus, Chairman
The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on Finance

From: Shirley M. Tilghman

Date: February 22, 2008

Subject: Response to Your Letter of January 25

I am pleased to have this opportunity to respond on behalf of Princeton University to the questions you asked in your letter of January 25. Most of the questions focused on the nature and uses of university endowments, and especially on the use of endowments to make college affordable for low-, middle-, and even upper-income students.

At Princeton, affordability is and always has been one of our highest priorities. One of our earliest endowed funds, established by a schoolteacher in the Class of 1759, was for financial aid. Today, Princeton's endowment is made up of more than 3,500 separate accounts, and the purpose supported by the largest number of accounts is financial aid. This year we are spending more on undergraduate grants ($81 million) than we are taking in through net tuition ($75 million); next year we project that our spending on grants will increase to almost $87 million. More than 92% of our scholarship budget comes from University funds, with more than 85% from the endowment.

Princeton admits all undergraduates on a need-blind basis and meets the full need of each admitted student. More than half of our undergraduates receive aid, and since 2001 no student at Princeton has been required to take out a loan. A no-loan policy not only helps make college more affordable; it also provides students with far greater flexibility in making career choices upon graduation.

The average grant for students on financial aid at Princeton is almost $32,000. But this overall average only begins to tell the story. Students from families with incomes below $75,000 receive an average grant of $42,850, which not only fully covers tuition, but almost fully covers room and board as well. For students from families earning between $125,000 and $150,000, the average grant is almost $23,000, which covers more than half the cost of tuition, room, and board. Even students whose families earn between $150,000 and $200,000 receive average grants of more than $17,000. Because of Princeton's endowment and commitment to financial aid, most of our students pay less to attend Princeton than they would pay to attend the nation's great public universities.

Some have suggested that perhaps all students, even those from families with significant resources, should attend Princeton for free. We believe that these families should contribute toward the cost of educating their children, recognizing that even families paying full price pay less than half of what their children's educations actually cost. We also believe it is appropriate to ask students to help contribute to the costs of their educations through a modest amount of term-time and summer work, although one of our recent improvements in financial aid was to scale back on these expectations.

While Princeton's commitment to financial aid has deep historical roots, I want to underscore the improvements that we have been able to make over the past decade because of careful stewardship of our endowment, even through the challenging financial markets of the early 2000s. On five separate occasions in the past ten years we have made special upward adjustments in spending from the endowment, and a major beneficiary of these increases has been financial aid. In the class that graduated in 2001, 38% were on financial aid and the average grant award was $15,000; ten years later, in the class of 2011, 54% are on aid and the average grant is $31,187. This is a 55% increase in the number of students receiving aid and more than a 100% increase in the average grant. Over this same period, students from low-income families (incomes under $53,500) have more than doubled (they account for 15% of the class), and 11% of the class are the first in their families to attend college.

I want to conclude this introduction with one final thought. Very few of the questions you asked addressed either the enormous costs or the substantial resources required to support world-class programs of graduate education and research. As a research university, Princeton contributes to the public good not only through the undergraduates it educates, but through the advanced training it provides to graduate students (many of whom will become the leading scholars and teachers of future generations) and through the discoveries, insights, and new ideas it contributes through research. As Senator Baucus has said, "research and innovation have powered America's prosperity" and they remain "essential to our global competitiveness." The endowment makes very substantial contributions to the operating and capital costs of the cutting-edge research that fuels America's competitiveness, at a time when federal and other sources of support are failing to keep pace with rising costs. There are thriving fields at Princeton today, ranging from nanotechnology to environmental studies and from genomics to neuroscience, that were not even imagined 30 years ago. Princeton has been able to make substantial investments in these fields only because of the generosity of its donors and its careful stewarding of its resources over many years.

This country's leading universities – public and private – rank among the best in the world. Our country depends on their continuing capacity to teach and conduct research on the frontiers of expanding fields of knowledge, and to open wide the doors of opportunity to students from all backgrounds and economic circumstances. As you conduct your review, I hope you will reaffirm the importance of public policies that sustain and even enhance the capacity of these universities to pursue these missions, now and into the future.

Let me now turn to your specific questions.

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

The following table indicates Princeton's enrollment for the last ten years. In 2005-06, Princeton began a gradual increase in undergraduate enrollment that is planned to reach 5,200 (a total increase of 11%) by 2012.

Year	Undergraduate	Graduate
1998-1999	4624	1762
1999-2000	4556	1768
2000-2001	4554	1884
2001-2002	4613	1946
2002-2003	4635	2011
2003-2004	4676	2009
2004-2005	4678	2030
2005-2006	4761	2029
2006-2007	4790	2319
2007-2008	4845	2380

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.

The fourth column in the chart at the top of the following page provides Princeton's "sticker price" for undergraduate tuition and fees for the past ten years (and includes the recently announced figure for next year). The fifth column calculates the percentage increase from the preceding year. Since Princeton requires all freshmen and sophomores to live on campus, and almost all juniors and seniors choose to live on campus, the sixth column indicates the total annual cost of tuition plus room and a full board contract, while the following column calculates the year-by-year percentage increase in this total package. The eighth column shows the annual undergraduate scholarship budget (projected to be $87 million next year), and the final column shows the year-by-year percentage increase in the scholarship budget. Since aid increases have outpaced tuition increases by more than 50% over this time period, the average grant now covers 96% of tuition as compared to 65% in 1998.

