In Any Weather

Bowdoin's endowment is as old as the College, having been established in 1794 with a $1,000 gift from James Bowdoin III.

Today, it is Bowdoin's second largest source of revenue—a critical, steadying advantage in the increasingly competitive world of higher education.

President **Clayton Rose**, Senior Vice President for Investments and Chief Investment Officer **Paula Volent**, and Senior Vice President for Finance and Administration & Treasurer **Matt Orlando** sat down to talk about the endowment—what it is, what it isn't, and how the endowment creates opportunity at Bowdoin.

This is the third in a four-part series designed to get behind the scenes of what we're thinking about here at the College—what we're doing next, and why, and how.

BOWDOIN: Let's start with the basics. What is an endowment?

PAULA: An endowment is permanent, donor-restricted capital that provides a steady stream of funds in support of an institution's current mission as well as growing capital—at least at the rate of inflation—in order to provide support for future initiatives.

Benjamin Franklin said that "nothing in this world [is] certain, except death and taxes," but endowments are supposed to be an exception.

BOWDOIN: How is it different from, say, an investment or savings account that you can use whenever you need it?

PAULA: For one thing, the original value of a donor's gift to the endowment is protected for perpetuity by law. James Bowdoin's original gift of $1,000—although worth much more through capital appreciation—still retains a minimum value of $1,000 in the endowment. It's the income and capital gains through investment of that gift that are used to support the donor's stated intentions.

Also, because Bowdoin's mission has a multigenerational time horizon, the endowment can invest for the long run. It might be twenty years before the endowment benefits from long-duration market inefficiencies. So, the endowment is not just a liquid asset that you can draw on at any time.

BOWDOIN: What's a common misunderstanding about a college or university endowment?

MATT: The most common misunderstanding is that it's one big pot of money from which we can withdraw at our pleasure. In fact, for Bowdoin, it's a combination of over 1,700 individual funds, almost half of which are restricted for student aid. So it's not something we can just tap whenever we would like, and use the money for whatever purpose we desire.

CLAYTON: Endowments are creatures of philanthropic organizations. So, unless you are intimately involved with a college or university or a museum or some other great charitable organization, there's no reason why you would have a strong sense for what endowments are all about. In our case, the endowment exists to ensure the long-term viability and excellence of the College and to provide intergenerational equity. It allows us to invest and to withdraw a portion of the earnings to spend on the needs of the College, while maintaining the principal and some of the earnings to keep up with inflation, ensuring that the endowment will continue to provide for the College deep into the future.

And, to expand on something Matt said: those funds restricted for student aid are the central reason why we are able to be one of only nineteen colleges and universities in America that can offer need-blind admission and the ability to meet a student's full financial need for all four years—and to do so without loans in our aid packages.

BOWDOIN: In 1990, Bowdoin's endowment stood at just under $143 million, or about $105,000 per student. Today, the endowment is $1.74 billion, or about $955,000 per student—up from $897,555 last year. How has that growth made Bowdoin a better college?

Colleges and Universities with Need-Blind and No-Loan/Meet Full Demonstrated Need Financial Aid Policies *(as of November 1, 2019)*

- Amherst
- **Bowdoin**
- Brown
- Chicago
- Columbia
- Dartmouth
- Davidson
- Harvard
- Johns Hopkins
- M.I.T.
- Northwestern
- Penn
- Pomona
- Princeton
- Stanford
- Swarthmore
- Vanderbilt
- Washington & Lee
- Yale

Source: Bowdoin College Office of Institutional Research, Analytics, and Consulting

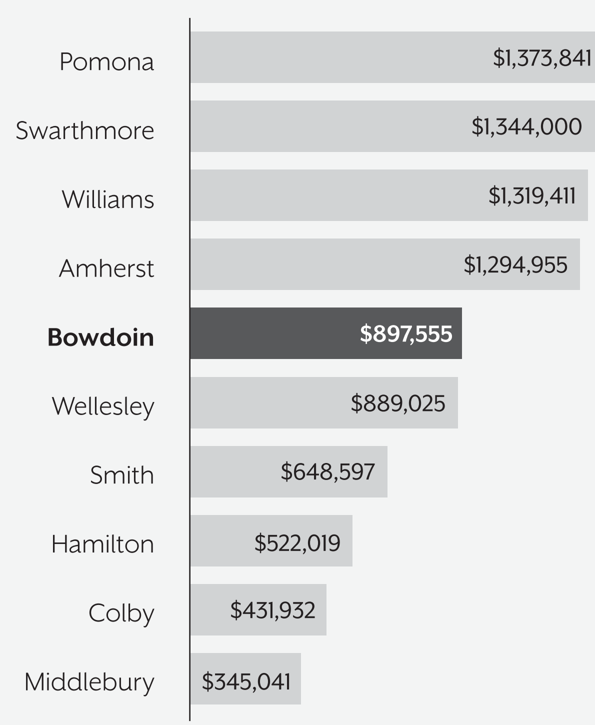
CLAYTON: Bowdoin has always been distinctive, but the model has changed. The model today is that the exceptional colleges and universities generate a substantial portion of their operating budgets—including financial aid—from endowment, with the balance coming from tuition and fees and from the annual fund.

