

Drake's Endowment - What is it?

Drake University established its formal endowment many years ago, and like most educational institutions, watched it grow at a middling pace until the early 1990s. At that point, gifts to the University increased, investment returns began to increase, and the Endowment began to play a significant role in providing the resources to keep Drake a world-class institution.

An endowment is often a good gauge of the quality and health of an educational institution. The endowment differs from the annual fund in that the annual fund is intended to be spent in the short term and is an important revenue source in the institution's annual operating budget. Endowment funds, on the other hand, are invested with a view toward the very long term. The intention is that the Endowment itself will not be spent - only the earnings from the Endowment's investments will be spent. It helps provide stability and flexibility to the University by providing financial "breathing room," as well as funds to support scholarships, the recruitment and retention of the best faculty and staff, new academic endeavors, student/faculty research projects, facilities improvements, and other initiatives in the community. Spending on these needs is, of course, supplemented by tuition income, by the annual fund and by other grants and gifts.

How does endowment make a difference?

At Drake, a strong endowment will enable the university to better position itself for the future. It will:

- fund scholarships and other financial assistance to make it possible for the most deserving students to attend Drake.
- enable Drake to attract and retain gifted teachers and strengthen student learning.
- provide opportunities for faculty to continually update their knowledge and skills.
- enhance library resources.

If you can't spend all of it, how much do you spend?

The Board of Trustees approves a spending policy for the Endowment, which typically is in the range of 5% to 5.5%. The rate is then applied to a "rolling average" of the Endowment's total assets over the last 12 quarters (three years). By using the Endowment's average balance, the University avoids wide swings in the actual dollar amount available to be spent.

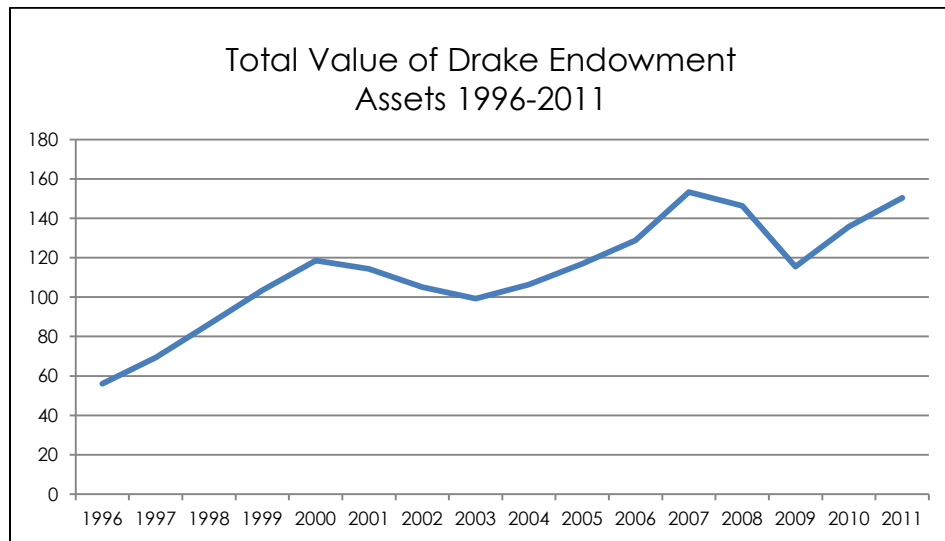
October 31, 2011

Market Review

Financial markets do not always mirror their respective economies, and the year ending May 31, 2011 was a perfect example. While U.S. unemployment remained persistently high and short-term interest rates were anemically low, while consumer spending slowed predictably and housing prices on average continued their declines, while fears of deflation were nearly as prevalent as the specter of inflation, the US stock market provided returns above 25% and bonds rallied enough to provide near 6% returns. Outside the US, tsunamis, earthquakes, unrest across the Arab world, and the contagion across Europe brought on by the pending financial default of Greece's sovereign debt interrupted business and distracted governments, yet international equity markets returned in excess of 30%. Eventually, the economic realities must synchronize with the financial markets, but often these time frames extend unreasonably.