The third column of the chart at the bottom of the page shows the percentage of undergraduates who received financial aid for each of the past ten years (with a projection for next year) and the fourth column shows the average grant. The sixth

AY	#UGs	#Grads	UG Tuition	% Increase	T, R, and B	% Increase	UG Schol Budget	% Increase
97-98	4600	1751	$22,920	4.2%	$29,435	3.9%	$28,476,349	1.5%
98-99	4624	1762	$23,820	3.9%	$30,531	3.7%	$30,729,662	7.9%
99-00	4556	1768	$24,630	3.4%	$31,599	3.5%	$31,607,360	2.8%
00-01	4554	1884	$25,430	3.2%	$32,636	3.3%	$33,693,998	6.6%
01-02	4613	1924	$26,160	2.9%	$33,743	3.4%	$43,315,787	28.5%
02-03	4635	1997	$27,230	4.1%	$35,072	3.9%	$48,251,800	11.4%
03-04	4676	2009	$28,540	4.8%	$36,649	4.5%	$54,529,342	13.0%
04-05	4678	2030	$29,910	4.8%	$38,297	4.5%	$59,208,337	8.6%
05-06	4761	2029	$31,450	5.1%	$40,213	5.0%	$65,120,819	10.0%
06-07	4790	2295	$33,000	4.9%	$42,200	4.9%	$71,394,805	9.6%
Est. 07-08	*4845*		*$33,000*	*0.0%*	*$43,980*	*4.2%*	*$81,000,000*	*13.4%*
Est. 08-09	*4911*		*$34,290*	*3.9%*	*$45,695*	*3.9%*	*$87,000,000*	*7.4%*

AY	#UGs	% on Aid	Avg Grant	% Increase	Avg Tuition Pd /aid*	% Change	Avg Tuition Pd/all**	% Change
97-98	4600	41%	$14,988	2.7%	$7,932		$16,368	
98-99	4624	41%	$16,208	8.1%	$7,612	-4.0%	$16,831	2.8%
99-00	4556	40%	$17,560	8.3%	$7,070	-7.1%	$17,257	2.5%
00-01	4554	40%	$18,595	5.9%	$6,835	-3.3%	$17,440	1.0%
01-02	4613	43%	$21,844	17.5%	$4,316	-36.8%	$16,148	-7.4%
02-03	4635	46%	$22,685	3.8%	$4,545	5.3%	$16,184	0.2%
03-04	4676	49%	$24,032	5.9%	$4,508	-0.8%	$16,211	0.2%
04-05	4678	50%	$25,303	5.3%	$4,607	2.2%	$16,617	2.5%
05-06	4761	51%	$27,077	7.0%	$4,373	-5.0%	$16,911	1.8%
06-07	4790	52%	$28,673	5.9%	$4,327	-1.0%	$17,365	2.7%
Est. 07-08	*4845*	*53%*	*$31,542*	*10.0%*	*$1,458*	*-66.3%*	*$16,282*	*-6.2%*
Est. 08-09	*4911*	*54%*	*$32,805*	*4.0%*	*$1,485*	*1.8%*	*$16,575*	*1.8%*

* Avg tuition paid by aid families = full tuition minus avg aid grant (Avg tuition paid by non-aid families = full tuition)

** Avg tuition paid by all undergrads = net tuition revenue after schol budget deduction divided by total UG enrollment column shows the average tuition paid by the families of students who receive financial aid ($1,458 this year), while the eighth column shows the average tuition paid by all undergraduates, which is calculated by dividing net tuition by total enrollment. The sixth column shows that even in nominal terms, the "average cost" of tuition for students on aid (more than half of our students) has declined from $7,932 in 1997-1998 to $1,458 this year; adjusted for inflation, the cost in real terms has declined even more. For the overall student body (column eight), the average cost in nominal terms has remained essentially flat ($16,368 to $16,282), but again this represents a significant decline of about 25% in Consumer Price Inflation-adjusted dollars. I might also note again, as I did earlier, that Princeton's scholarship budget this year of $81 million is greater than its net tuition revenue of $75 million.

The table below provides information on average grants at different income levels for Princeton's freshman class of 2011. Since these are averages, at each income level individual grants may be larger or smaller depending on specific family circumstances.

Annual Income	**Average Grant**
Less than $53,500	$43,900
Less than $75,000	$42,850
Between $75,000-100,000	$33,800
Between $100,000-125,000	$27,700
Between $125,000-150,000	$22,700
Above $150,000 (if they qualify for aid)	$17,100

As indicated earlier, students from families with incomes under $53,500 have more than doubled over the past ten years; they now constitute 15 percent of the class.

3a. Please explain your university's [undergraduate] financial aid policy.

Princeton provides undergraduate financial aid solely on the basis of need, and meets the full need of each applicant accepted for admission with grants, not loans.

Princeton carefully assesses each applicant's financial and family circumstances, taking into account not only the family's income and assets, but any special obligations such as unusual medical expenses, care for an elderly or ill relative, tuition payments for other children, etc. Based on that assessment, we arrive at an amount that we believe the family can reasonably afford. (For some families, this amount is zero.) We then add in an amount that we believe the student should be able to contribute from a summer job and between seven and eight hours a week at a campus job, although here too we have the flexibility to take special circumstances into account. After subtracting the amounts that the family and the student can contribute, we then provide grant funds to cover all the rest of the student bill, which includes not only tuition, room, and board, but allowances for books, travel to school, and other expenses. Each family's ability to pay is reviewed each year, and appeals based on changed circumstances can be made at any time.

Because of the way Princeton calculates need – asking students and families to contribute only what they can afford – students receiving financial aid are not affected by increases in tuition or other charges. Whatever the charge, they are still expected to pay only what they can afford. And because Princeton places no limit on the number of aid applicants who can be admitted each year under its need-blind admission process and then meets each applicant's full need with no pre-set limit, its financial aid budget functions as an entitlement, meaning that the budget fluctuates each year to provide whatever is necessary to carry out this policy.

