

2006

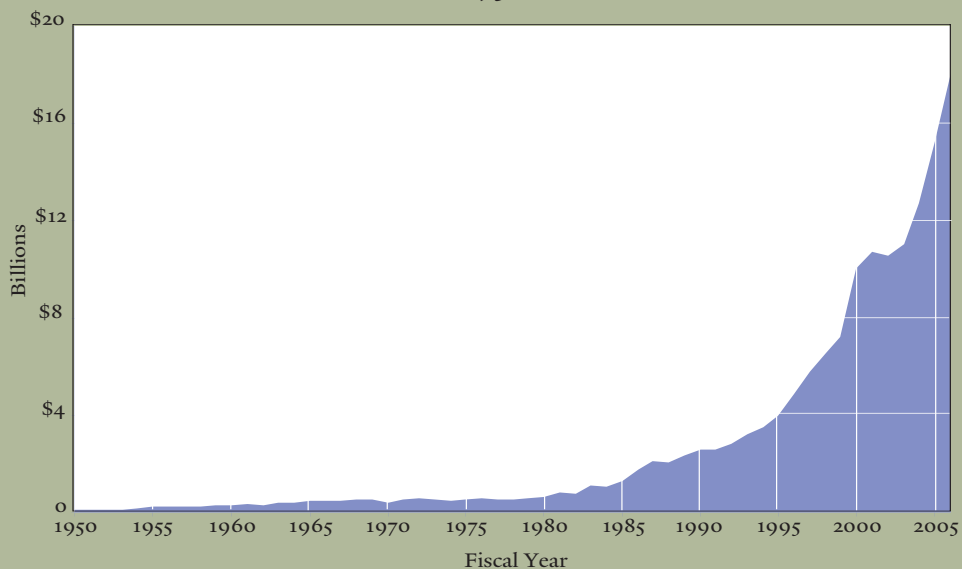
The Yale Endowment



Endowment Highlights

	Fiscal Year				
	2006	2005	2004	2003	2002
Market Value (in millions)	\$18,030.6	\$15,224.9	\$12,747.2	\$11,034.6	\$10,523.6
Return	22.9%	22.3%	19.4%	8.8%	0.7%
Spending (in millions)	\$ 615.7	\$ 567.0	\$ 502.0	\$ 470.1	\$ 409.3
Operating Budget Revenues (in millions)	\$ 1,932.4	1,768.0	1,630.8	1,553.7	1,466.6
Endowment Percentage	31.9%	32.1%	30.8%	30.3%	27.9%
Asset Allocation (as of June 30)					
Absolute Return	23.3%	25.7%	26.1%	25.1%	26.5%
Domestic Equity	11.6	14.1	14.8	14.9	15.4
Fixed Income	3.8	4.9	7.4	7.4	10.0
Foreign Equity	14.6	13.7	14.8	14.6	12.8
Private Equity	16.4	14.8	14.5	14.9	14.4
Real Assets	27.8	25.0	18.8	20.9	20.5
Cash	2.5	1.9	3.5	2.1	0.3

Endowment Market Value 1950–2006



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Front cover:
Wall carving from west façade, Sterling
Memorial Library.

Right:
A window in Trumbull College.



Introduction

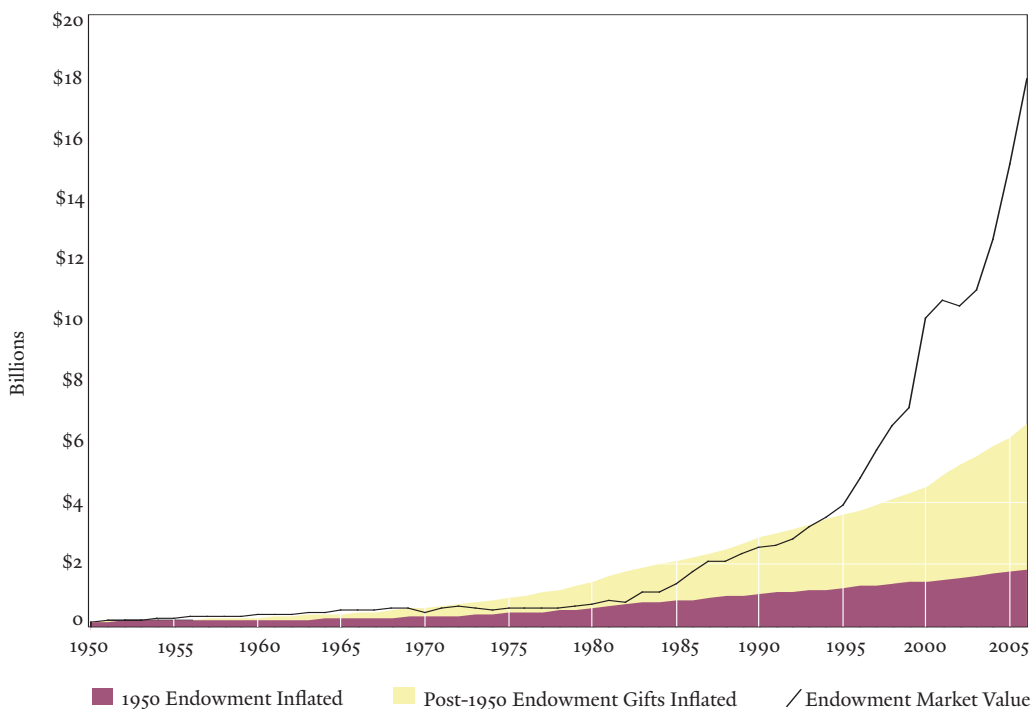
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Yale's Endowment generated extraordinarily strong results in fiscal year 2006, as investment returns of 22.9 percent produced a record-setting gain of \$3.4 billion. For the third straight year, Yale enjoyed returns in the neighborhood of twenty percent, a series of striking results in a period of moderate returns for domestic marketable securities.