The growth in our endowment over the last thirty years has been extraordinary—no question about it. That has happened for two reasons: the amazing generosity of our alumni and parents, and the outstanding performance of Paula and our investment office. And it has allowed us to get better and better.

Our ability to offer the kind of financial aid I described places Bowdoin among the handful of the very best colleges and universities in this country. And the superb educational experience we provide here is wholly dependent on the endowment and on our operating budget. That said, our endowment per student, which is a measure of financial strength, is lower than the endowment per student of our leading peers. So, we are punching above our weight in delivering the same kind of financial aid program, in our ability to attract talented students, and in offering an excellent education. But one of the things we should not take for granted is that this is something we can do in perpetuity without enhancing our endowment.

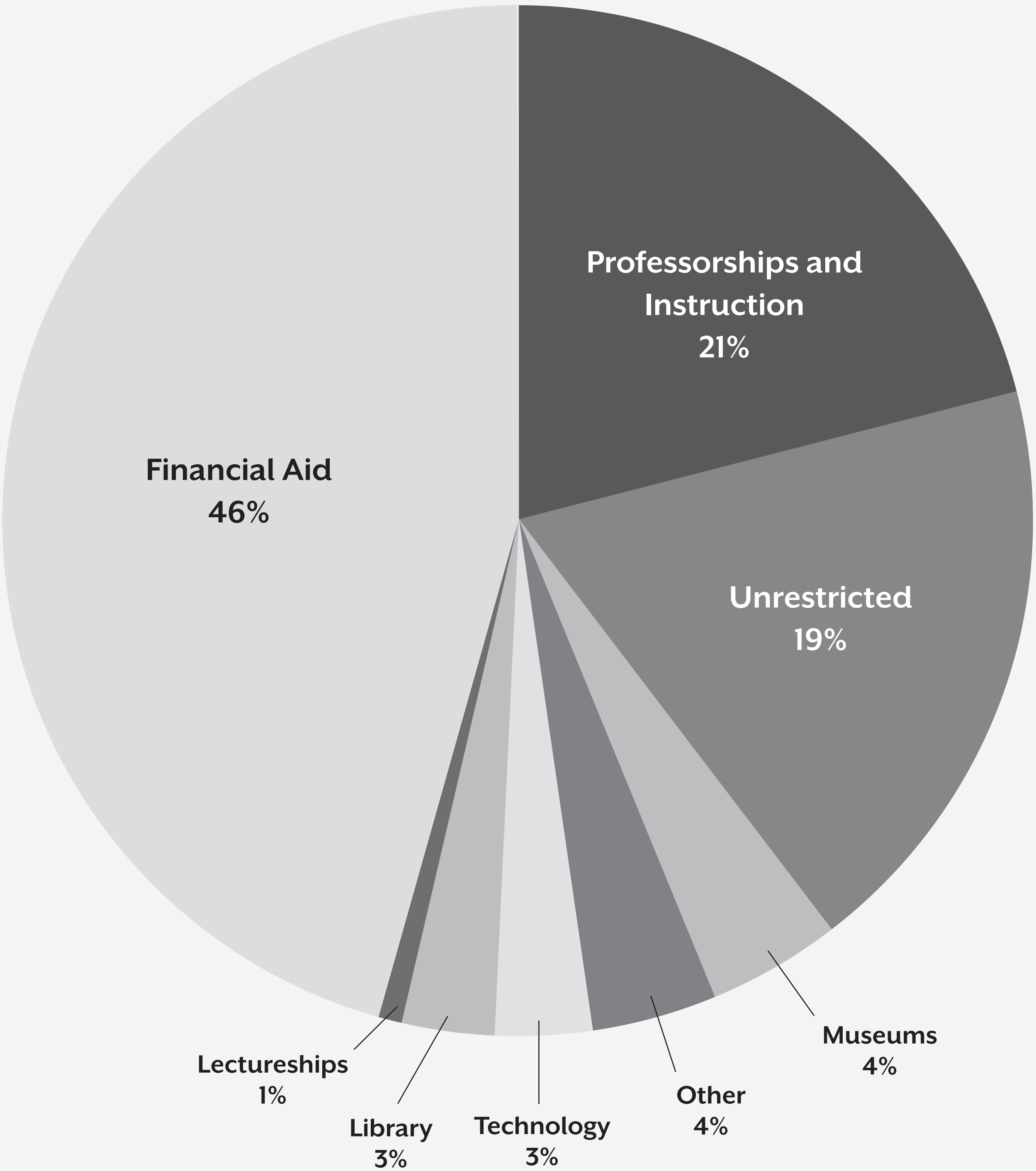
We face tough competition. Our best peers are raising money and adding to what they do. They will continue to enhance the educational experience in all the right kinds of ways, and to attract the top students. We don't have to be exactly where they are. We can be a little smarter and a little more frugal here and there. But we've got to stay within striking distance. We certainly can't allow the gap to widen, and ideally, we can narrow the gap and narrow it considerably over the next five to ten years.