In 2001, Princeton adopted its "no-required-loan" policy so that all financial aid would be provided through grants that do not have to be repaid. That same year, Princeton also reduced the size of the family contribution by removing the entire value of the family home ("home equity") from the calculation of how much parents are expected to contribute, and made a similar adjustment for families that rent. In 2007, Princeton reduced the amount of time students on aid are expected to work during the school year. For many years Princeton has offered a Parent Loan Program with favorable rates for any parents who would like to spread out their contributions over as many as ten years.

3b. How do you inform students and parents of that policy?

Students and parents are informed about Princeton's student aid policy through admission materials of many kinds, on our website (there is a direct link to financial aid on our home page), through travels by members of our admission staff, through outreach efforts by the more than 6,500 alumni who volunteer to assist the admission office each year through alumni schools committees, through national efforts such as the University and College Accountability Network (UCAN), and in many other ways.

Since 1998, Princeton has provided an online financial aid estimator to allow any students and families thinking about college to determine what Princeton would actually cost them after taking into account their particular financial and family circumstances. Families answer basic questions about their income, assets, and expenses and immediately receive a review that details Princeton's costs and estimates the amount the family would be expected to pay and the amount of grant aid the student would receive. The estimator is available at http://www.princeton.edu/admission/financial aid/estimator. It is free, confidential, and easy to use. In calendar year 2007, there were more than 41,000 visits to the estimator. This is an average of 115 a day, although in the months of heaviest use (August and September) the number of visits averaged nearly 500 per day.

3c. What outreach efforts does your university take to recruit potential low-income students?

Princeton has a long history of encouraging students from diverse backgrounds and from all income levels to apply, but it has significantly increased its efforts in recent years to recruit low-income students as well as students who would be the first in their families to attend college. Our recruitment efforts are national, even international, in scope, and our undergraduate student body includes students from all 50 states and many other countries.

In general, outreach efforts can be grouped into two broad categories. The first includes a variety of efforts by Princeton staff members and alumni volunteers to identify and encourage students from low-income families to apply and to inform them of our very generous financial aid program. We do this through messages on our website and direct mailings; visits to schools and college fairs; communications with principals and counselors; and extensive travel, especially by members of our admission staff. Recruiting low-income students is a responsibility of every member of the admission staff, but other members of the faculty and administration, as well as students and alumni, also help. I have made a number of visits myself to schools with large numbers of low-income students to encourage them to think about college and make sure they know about the financial aid available to them at schools like Princeton.

One of the reasons Princeton decided last year to eliminate its early admission program was a concern that such a program disproportionately advantages more affluent students. But we also knew that by eliminating the early admission process, we could significantly increase our staff travel well into the late fall when many students, especially from lower income families, are still making decisions about college, and we could direct much of that travel to communities where we hoped we could encourage more students from lower-income families to apply. This past fall our admission staff traveled throughout the country to conduct joint information sessions with colleagues from Harvard University and the University of Virginia, two other schools that recently eliminated early admission programs. We discovered that by traveling together we were able to significantly increase the number of students and families who attended, and we were very pleased by the broad range of backgrounds that they represented.

The second category of outreach efforts includes participation in national and regional programs that assist and advise lower-income students as they prepare for college and help us to identify and enroll students from lower-income backgrounds. At the national level, Princeton works with such programs as A Better Chance, College Horizons, College Summit, Leadership Enterprise for a Diverse America (LEDA), Questbridge, the Ron Brown Scholar Program, the SEED Foundation, Summer Search, TRIO/Upward Bound, and the Ventures Scholars Program. (I might note that I serve on the board of LEDA and several years ago the LEDA Scholars Program launched its Aspects of Leadership Summer Institute on our campus, with the University providing some of the staffing for the program and with Princeton graduate students and undergraduates serving as facilitators and residential coordinators.) We also participate in more than two dozen regional or local organizations in various parts of the country, ranging from the TEAK Fellowship program in New York and College Forward in Texas to The Fulfillment Fund in California and Admission Possible in Minnesota. One such program, the Princeton University Preparatory Program (PUPP) is administered by Princeton University. It helps prepare high-potential, low-income students from public high schools in three New Jersey communities for admission to highly selective colleges and universities. The three-year program involves six-week summer courses on the Princeton campus, weekly academic sessions at the students' high schools, preparation for standardized testing, and guidance in applying to college.

3d. How is low-income defined?

In our programs we define low-income as annual family income below $53,500. In addition, one of our goals has been to increase the number of Pell Grant-eligible students in our applicant pool and our student body. This number has been increasing, and this year more than 9% of our undergraduates are Pell Grant recipients.

3e. What is the amount spent on these efforts?

There is no way to calculate an amount spent on this broad array of outreach efforts. As I indicated, responsibility for identifying and recruiting low-income applicants extends to every member of the admission staff and throughout the University.

4a. 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?

Let me answer the last question first: yes, the full Board of Trustees votes on tuition increases, and this is a responsibility it takes very seriously.

Princeton's fiscal year runs from July 1 through June 30. At its January meeting each year, the full Board approves an operating budget for the upcoming fiscal year that includes charges for tuition, room, and board. (The budget also includes an estimated amount for financial aid, recognizing that this amount will fluctuate to meet the full need of each student who qualifies for aid and that students on aid will not be affected by increases in charges for tuition, room, or board.)