Over the past ten years, the Endowment grew from \$4.9 billion to \$18.0 billion. With annual net investment returns of 17.2 percent, the Endowment's performance exceeded its benchmark and outpaced institutional fund indices. The Yale Endowment's two-decade record of 15.4 percent per annum produced a 2006 Endowment value more than ten times that of 1986. Yale's superb long-term record resulted from disciplined and diversified asset allocation policies, superior active management results, and strong capital market returns.

Spending from Endowment grew during the last decade from \$170 million to \$616 million, an annual growth rate of nearly 14 percent. On a relative basis, Endowment contributions expanded from 17 percent of total revenues in fiscal 1996 to 32 percent in fiscal 2006. Next year, spending will amount to \$676 million, or 34 percent of projected revenues. Yale's spending and investment policies have provided handsome levels of cash flow to the operating budget for current scholars while preserving Endowment purchasing power for future generations.

Endowment Growth Outpaces Inflation 1950–2006



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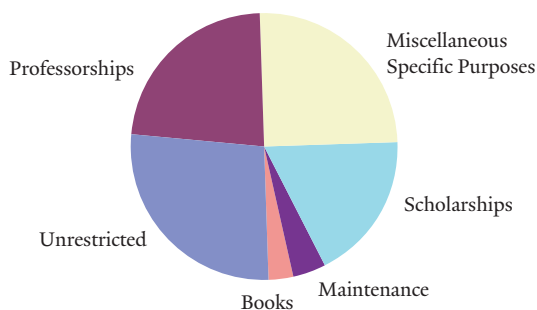
Totaling \$18.0 billion on June 30, 2006, the Yale Endowment contains thousands of funds with a variety of designated purposes and restrictions. Approximately four-fifths of funds constitute true endowment, gifts restricted by donors to provide long-term funding for designated purposes. The remaining one-fifth represent quasi-endowment, monies that the Yale Corporation chooses to invest and treat as endowment.

Donors frequently specify a particular purpose for gifts, creating endowments to fund professorships, teaching, and lectureships (23 percent), scholarships, fellowships, and prizes (18 percent), maintenance (4 percent), books (3 percent), and miscellaneous specific purposes (25 percent). The remaining funds (27 percent) are unrestricted. Thirty-four percent of the Endowment benefits the overall University, with remaining funds focused on specific units, including the Faculty of Arts and Sciences (31 percent), the professional schools (22 percent), the library (7 percent), and other entities (6 percent).

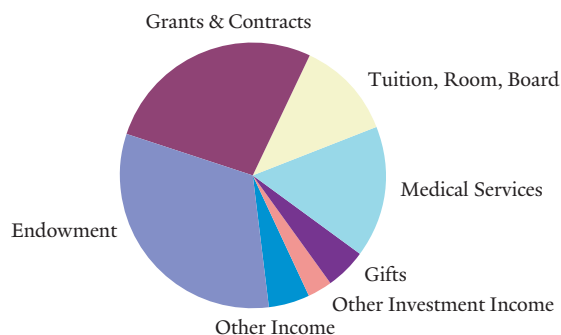
Although distinct in purpose or restriction, Endowment funds are commingled in an investment pool and tracked with unit accounting much like a large mutual fund. Endowment gifts of cash, securities, or property are valued and exchanged for units that represent a claim on a portion of the whole investment portfolio.