FY2018 Endowment per Student



Source: 2018 NACUBO-TIAA Study of Endowments

Bowdoin College Endowment by Designation



Source: Bowdoin College Treasurer's Office

BOWDOIN: Distributions from the endowment cover just under 40 percent of the College's operating budget, which is the highest level of support from the endowment in the history of the College. Is there a risk of becoming too dependent on the endowment, particularly in a down economy?

PAULA: Absolutely. The stock market is in its tenth year of an up market, and as economic history clearly demonstrates, markets don't always go up. There are many risks in the market that Bowdoin's investment team continually monitors.

We're thrilled to have generated annualized returns of 12 percent over the last decade, but in a market downturn the endowment will need to protect capital, and there is a good chance that the spending support from endowment would decline.

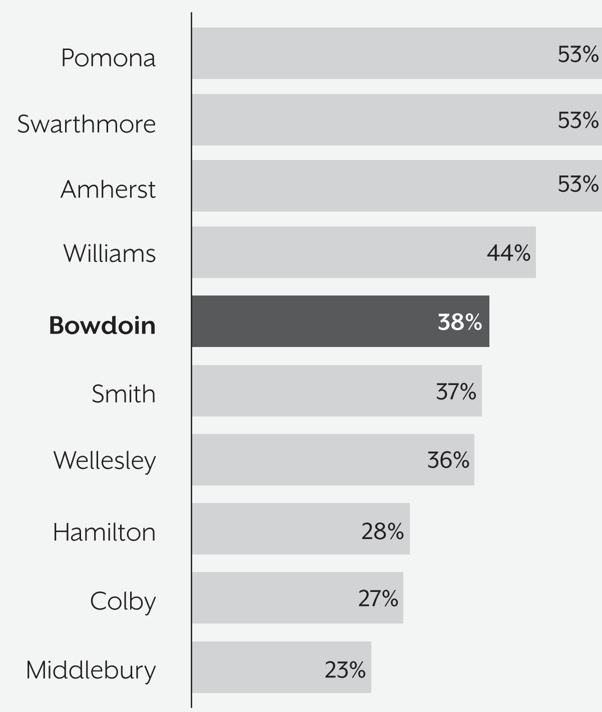
That's why the College uses a somewhat conservative 5 percent of a twelve-quarter lagging average formula to determine annual spending. This lagging average effectively smooths the spending distribution and dampens annual volatility. But with a downdraft in the market and negative quarterly valuations, spending from the endowment to support the operations of the College would decrease.

A good example of how a well-managed endowment helps in these situations took place in 2008–2009. Back then, because of the endowment and prudent financial planning, the College was able to weather that financial crisis without cutting faculty or staff and without shedding any essential programs.

CLAYTON: I see this as a high-quality challenge. With about 40 percent of our operating budget, we are near the range of what our best peers do. Over the past twenty years, we've gone through significant downturns in the economy and have managed to work our way through those.

And in the medium- to long-term budgeting process, we pay close attention to markets being dislocated for some period of time and to how we would fund operations in a downturn without significantly disrupting the educational program.

Percentage of Operating Budget from Endowment FY2018



Source: FY 2017-2018 Audited Financial Statements

BOWDOIN: We've talked about endowment's impact on students, but what about faculty?

MATT: There's no question that the endowment enables us to attract remarkable faculty. If we were purely a tuition-dependent school, we wouldn't be able to have a nine-to-one student faculty ratio, to pay faculty at current levels, or to provide the comprehensive benefits that Bowdoin offers.

CLAYTON: I agree with that. In our searches, we most often are able to hire our first-choice candidates. That's not a coincidence. The endowment allows us to provide the research funding, the equipment funding, the ability to travel, to engage in scholarship, to develop teaching capabilities. The ability for faculty to do their work and to be at the top of their game is, to a great extent, possible only because of the endowment.