In adopting an operating budget, the Board acts on a recommendation brought to it by an entity first established at Princeton in 1970, the Priorities Committee, that is chaired by the Provost and whose members include undergraduates, graduate students, faculty, and staff. This committee meets throughout the fall to review the University's financial circumstances and its needs and priorities and to consider requests from a wide range of academic and administrative offices. It also explores with those offices recent initiatives to improve efficiencies and reduce costs. Materials submitted to the committee are made publicly available on the committee's website and the committee holds at least one open meeting each fall which anyone may attend. At least once each fall the committee reports to its parent body, the Council of the Princeton University Community, whose meetings are open to the public and regularly reported in the campus press; this is a council that I chair. Members of the Priorities Committee also meet at least twice each fall with the Finance Committee of the Board of Trustees to keep the Board apprised of their deliberations and to receive any guidance that the Board wishes to provide.

Prior to the January meeting of the Board, the Priorities Committee issues a written report in which it presents its recommendations and its reasons for them. This report is thoroughly reviewed by the Finance Committee and is also discussed by the full Board at a Committee of the Whole meeting prior to the formal presentation of the budget for adoption at the full Board meeting. Following the Board meeting the actions of the Board are reported, and the report of the Priorities Committee is widely distributed and posted on the web. Typically the committee's report concludes with a discussion of the outlook for future years so that issues in need of attention can be considered prior to the beginning of a new budget cycle the following fall.

In developing its budget recommendations, the Priorities Committee reviews all income and expenditure categories in the University's $1.2 billion budget. On the income side of the ledger, the University fundamentally has five sources of revenue: earnings on the endowment (which are discussed in subsequent questions below); student fees; federal and state funding, largely for sponsored research; private (non-government) gifts and grants that are currently spendable, including unrestricted support provided through Annual Giving; and a range of auxiliary activities and service departments, including dormitories, dining services, and rental housing. The expenditure side of the ledger reflects the complexity of a modern research university, with funding for research and teaching; undergraduate scholarships and graduate fellowships; administrative and student services; libraries and information technology; and the operation, maintenance, and renovation of the physical plant. Because of the labor-intensive nature of universities, the principal expenditure each year is for the salaries of those who teach and work at Princeton, many of whom rank at the very top of their fields.

In recent years the Trustees have had extensive discussions about issues related to affordability, looking at both the University's charges and its financial aid program. As indicated earlier, Princeton has significantly improved and expanded its aid program. Last year, the Trustees recalibrated room and board charges to more accurately reflect actual costs and chose not to increase tuition at all. This year the Trustees adopted a tuition increase of 3.9% while increasing financial aid more than 7% so that the increase would not affect any student on financial aid. In recommending this increase, the Priorities Committee noted that it had reviewed projections for national labor markets and had concluded that this increase was likely to be less than or equal to the average rate of increase in the incomes of tuition-paying families at Princeton. The increase is also in line with anticipated increases in the University's expenses for salaries.

4b. Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made?

As indicated in the previous answer, students participate directly in the development of each year's operating budget and there are several occasions each fall when the work of the Priorities Committee is discussed in public settings. In addition, many of the materials presented to the committee are publicly available, and its annual report, including projections for future years, is a public document.

4c. What role does your university endowment play in providing financial assistance to students?

As indicated earlier, the endowment plays a critical role in providing financial assistance to students. (This is true for graduate students as well as undergraduates, but I will confine this answer to undergraduate assistance.) This year more than 92% of our $81 million scholarship budget comes from University funds, and more than 85% – more than $69 million – comes from the endowment. We are very fortunate that Princeton alumni have been strong supporters of financial aid for many generations; more than

1,000 of the more than 3,500 separate accounts in our endowment are for undergraduate scholarships.

5a. Please explain how your university's endowment is managed and the role of the Board of Directors.

The three principal governance documents for Princeton University are its charter (first issued in 1746 and most recently amended in 1963), which grants authority to the Board of Trustees to "manage and conduct" the "property and affairs" of the University; the bylaws of the University, most recently amended in 2006; and a "resolution on delegation of authority" first adopted in 1969 and most recently amended in 1992. This resolution identifies some areas of the University that the trustees govern by "oversight and general review;" some that they govern by "prior review and approval;" and some that they govern by "authority directly exercised." Management of the endowment falls into this last category. In the words of the resolution: "In matters concerning financial health … the trustees participate directly in the formulation of policy and the conduct of the business of the University."

The Princeton University Investment Company [PRINCO] oversees the investment of University funds. The president of PRINCO reports to the president of the University and to a Board of Directors that, under the University's bylaws, is elected by the trustees of the University to oversee the management of the endowment "subject to the general control of the Board and the Committee on Finance." The directors of PRINCO include the chair of the Committee on Finance, the president of the University, other trustees, and non-trustees selected for their expertise in areas related to investment. The directors oversee the development of investment strategies; review the performance of outside managers who are engaged to make investment decisions in designated asset categories; and review the performance of the PRINCO president and staff. The University's bylaws require the directors to report regularly to the Committee on Finance and to the Board, which they do.

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

Simply stated, the University's investment policy is to support the charitable purposes of the University (scholarship, teaching, research, and service to others) by achieving the highest possible long-term returns consistent with acceptable levels of risk. The primary objective of Princeton's endowment spending policy is to achieve a proper balance between present and future needs of the University. Other objectives are to achieve a reasonable degree of stability and predictability in income available for current operations year-by-year and to insulate the University's investment managers from pressures to produce short-term gains as opposed to achieving the best total return over the longer term.