In fiscal 2006 the Endowment provided \$616 million, or 32 percent, of the University's \$1,932 million operating income. Other major sources of revenues were grants and contracts of \$526 million (27 percent), medical services of \$303 million (16 percent), net tuition, room, and board of \$236 million (12 percent), gifts of \$93 million (5 percent), other investment income of \$65 million (3 percent), and other income and transfers of \$94 million (5 percent).

Endowment Fund Allocation
Fiscal Year 2006



Operating Budget Revenue
Fiscal Year 2006



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Yale's portfolio is structured using a combination of academic theory and informed market judgment. The theoretical framework relies on mean-variance analysis, an approach developed by Nobel laureates James Tobin and Harry Markowitz, both of whom conducted work on this important portfolio management tool at Yale's Cowles Foundation. Using statistical techniques to combine expected returns, variances, and covariances of investment assets, Yale employs mean-variance analysis to estimate expected risk and return profiles of various asset allocation alternatives and to test sensitivity of results to changes in input assumptions.

Because investment management involves as much art as science, qualitative considerations play an extremely important role in portfolio decisions. The definition of an asset class is quite subjective, requiring precise distinctions where none exist. Returns and correlations are difficult to forecast. Historical data provide a guide, but must be modified to recognize structural changes and compensate for anomalous periods. Quantitative measures have difficulty incorporating factors such as market liquidity or the influence of significant, low-probability events. In spite of the operational challenges, the rigor required in conducting mean-variance analysis brings an important perspective to the asset allocation process.

The combination of quantitative analysis and market judgment employed by Yale produces the following portfolio:

Asset Class	June 2006	Current Target
Absolute Return	23.3%	25.0%
Domestic Equity	11.6	12.0
Fixed Income	3.8	4.0
Foreign Equity	14.6	15.0
Private Equity	16.4	17.0
Real Assets	27.8	27.0
Cash	2.5	0.0

The target mix of assets produces an expected real (after inflation) long-term growth rate of 6.3 percent with a risk (standard deviation of returns) of 11.8 percent. Primarily because of the cash holdings, the actual allocation produces a portfolio expected to grow at 6.1 percent with a risk of 11.5 percent. The University's measure of inflation is based on a basket of goods and services specific to higher education that tends to exceed the Consumer Price Index by approximately one percentage point.

At its June 2006 meeting, Yale's Investment Committee adopted a number of changes in the University's policy portfolio allocations. The combination of valuation increases in energy, timber, and real estate and recent large commitments to timber and real estate pushed the real assets allocation above its target of 25.0 percent. Based on strong investment characteristics, the Committee approved an increase in the real assets target from 25.0 percent to 27.0 percent. The Committee also increased Yale's allocation to foreign equity from 14.0 percent to 15.0 percent based on the attractive opportunities Yale's managers continue to find in inefficient emerging markets. These increases were funded by a 2.0 percentage point decrease in domestic equity to 12.0 percent and a 1.0 percentage point decrease in fixed income to 4.0 percent.

The need to provide resources for current operations as well as preserve purchasing power of assets dictates investing for high returns, causing the Endowment to be biased toward equity. In addition, the University's vulnerability to inflation further directs the Endowment away from fixed income and toward equity instruments. Hence, 96.0 percent of the Endowment is targeted for investment in assets expected to produce equity-like returns, through holdings of domestic and international securities, real assets, and private equity.

Over the past two decades, Yale reduced dramatically the Endowment's dependence on domestic marketable securities by reallocating assets to nontraditional asset classes. In 1986, 75 percent of the Endowment was committed to U.S. stocks, bonds, and cash. Today, target allocations call for 16 percent in domestic marketable securities, while the diversifying assets of foreign equity, private equity, absolute return strategies, and real assets dominate the Endowment, representing 84 percent of the target portfolio.

The heavy allocation to nontraditional asset classes stems from their return potential and diversifying power. Today's actual and target portfolios have significantly higher expected returns and lower volatility than the 1986 portfolio. Alternative assets, by their very nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. The Endowment's long time horizon is well suited to exploiting illiquid, less efficient markets such as venture capital, leveraged buyouts, oil and gas, timber, and real estate.

Asset Class Characteristics

Yale's six asset classes are defined by differences in their expected response to economic conditions, such as price inflation or changes in interest rates, and are weighted in the Endowment portfolio by considering risk-adjusted returns and correlations. The University combines these assets in such a way as to provide the highest expected return for a given level of risk.