BOWDOIN: One common question or criticism of endowments amounts to the idea that colleges and universities are "hoarding" money. Why not spend more of what we have?

MATT: We'll spend $72 million from the endowment this year. That's real money, but spending more would be foolish. It's analogous to raiding your retirement before you retire. The more you draw down in the short term at the expense of long-term needs, the less likely you're going to be able to maintain your lifestyle into late retirement and even more unlikely that you'll be able to leave any money for future generations.

PAULA: As we've said, endowments are set up for perpetuity. Managing an endowment is a continual balancing act of providing a steady stream of spending in support of current Bowdoin students, while growing our assets for the future.

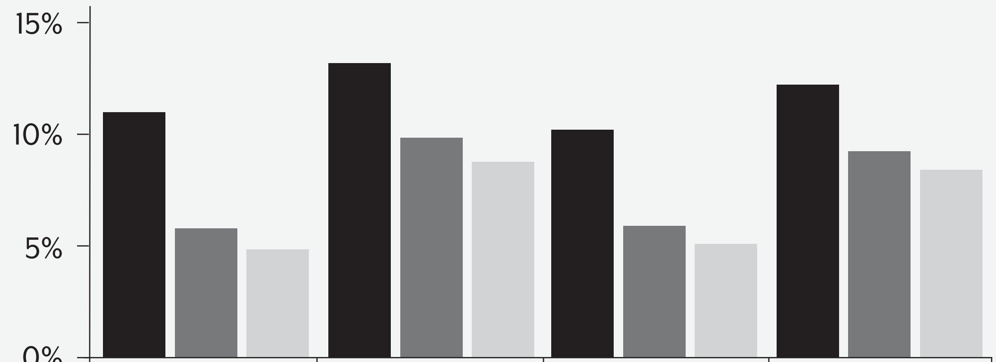
CLAYTON: A 5 percent draw from the endowment is intended to be able to take that amount of money, leaving the excess earnings in the endowment so that we have the same purchasing power five years from now, ten years from now, fifteen years from now as we do today, and that we don't start to erode that ability. To the extent that we engage in some kind of short-termism behavior, which is rampant in our society today—to get greedy and try to spend more than our endowment can really withstand—we erode our ability to have the same kind of purchasing power into the immediate and longer-term future, and we violate the trust that's been placed in us to protect this college for the long term.

BOWDOIN: Another question we get—and that other well-endowed institutions get—comes from potential donors. It goes something like this: "You have X dollars in your endowment, why do you need my money?"

MATT: There's no doubt that we are more secure financially than many other institutions, and more secure than we were thirty years ago—but the future is still uncertain. Our ability to stay in this top group of colleges and universities requires both contributions to the endowment and a return on our investments.

PAULA: I was a first-generation college student, and I would say that, with the changing demographics in our country, we are going to see more students who are the first in their families to attend college. And with the rising cost of college, we are going to see more and more really smart and capable students who are unable to come to Bowdoin without financial aid. It costs nearly $98,000 a year to educate a single Bowdoin student.

1–, 3–, 5–, and 10–Year Returns for Bowdoin Versus Peers, FY2019



	1-Year	3-Year	5-Year	10-Year
Bowdoin	**10.9%**	**13.0%**	**10.2%**	**12.0%**
Top Quartile	5.8%	9.8%	5.9%	9.1%
Median	4.9%	8.8%	5.1%	8.5%

Note: Top-quartile and median figures are for all colleges and universities as reported by Cambridge Associates

PAULA, *continued*: We charge full-pay students $71,710 a year, so every single student receives a subsidy, and that money comes from the endowment and from annual giving. That's why we need the continuing support of our loyal alumni and other donors.

CLAYTON: As Matt said, it goes back to whether we want to remain an exceptional college, which of course we do. Central to that ambition is the performance of Paula and her team, coupled with the ongoing generosity of our alumni and parents. And the only way that we can maintain our position is to be able to bring outstanding students here, to bring them regardless of their economic circumstances, and to provide them with a superb educational experience. We do that by continuing to grow the endowment.

BOWDOIN: You mentioned the performance of Paula and her team— with three-, five-, and ten-year annualized returns for Bowdoin's endowment all in the first percentile among comparative colleges and universities. What's the message to potential donors?

CLAYTON: The message is that those who provide financial support to the College can feel great about how their donations have been stewarded here. Each dollar they give grows at a substantial compounding rate, allowing us to do more and more with every single dollar they give us—better than almost any other college or university in the country.

So, when you think about investing in the educational experience here, this is an incredibly powerful way to do that. Our alumni and parents can take great pride in knowing that every dollar of their donation is put to use and grows to make Bowdoin better every day.