Princeton adopted its current endowment spending policy in 1979. The policy basically has two parts. The first part is a spending **rule** that says that the amount of income distributed per unit of endowment will increase each year by a specified percentage. That percentage currently is 5%, a level that reflects expectations about the University's likely average internal inflation rate and that we calculate is supportable given our projected long-term investment performance. (Our endowment can be thought of as a mutual fund with more than 3,500 separate accounts in which each endowed program owns a certain number of units.) This means that regardless of a year's market performance, in weak markets as well as strong markets, and regardless of how much of a year's earnings take the form of dividends, interest, or capital appreciation, the amount of spending per unit of endowment each year will be 5% more than the previous year. (The total amount of endowment spending is also affected by new gifts, which create new units of endowment.) If the University's assumptions about inflation and return are correct, this will both cover annual increases in costs and allow sufficient reinvestment to sustain the purchasing power of the endowment into the future.

The second part of our policy pertains to the spending **rate**, defined as the amount of endowment income distributed per unit of endowment divided by the unit market value of the endowment at the beginning of the fiscal year. Princeton's policy does not stipulate a specific rate; the rate results from applying the spending rule and comparing the result to the value of the endowment, which of course will fluctuate – both up and down – over time. Contrary to what some expect, this means that the spending rate will typically be lower when returns are high, and higher when returns are low. The University has a target range for its spending rate of between 4% and 5.75%. When spending falls outside that range for a period of time, the University reviews its spending to determine whether adjustments are required.

Since the current policy was adopted in 1979, the University has made nine upward adjustments in spending after higher-than-expected total returns on the endowment pushed the spending rate below the targeted range. One of those adjustments, in 2001, provided the additional spending necessary to adopt our "no-loan" financial aid policy. Reflecting the exceptional returns of recent years, Princeton has made three adjustments in the past two years totaling more than $105 million in additional spending. This additional spending then becomes part of the budget base, which in the absence of any further adjustment will increase at 5% a year.

We have done careful and extensive research that suggests that the range we have adopted will allow us to maximize current spending while also sustaining the purchasing power of the endowment into the future. This allows us to honor our current commitments and to meet new needs as knowledge increases and new fields emerge. This research also confirms the wisdom of allowing for fluctuation across the range rather than locking in a specific percentage. I know there has been discussion about whether the kind of specified minimum payout required of private foundations should also be required of universities. I hope your inquiries will provide reassurance that universities are responsible stewards of the public trust when they adopt their spending policies.

Unlike grant-making foundations, which can scale back their giving in lean years, universities need to make long-term commitments to their faculties (many of whom are leaders in their fields), their academic programs, and the facilities (including state-of-the-art laboratories and libraries) that are essential to world-class teaching and research. Universities need to sustain those commitments even in challenging financial times. In addition, as knowledge expands and new technologies are developed, universities must be able not only to sustain current commitments, but to grow. The financial structures and obligations of universities and foundations are very different, and the policies governing them should reflect those differences.

5c. What is the mission of your university's endowment?

A Princeton trustee summarized the obligations of the trustees, who are charged with ultimate responsibility for managing the endowment and adopting the annual budget, as follows: "One of the most important responsibilities of the trustees is to try to find the right balance between achieving the highest possible standards of excellence for this generation and ensuring the University's financial capacity to continue to achieve those standards for future generations." Our spending policy provides budgetary stability, which is critical when endowment spending represents as large a share of an operating budget as it does at Princeton (44% this year). But as our provost, Christopher Eisgruber, has written, "even more important, our spending policy is designed to ensure intergenerational equity. It would be inappropriate for Princeton to spend so much today that it could not offer comparable opportunities to later generations of students and researchers. And, conversely, it would be inappropriate to deny new opportunities to Princetonians today in order to focus exclusively on their successors." When donors make gifts to Princeton's endowment, they expect we will achieve both goals: serve the present and serve the future.

The mission of our endowment is to enhance Princeton's capacity to preserve, transmit, and create knowledge and understanding both now and far into the future, recognizing that costs are likely to increase in future years and that knowledge is likely to expand; new fields and technologies are likely to be invented; and international competition is likely to increase. Princeton can support exceptional programs of teaching and research, provide extensive financial aid, and offer students opportunities to develop their talents and leadership skills through extracurricular, athletic, and community service programs because of the generosity and responsible stewardship of past generations. One of the pledges that it makes to today's donors is that, as in the past, it will manage its endowment and its spending policies so that the value of their gifts will be sustained not only in the near term, but in perpetuity.

5d. When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?

The University's endowment policy is reviewed annually, and as indicated earlier, significant adjustments have been made nine times in the past 30 years. An in-depth review of the appropriate target range for the University's spending rate that was completed in November of 2006 resulted in the adoption of the current target range of between 4 and 5.75%. That review, which benefited from extensive statistical analysis and simulations, was discussed at length by the Board of Directors of PRINCO, a special subcommittee of the Finance Committee of the Board of Trustees, the full Finance Committee, and the full Board at a Committee of the Whole meeting and a regular Board meeting.

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

The year-by-year net growth for the last ten years is as follows:

Year	Dollar Growth	Percentage Growth
1997-1998	+ $ 641.9 million	+ 13.0%
1998-1999	+ $ 886.4 million	+ 15.9%
1999-2000	+ $1,928.9 million	+ 29.8%
2000-2001	- $ 39.1 million	- 0.5%
2001-2002	- $ 39.4 million	- 0.5%
2002-2003	+ $ 410.5 million	+ 4.9%
2003-2004	+ $1,198.1 million	+ 13.7%
2004-2005	+ $1,278.3 million	+ 12.9%
2005-2006	+ $1,838.4 million	+ 16.4%
2006-2007	+ $2,742.3 million	+ 21.0%

6b. What is the amount of donations the endowment has received year-by-year for the last ten years?

