

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.



DRAKE UNIVERSITY ENDOWMENT YEAR-END REPORT

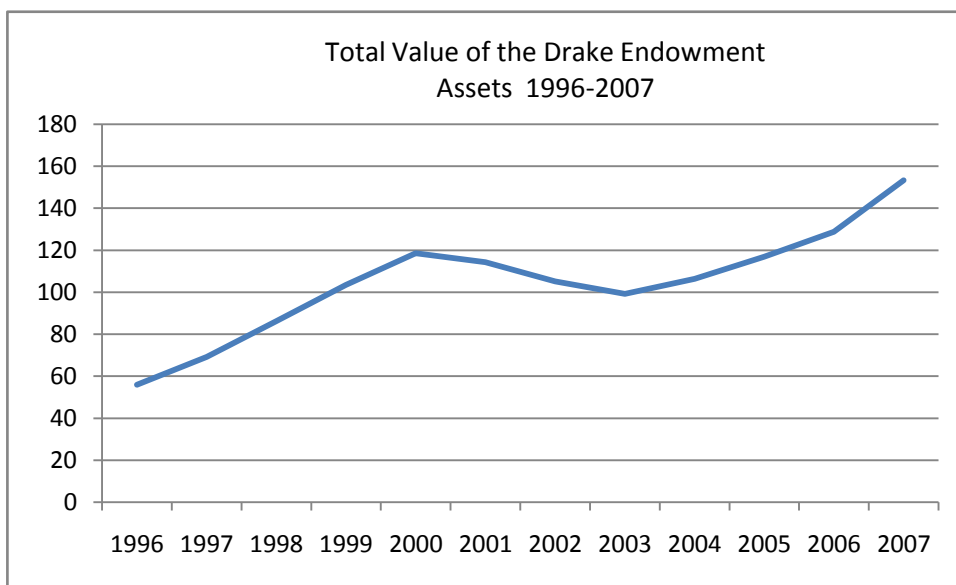
October 31, 2007

We would like to inaugurate a new communiqué to the friends of Drake and update you on the Endowment results for the fiscal year that ended May 31, 2007.

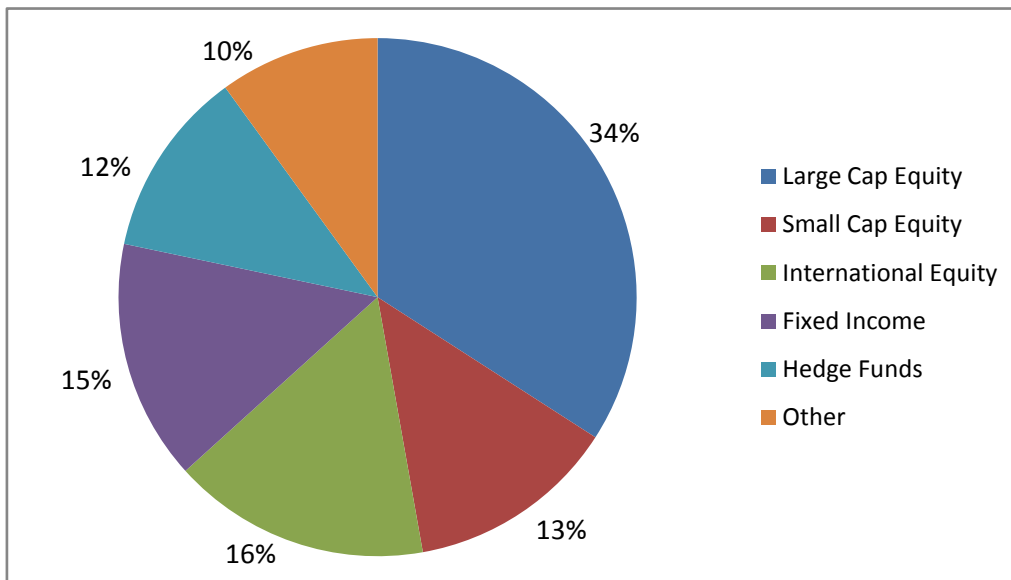
Overview

The Drake University Endowment experienced strong absolute and relative performance. The total investment return for the 2007 fiscal year (June 2006-May 2007) was 18.7%, net of fees.