Overview

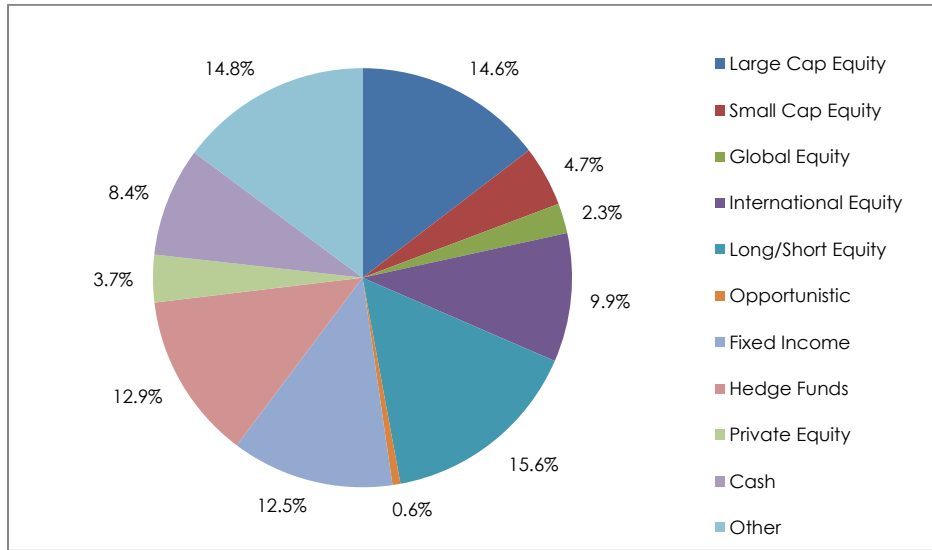
Drake University's endowment enjoyed another successful year. Our investments earned a total return of 14.5%, net of fees, ending May 31, 2011 with a market value of \$150.4 million, up from \$135.8 at the end of the previous year and practically even with the highwater mark reached in May 2007 before the market turmoil began.



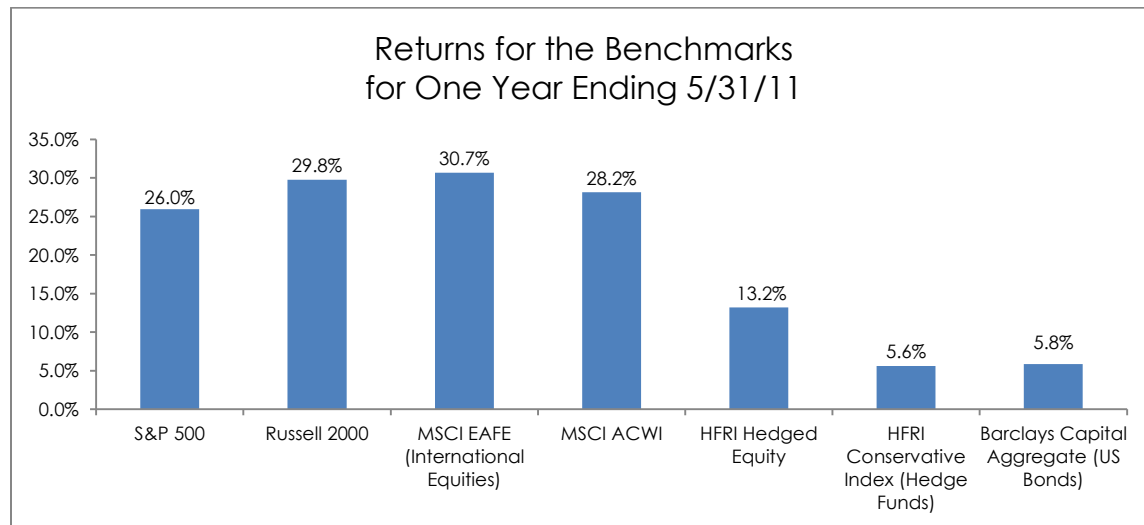
The Endowment remains invested in multiple asset classes: equities, bonds, and alternative investments. As capital markets have become increasingly global, Drake University's endowment has anticipated that trend and its investments have also expanded geographically, in a risk-controlled manner; Drake has also adopted a practice of maintaining higher cash balances (approximately 10%) than historical levels to anticipate liquidity needs and to provide some offset to unexpected market volatility

with respect to the effect on its debt covenants and rating agency ratios. This cash mitigates the volatility of the Endowment's performance, tempering the highs (as in FY2011) and protecting the downside when markets fall. The cash balances created a drag of slightly more than 2% on the total return of the Endowment last year; the return of the portfolio excluding cash was 16.6%, net of fees.