The amount of donations year-by-year for the last ten years is as follows:

Year	Donations to Endowment
1997-1998	$ 53.9 million
1998-1999	$ 57.1 million
1999-2000	$ 75.5 million
2000-2001	$ 59.0 million
2001-2002	$ 57.4 million
2002-2003	$ 54.5 million
2003-2004	$ 41.8 million
2004-2005	$ 57.6 million
2005-2006	$ 89.8 million
2006-2007	$136.3 million

Some have asked why universities with substantial endowments continue to seek additional gifts. The principal reason is to allow them to improve and expand their programs of teaching and research, and especially in new fields of knowledge or in areas where they have the capacity to make a greater contribution to the public good. Sound investment and spending policies can help to ensure that universities can sustain current programs and levels of quality far into the future, but new commitments require new resources. In the fall of 2007 Princeton announced a five-year campaign that seeks to raise funds that would allow us to expand our capacities for teaching and research in the fields of engineering (with particular emphasis on issues related to energy, the environment, health, and security), neuroscience, and international programs, and that would allow us to dramatically expand our academic programs in the creative and performing arts. The campaign also seeks support for financial aid at both the undergraduate and graduate levels so that we can not only meet our current commitments, but expand them as we increase the size of our student body and seek to enroll an even higher percentage of students on financial aid.

6c. 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.

The percentage of investment in each asset class varies constantly in response to changes in investment strategy and fluctuations in investment returns. The following is a snapshot as of June 30, 2007.

Asset Category	**Asset Allocation**
Domestic Equity	9.0%
International Equity—Developed Markets	7.4%
International Equity—Emerging Markets	8.4%
Independent Return (hedge funds)	26.4%
Private Equity	24.6%
Real Assets	19.2%
Fixed Income	3.4%
Cash	1.5%
Total	100.0%
(Does not sum due to rounding)	

In addition to the 15.8% allocation to the two International Equity categories, international exposure in the categories of Independent Return, Private Equity, and Real Assets brings the total of international investments to 34.3%.

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

Princeton takes a comprehensive view of what should be reported as endowment. The core of the endowment is held in a mutual fund-type arrangement designated as the primary pool. At June 30, 2007, when the total market value of the endowment was $15.8 billion, the value of the primary pool was $14.3 billion. The primary pool is divided into approximately 1.6 million units across 3,564 separate funds, each with a particular purpose. Many of these funds were restricted by the donor to be held as endowment, while others were allocated as endowment by the trustees to provide ongoing support for designated purposes. A very small fraction of the primary pool (less than $200 million) consists of investments for associated but legally separate entities, such as the Princeton University Press. The distribution of income for all of these accounts is governed by the endowment spending rule described earlier.

As indicated in the previous paragraph, the primary pool accounts for $14.3 billion of the $15.8 billion endowment. In addition to the primary pool, the actively managed portion of the endowment also includes the corpus of a large supporting organization that helps to fund the graduate program of Princeton's Woodrow Wilson School of Public and International Affairs. This corpus, valued at $894 million at June

30, 2007, is not governed by the University's spending rule, but instead follows a spending policy determined by the board of the supporting organization.

Beyond the actively managed investments in the primary pool and in the corpus of this supporting organization, the endowment also includes faculty and staff mortgages, a small number of funds that must be separately invested due to donor or legal restrictions, and strategic landholdings. These last three categories totaled $568 million (3.6% of the endowment) as of June 30, 2007.

7b. 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?

Long-term planned giving investments totaling $236 million at June 30, 2007 are excluded as their investment profile and payouts are determined under various trust and gift agreements. Income is distributed to the donors or their beneficiaries.

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

Broadly defined, there are two kinds of costs associated with managing the endowment: internal costs, primarily in the Treasurer's office and at PRINCO; and external manager and custodial fees. The following chart presents our calculated values for internal and external costs, the total cost, and the total as a percentage of the average market value of the endowment. Consistent with conventional accounting, these figures do not include the incentive fees described in response to question 11a, which are properly understood as a share of excess returns rather than as a fee or a cost of management.

Year	Internal Cost	External Cost	Total	Total as % of Av Mkt Value
1997-1998	$ 2.067 million	$ 49.524 million	$ 51.590 million	0.98%
1998-1999	$ 2.672 million	$ 53.843 million	$ 56.515 million	0.94%
1999-2000	$ 2.730 million	$ 64.790 million	$ 67.520 million	0.91%
2000-2001	$ 4.268 million	$ 88.496 million	$ 92.764 million	1.11%
2001-2002	$ 6.090 million	$ 77.961 million	$ 84.051 million	1.01%
2002-2003	$ 6.406 million	$ 82.357 million	$ 88.763 million	1.04%
2003-2004	$ 6.969 million	$ 94.723 million	$101.691 million	1.09%
2004-2005	$ 8.967 million	$100.666 million	$109.632 million	1.04%
2005-2006	$10.214 million	$145.149 million	$155.363 million	1.28%
2006-2007	$11.639 million	$185.777 million	$197.416 million	1.37%

9a. What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years?

The payout in dollars and percentage for the primary pool investments, with the percentage representing spending per unit as a percent of unit value, is presented below for the last ten years. Also presented is the payout for the current fiscal year, which reflects the recent upward adjustments in spending referenced earlier. These figures pertain to the primary pool, which is governed by the spending policy described earlier. These figures do not include the large supporting organization described in response to question 7a that follows a spending policy determined by the board of the supporting organization (in 2006-2007, the payout for that organization was $30.416 million) nor do they include the investments not actively managed that also are described in response to question 7a.