Due to the strong investment results, and after accounting for the annual distributions and receipt of new gifts, the value of the total assets in the Drake Endowment grew from \$128.8 million as of May 31, 2006 to \$153.3 million as of May 31, 2007.



As of May 31, 2007 the assets were invested as shown below.

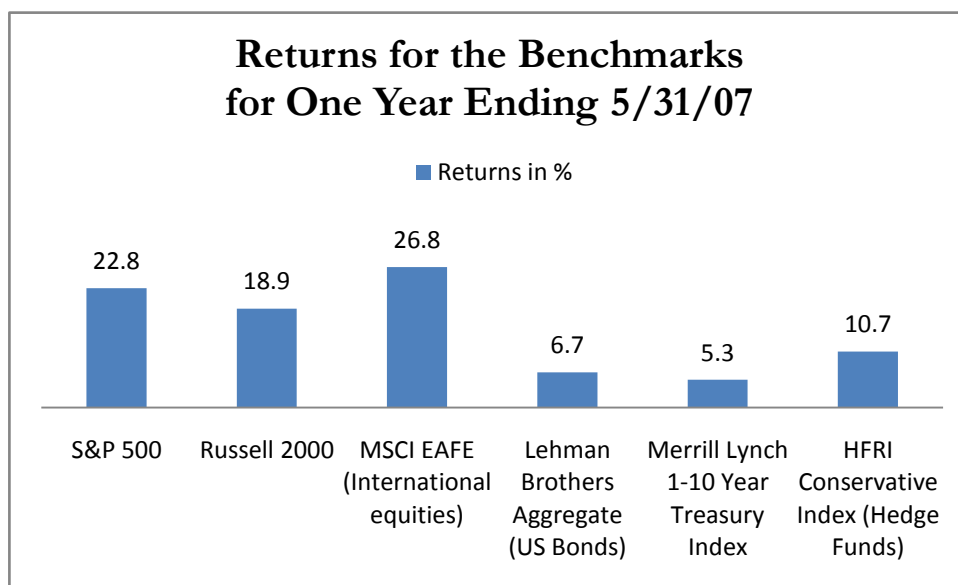




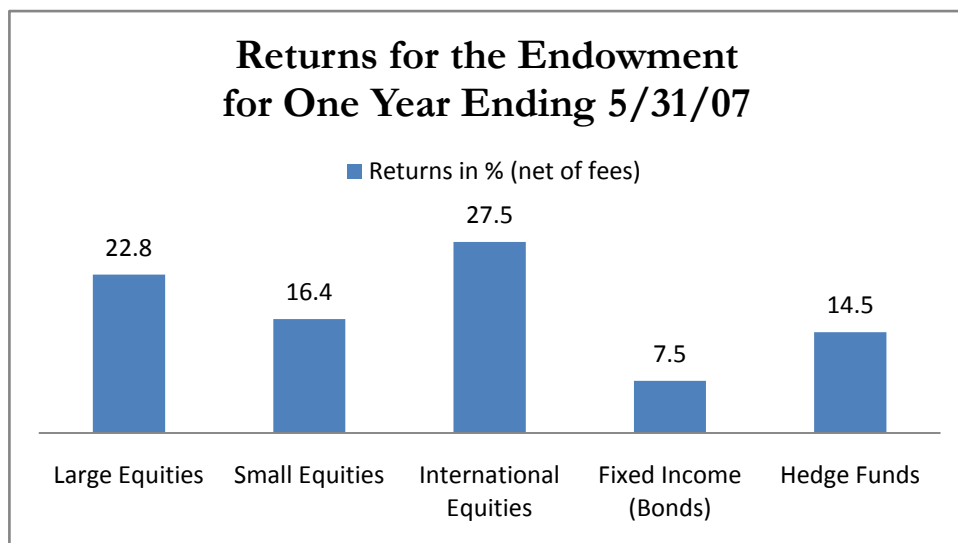
The Market Context

The Drake Board of Trustees, which governs the Endowment, subscribes to the well-established financial theory that combining assets with consistently low correlations to one another reduces overall portfolio risk, despite the higher levels of risk of any of the individual assets. Drake's Board of Trustees regularly reviews its asset allocation targets for consistency with policy and for appropriateness.

The Endowment has been and continues to be invested across multiple asset classes: equities, bonds, and alternative investments (hedge funds). During the past year, growth in global markets, especially emerging economies, continued cash flows by market participants into private equity and hedge fund structures, and a low inflation environment have driven the capital market returns and offset some of the headline news of credit market stress (including the concerns triggered by US sub-prime mortgages).



Consistent with the broad markets, Drake's Endowment results were driven mainly by our investments in international and US large capitalization equities and supported by our investments in hedge funds, which we expect to have returns better than bonds with similar risk levels.





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Drake retains Jeffrey Slocum & Associates, a Minneapolis-based firm, to advise us on our investments. Slocum is a completely independent investment consultant, not affiliated with any brokerage or bank. The firm assists Drake with setting asset allocation policies, drafting investment guidelines, selecting money managers, and monitoring performance. Slocum uses the ICC (Independent Consultant Cooperative) universe as the benchmark for peer comparisons. The rankings are derived from a statistical universe of approximately 22,000 institutional portfolios. When compared to other endowments and foundations in the ICC universe, Drake's Endowment ranks in the top quartile. By choosing successful, active investment managers where appropriate, Drake was able to add 70 basis points net of manager fees during the last fiscal year compared to a portfolio of passively managed investments with the same asset allocation.