Absolute Return

In July 1990, Yale became the first institutional investor to pursue absolute return strategies as a distinct asset class, beginning with a target allocation of 15.0 percent. Designed to provide significant diversification to the Endowment, absolute return investments seek to generate high long-term real returns by exploiting market inefficiencies. Approximately half of the portfolio is dedicated to event-driven strategies, which rely on a very specific corporate event, such as a merger, spin-off, or bankruptcy restructuring to achieve a target price. The other half of the portfolio contains value-driven strategies, which involve hedged positions in assets or securities that diverge from underlying economic value. Today, the absolute return portfolio is targeted to be 25.0 percent of the Endowment, above the average educational institution's allocation of 18.6 percent to such strategies. Absolute return strategies are expected to generate real returns of 6.0 percent with risk levels of 10.0 percent for event-driven strategies and 15.0 percent for value-driven strategies.

Unlike traditional marketable securities, absolute return investments provide returns largely independent of overall market moves. Over the past ten years, the portfolio exceeded expectations, returning 12.9 percent per year with essentially no correlation to domestic stock and bond markets.

An important attribute of Yale's investment strategy concerns the alignment of interests between investors and investment managers. To that end, absolute return accounts are structured with performance-related incentive fees, hurdle rates, and clawback provisions. In addition, managers invest a significant portion of their net worth alongside Yale, enabling the University to avoid many of the pitfalls of the principal-agent relationship.

Domestic Equity

Finance theory predicts that equity holdings will generate returns superior to those of less risky assets such as bonds and cash. The predominant asset class in most U.S. institutional portfolios, domestic equity, represents a large, liquid, and heavily researched market. While the average educational institution invests 29.1 percent of assets in domestic equities, Yale's target allocation to this asset class is only 12.0 percent. The domestic equity portfolio has an expected real return of 6.0 percent with a standard deviation of 20.0 percent. The Wilshire 5000 Index serves as the portfolio benchmark.

Despite recognizing that the U.S. equity market is highly efficient, Yale elects to pursue active management strategies, aspiring to outperform the market index by a few percentage points annually. Because superior stock selection provides the most consistent and reliable opportunity for generating excess returns, the University favors managers with exceptional bottom-up fundamental research capabilities. Managers searching for out-of-favor securities often find stocks that are cheap in relation to current fundamental measures such as book value, earnings, or cash flow. Yale's managers tend to emphasize small-capitalization stocks, as they are less efficiently priced and offer greater opportunities to add value through active management. Recognizing the difficulty of outperforming the market on a consistent basis, Yale searches for managers with high integrity, sound investment philosophies, strong track records, superior organizations, and sustainable competitive advantages.

Fixed Income

Fixed income assets generate stable flows of income, providing greater certainty of nominal cash flow than any other Endowment asset class. The bond portfolio exhibits a low covariance with other asset classes and serves as a hedge against financial accidents or periods of unanticipated deflation. While educational institutions maintain a substantial allocation to fixed income instruments and cash, averaging 17.6 percent, Yale's target allocation to fixed income constitutes only 4.0 percent of the Endowment. Bonds have an expected real return of 2.0 percent with risk of 10.0 percent. The Lehman Brothers U.S. Treasury Index serves as the portfolio benchmark.

Yale is not particularly attracted to fixed income assets, as they have the lowest historical and expected returns of the six asset classes that make up the Endowment. In addition, the government bond market is arguably the most efficiently priced asset class, offering few opportunities to add significant value through active management. Based on skepticism of active fixed income strategies and belief in the efficacy of a highly structured approach to bond portfolio management, the Investments Office chooses to manage Endowment bonds internally. In spite of an aversion to market timing strategies, credit risk, and call options, Yale manages to add value consistently in its management of the bond portfolio. Willingness to accept illiquidity leads to superior investment results without impairing the portfolio protection characteristics of high-quality fixed income.

Utility of Diversification

Economists teach “there ain’t no such thing as a free lunch.” While explicit and implicit costs permeate the field of economics, financial markets contain a marvelous exception. Harry Markowitz, pioneer of modern portfolio theory, maintains that portfolio diversification is that exceptional free lunch.

By combining assets that vary in response to forces that drive markets, well-diversified, more efficient portfolios can be created. At a given risk level, properly diversified portfolios provide higher returns than less well-diversified portfolios. For a given return level, well-diversified portfolios produce returns with lower risk. A free lunch indeed!

Yale’s Endowment pioneered diversification into alternative asset classes like absolute return, real assets, and private equity. Today the University boasts one of the most diversified institutional portfolios, with allocations to six asset classes with weights ranging from 4 percent to 27 percent. Yale’s allocations of 12 percent to domestic equity and 4 percent to fixed

income cause only 16 percent of the University’s assets to be invested in traditional U.S. marketable securities. In contrast, the average endowment has nearly 50 percent of assets in U.S. stocks, bonds, and cash.