Year	Dollar Payout	Percentage Payout
1997-1998	$150.838 million	3.81%
1998-1999	$160.808 million	3.66%
1999-2000	$191.707 million	3.76%
2000-2001	$204.382 million	3.07%
2001-2002	$281.137 million	4.19%
2002-2003	$304.083 million	4.57%
2003-2004	$329.183 million	4.69%
2004-2005	$356.235 million	4.33%
2005-2006	$405.845 million	3.95%
2006-2007	$464.182 million	4.01%
2007-2008	*$640.115 million*	*4.55%*

9b. What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years?

As noted earlier, Princeton's policy is based on a spending rule under which income distributed for each unit of endowment increases each year by 5%. The spending rate is then determined by dividing the spending per unit of the endowment by the market value of the unit. Until recently the targeted spending rate was between 4 and 5%, but in November 2006 the trustees adopted a new target range of 4 to 5.75%. We project that with this new range, annual payouts will average close to 5% over the long term.

9c. If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body.

Princeton's endowment and fundraising policies seek to meet the needs of both current students and future students. Fundamentally they meet the needs of the current student body in four ways:

- Under Princeton's endowment spending policy, spending per unit of endowment increases each year by 5%, even during difficult economic times, which allows the increased spending level to keep pace with or exceed inflation.

- The highest priority in Princeton's fundraising program is its Annual Giving campaign, which raises spendable unrestricted funds each year to help meet the University's highest current priorities. Last year Princeton raised more than $49 million in Annual Giving, a 21% increase over the previous year. At Princeton's current spending rate, that is the amount of spending that would be generated by more than $1 billion of additional endowment.

- Princeton also raises new endowment funds each year for areas targeted for expansion or improvement. As these funds are invested and begin to earn returns, they are put to work for current students. This fundraising has already allowed us to offer today's students opportunities in fields ranging from neuroscience to the arts that otherwise would not have been available.

- In all of its fundraising, for spendable gifts outside of Annual Giving and for endowment, Princeton attaches a high priority to financial aid. As described earlier, 54% of our freshmen are receiving financial aid and the average grant covers 96% of tuition (with grants for families below $70,000 not only covering full tuition but also room and board; with families qualifying for significant aid even when their incomes approach or exceed $200,000; and with no student on aid required to take out a loan). Princeton pays out more in grant aid ($81 million this year, $87 million next year) than it takes in through net tuition ($75 million this year), and it covers 92% of this scholarship budget with University funds, including more than 85% from the endowment. There are more accounts in our endowment dedicated to undergraduate scholarships (more than 1,000 out of just over 3,500) than for any other purpose.

Since Princeton's financial aid program is treated as an entitlement with no pre-set limit on funding, every student who qualifies for aid receives the full amount for which he or she qualifies. As indicated earlier, we believe that families with substantial resources should be asked to contribute toward the cost of their children's education, but since tuition covers less than half the cost of an undergraduate education, even students paying full tuition are heavily subsidized by the endowment and annual gifts.

9d. If there is a material variation between actual and targeted, please explain.

In the late 1990s, strong endowment returns produced spending levels below the then-targeted range of 4-5% for several years in a row, which led to trustee decisions in 1999 and 2001 to make substantial upward adjustments in spending. The increase in 2001 allowed Princeton to make significant improvements in its financial aid policy, converting all loans to grants and removing home equity from the calculation of a family's ability to pay. Strong endowment returns in the mid-2000s led to three upward adjustments between June 2006 and June 2007 and a thorough review of spending policy in the fall of 2006 led to the adoption of a higher target range of 4-5.75%.

9e. What were the top ten major expenditures from the endowment last year?

The top ten major expenditure categories last year were:

Faculty and other teaching costs	33.0%
Support for academic departments	15.8%
Graduate fellowships	14.6%
Undergraduate scholarships	12.8%
Library acquisitions	3.9%

Grounds and buildings operations/maintenance	3.7%
Student services and academic/general administration	2.1%
Library operations	1.8%
Athletics	1.3%
Other student aid (mostly prizes)	0.6%

10a. How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor?

Approximately 70% of the primary pool is subject to permanent donor-imposed restrictions or limitations. In addition, the large supporting organization described in response to question 7a is subject to permanent restrictions set forth in its organizational documents.

While approximately 30% of the primary pool is not subject to permanent donor-imposed restrictions or limitations, almost all of these funds are allocated to support specific purposes. In some cases these allocations were made by the University to reflect donor interests (although not donor requirements), while in other cases they were allocations of entirely unrestricted funds to support pressing needs, which in many cases cannot be met by fundraising, such as the construction of parking garages. The University's operating and capital budgets are constructed with the expectation that these accounts will continue to support these purposes, and in fact will grow by 5% each year according to our spending rule. The University can reallocate funds that it has allocated at its discretion, but it then needs to make budgetary provision for the loss of funding in one area if its shifts an account to another area. Contrary to what some have suggested, the endowment does not function as a "piggy bank" or "rainy day fund" waiting to be used or allocated; the earnings from the endowment are being used each year to support all areas of the University, from teaching, research, and student aid to the physical plant, libraries, an art museum, and many other purposes.

10b. Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid?

At Princeton, these are essentially the same question, since all undergraduate scholarships are awarded solely on the basis of need. Of the portion of the actively managed funds that is subject to permanent limitations, about 15% is restricted for need-based undergraduate scholarships, including some funds that are restricted to either graduate or undergraduate financial aid but are currently supporting undergraduate scholarships. Within the portion of the primary pool that is not permanently restricted, the University designates an additional $4 million of endowment income annually for this purpose. There is a small category of funds that support non-need-based undergraduate prizes in various departments (for example, prizes for the best senior theses), but these funds constitute only a third of a percent of the restricted endowment.

10c. Please provide the top five types of restrictions on the endowment by category.