We also participate in a study by NACUBO (National Association of College and University Business Officers) along with 764 other institutions, representing a total of \$340.1 billion of endowment assets. The study results for the year ended 2007 will be available in early 2008. For the year ended June 30, 2006, Drake's Endowment ranked 301st out of 765, or in the top 40%, based on total market value of assets of participants in the NACUBO's FY06 study; the median endowment participating in the NACUBO survey earned 10.8%. The Drake Endowment earned 12.3%, net of fees, for the twelve months ending June 30, 2006. During that same year, equities as represented by the S&P 500 Index returned 8.6%, and bonds (Lehman Brothers Aggregate US. Index) returned -0.8%.

We've all heard the maxim that "past performance is no indication of future performance," and we wouldn't think of resting on our laurels. "The Endowment Approach" to investing has been quite successful over the recent past, and there are ever larger pools of capital which seek to imitate and ride the coattails of these strategies. Whenever investors chase returns, inevitably the results fail to materialize or, at the very best, are muted. We know enough to know that we must be vigilant and nimble and continue to take measured risks with concern for the downside.

The Board of Trustees approves a spending policy for the Endowment which typically is in the range of 5% to 5.5%. In 2007, this spending allowance was 5%, based on an average of the Endowment's total assets over the last twelve quarters. The intention is that only the earnings from the Endowment's investment will be spent, to support scholarships, to recruit and retain the best faculty and staff, to fund new academic endeavors, research projects, facilities improvements and other initiatives in the community. The Endowment spending allowance currently funds less than 6% of Drake's total operating expenditures on an annual basis.

Drake has committed people and resources to increase the gifts to the Endowment on an on-going basis. In order to continue helping the University, the Endowment needs to grow more than its spending allowance, inflation and expenses combined. The Endowment grows through gifts from donors, and it grows as any returns in excess of the spending rate are reinvested in the Endowment. New gifts are critical to future Endowment growth.

We greatly appreciate your continued support and commitment to Drake University.