As of May 31, 2011 the Endowment's investments are well-diversified and equity-oriented as shown below:

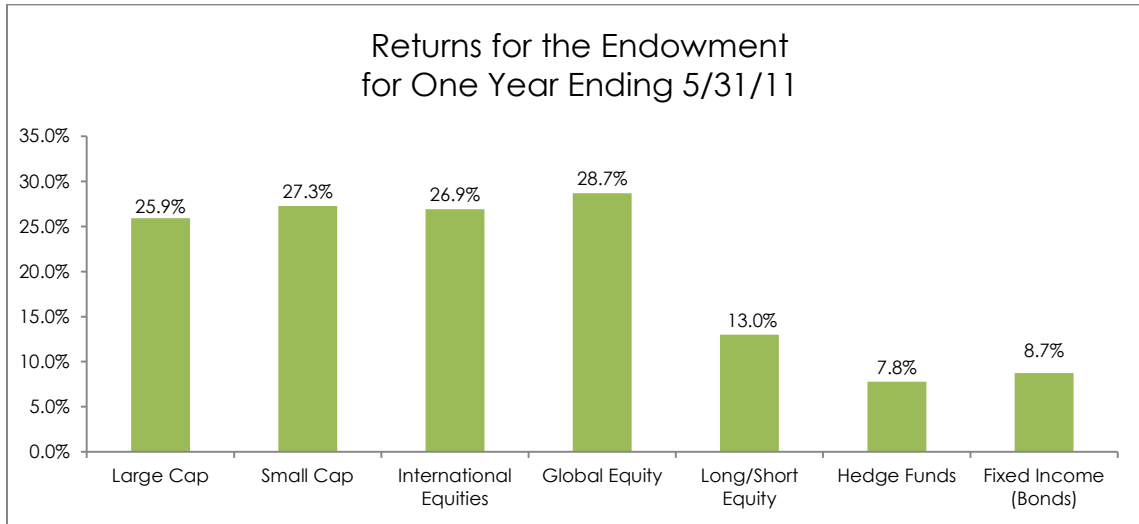


All asset classes provided robust returns for the last twelve months, despite the continuing concerns about global growth and political stability. Legislative stalemates and polarizing positions went seemingly unnoticed by the markets.



Our global equity, hedge fund, and fixed income managers all outperformed their respective benchmarks. Our long-only, traditional US and international equity

managers and our long/short equity managers participated in the market rally, underperforming modestly due to their defensive positioning and high quality biases.



During turbulent times in financial markets, some investors shorten their investment time horizons and look for “safe havens,” believing they will “sell high” and will adeptly know when to reverse course and take on risk again. Conversely, other investors exhibit irrational bravado and attempt to catch a falling knife, believing they will be nimble enough to time the catch at the trough in the “buy low” scenario. Usually these are counterproductive activities. As more investors behave in these ways, more market volatility results, creating opportunities for patient, disciplined investors to make money.

Drake University maintains its posture as a patient, disciplined investor, continuing to look for those opportunities, even as market volatility has persisted since the end of the fiscal year. Our opportunistic allocation continues to provide needed flexibility to respond to major changes in markets, and revisions we have made to our fixed income structure position the Endowment to navigate profitably in this extremely low interest rate environment. Our hedge fund managers and long/short equity managers continue to exhibit the tactical responsiveness we expect, and as subsequent market events have shown, these are important diversifiers in our overall allocation. We evaluate the market dynamics and the forecasts of other market participants with the goal of distinguishing winners from losers and adjust our portfolio, at the margin, to capture the upside.