The top five categories in the permanently restricted portion of the endowment's actively managed funds are as follows:

Academic department funds	32%
Faculty endowed positions	21%
Undergraduate scholarships	15%
Graduate fellowships	13%
Library	3%

10d. 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 also see the answer to question 10a. Of the approximately 30% of the primary pool that is not subject to permanent donor restrictions, approximately three-quarters has been allocated to support particular purposes.

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

The investment return year-by-year for the actively managed funds in the endowment (the primary pool and the large supporting organization, see answer 7a) is presented below for the last ten years.

These returns do not include University loans and other assets not under the management of PRINCO.

Year	Investment Return
1997-1998	17.9%
1998-1999	21.7%
1999-2000	35.5%
2000-2001	2.4%
2001-2002	2.2%
2002-2003	8.2%
2003-2004	16.8%
2004-2005	17.0%
2005-2006	19.5%
2006-2007	24.7%

11a. Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined?

PRINCO, the University's investment office, seeks to structure fees paid to outside advisors in a manner that helps align the interests of the advisors with the interests of the University. For a few advisors, compensation consists solely of a fee determined by an agreed-upon percentage applied to the amount of assets managed. For most advisors, however, the advisor also receives a share of excess returns generated as an "incentive fee." The incentive fee aligns interests because the advisor will earn more if returns are higher. At the same time, in all cases in which an incentive fee is paid, we require advisors to put up meaningful amounts of their own capital to be invested side-by-side with our assets. This provides a disincentive for the advisor to take on undue risk, since the advisor would share in any loss or underperformance.

The exact terms of measurement of both asset-based fees and incentive fees vary considerably case by case. One constant, however, is that all manager performance is evaluated on a net-of-fee basis, and the endowment's own performance is always reported net of all fees paid to external advisors. This creates a level playing field in that managers who are charging higher fees without producing higher gross performance will have lower net performance, which is the basis on which we decide whether to continue or terminate use of the advisor.

11b. What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee?

PRINCO's professional staff is responsible for all aspects of the implementation of the University's investment policy, including external advisor selection and, when appropriate, termination. Manager selection responsibilities include the review, negotiation, and approval of fees. As indicated earlier, PRINCO staff report to a board composed of senior University staff, trustees, and knowledgeable alumni who are active in financial markets. The board assesses the staff's execution of its implementation responsibilities. To aid in this assessment, the staff provide the board with detailed reports summarizing the rationale for all significant decisions. These reports include descriptions of the compensation arrangements with outside advisors. While the board does not approve individual arrangements, it is aware of them and it can provide policy guidance with respect to such arrangements.

In reviewing the fees and compensation of external advisors as part of their ongoing monitoring of these relationships, PRINCO staff members consider whether the terms make economic sense given past and expected future performance and how they compare to other managers operating in similar sectors and having similar prospects. The reasonableness of fees is judged within a holistic assessment of the likelihood that the advisor will produce superior results over prolonged periods and of the risks entailed in the generation of those results. This assessment typically involves hundreds of person-hours of work and extensive qualitative as well as quantitative analyses.

11c. Who pays the fee (the endowment, general funds)?

All fees are paid from the endowment and the endowment's performance is reported net of all fees to external advisors. Fees are not included in reported endowment income spending or in spending rates.

11d. 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.

There is no relationship at all between endowment size and/or growth and the compensation given to the president of the University.

There is no direct relationship between endowment size and/or growth and the compensation paid to the endowment manager (the president of PRINCO), but there is a relationship to one component of endowment growth. Endowment growth is a function of three factors: (1) investment returns; (2) new donations to the endowment; and (3) endowment spending and other outlays, such as special capital expenditures. As described below, the compensation of PRINCO's president is related to the first factor, investment returns, but his compensation is independent of the other two factors, each of which can have a substantial impact on endowment growth.

11e. 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.

The University president receives no endowment-related bonuses.

Up to approximately 75% of the compensation of PRINCO's president is in the form of variable bonuses relating to two incentive compensation plans. The size of the bonuses is a function of six equally weighted factors. Five of these factors are quantitative and relate to the endowment's annualized investment returns over the previous three- and five-year periods. These investment returns are judged three ways: on absolute terms, relative to market benchmarks, and relative to peers.

The incentive plan's quantitative factors incorporate high standards; for example, the maximum bonus cannot be achieved unless Princeton's three-year and five-year annualized returns both place within the top decile of results at the 40 largest college and university endowments. The plan's qualitative factor also incorporates high standards focused on evaluation of several activities that are important to the long-term success of the University. An example is the PRINCO president's thorough analyses that gave the trustees confidence that they could increase the endowment's annual spending without creating undue risk of failing to preserve the endowment's purchasing power. These analyses led to the expanded endowment spending target range described earlier.

Only one quarter of the bonus earned by PRINCO's president is paid out at the time of the award; the remaining three-quarters of the bonus is deferred, vesting over a period of three to five years. The deferred portion acts as a retention incentive, as the president would forfeit that portion if he left prior to vesting.

Listed below are the bonus payments to PRINCO's president during the last ten years. The first incentive plan went into effect in 1998-1999, with the first payment made in 1999-2000.

The amounts listed for each year include both non-deferred portions of bonuses paid that year and the pay-outs of previously deferred awards that vested and were paid out in that year.

Year	**Amount Paid**
1997-1998	No bonus plan in place.
1998-1999	Bonus plan payments made in the following year.
1999-2000	$ 37,500
2000-2001	$ 47,250
2001-2002	$184,775
2002-2003	$229,044
2003-2004	$236,080
2004-2005	$518,449
2005-2006	$790,426
2006-2007	$802,135