Yale’s diversification has paid handsome rewards. In the late 1990s, significant exposure to private equity helped the Endowment keep pace with other endowments despite the University’s relatively small allocation to the booming U.S. equity market. After the Internet bubble burst in 2000, strong performance by the absolute return and real assets portfolios, which had lagged overall Endowment performance in the late 1990s, bolstered the Endowment. In fact, despite the collapse of the domestic stock market, Yale continued to generate positive returns; in the three years following the collapse, Yale returned 6.1 percent annually, while the mean return of a broad universe of college and university endowments was -1.6 percent per year. In the last three years, remarkable performance by Yale’s real assets and foreign equity portfolios, combined with solid results from

absolute return and a resurgence in private equity, enabled the Endowment to generate annualized returns of 21.5 percent. These breathtaking returns were generated in an environment where domestic equity returns were in the low double digits and bond returns were barely above zero. Diversification has been an important factor in helping Yale generate an extraordinary long-term investment record.

Going forward, Yale continues to expect superior results from its diversified approach to investing. The University’s target portfolio produces an expected real (after inflation) return of 6.9 percent with a risk (standard deviation of returns) of 11.8 percent. Using Yale’s standard capital markets assumptions, the average college asset allocation produces an expected real return of only 5.8 percent with a risk of 12.1 percent. Yale’s diversified portfolio promises higher expected returns with lower risk, providing the University with a reasonable expectation of a free lunch.



Old Campus, with a view of McClellan Hall and (at right) Linsly-Chittenden Hall.

Futility of Diversification

Sticking with portfolio diversification can be painful in the midst of a bull market. When mindless momentum strategies produce great returns, market observers wonder about the time and effort expended in creating a well-structured portfolio. Consider the recent stock market bubble. For the five years ending June 30, 2000, the S&P 500 returned an amazing 23.8 percent per year, trouncing the mean educational endowment return of 16.9 percent. Simply owning the S&P 500 would have generated a wealth multiple of 2.9 times, while the average endowment lagged with a multiple of 2.2 times.

During a roaring bull market, diversification seems to punish investors. Indeed, institutional investors who sought Markowitz's free lunch by holding foreign equities saw those diversifying assets lag terribly. During the five years when the S&P produced 20-percent-plus returns, developed foreign markets, as measured by the MSCI EAFE Index, generated an 11.3

percent annual return, while emerging markets, as measured by the MSCI EM Index, returned 1.0 percent annually. Alternative asset classes like absolute return and real assets, which generate equity-like returns with low risk, fell hopelessly behind the blistering U.S. stock market.

By the late 1990s, many investors questioned the wisdom of owning any assets other than U.S. equities, especially high-flying technology stocks, asserting the inherent superiority of American companies and the inevitable dominance of high-tech businesses. Making the mistake of extrapolating future returns from a strong historical base, investors picked the absolute worst time to abandon diversification and increase allocation to U.S. equities, as the stock market's remarkable run had brought valuations to unprecedented heights.

Not surprisingly, U.S. equity markets eventually collapsed. In the five years following June 30, 2000, the S&P 500

returned -2.4 percent per annum and the formerly popular technology stocks did even worse, with the NASDAQ Composite Index returning -11.9 percent annually. Each asset class that had dampened returns in the late 1990s – bonds, foreign equities, absolute return, and real assets – drove the Endowment to a series of positive returns in the face of an equity bear market.

In spite of the opportunity costs of diversification in the late 1990s, the University continued to believe in the importance of a properly diversified portfolio with superior risk and return characteristics. When the bull market in U.S. equities finally came to a halt in the spring of 2000, Yale was in an extremely strong position to generate handsome returns. In fact, the University's discipline of sticking with a diversified portfolio contributed to the Endowment's achievement of the top long-term record of any college or university endowment.



Linonia Courtyard in the autumn, Branford College.

Foreign Equity

Investments in overseas markets give the Endowment exposure to the global economy, providing substantial diversification along with opportunities to earn above-market returns through active management. Emerging markets, with their rapidly growing economies, are particularly intriguing, causing Yale to target more than one-half of its foreign portfolio to developing countries. Yale's foreign equity target allocation of 15.0 percent stands slightly below the average endowment's allocation of 20.0 percent. Expected real returns for emerging equities are 8.0 percent with a risk level of 25.0 percent, while developed equities are expected to return 6.0 percent with risk of 20.0 percent. The portfolio is measured against a composite benchmark of developed markets, measured by the Morgan Stanley Capital International (MSCI) Europe, Australasia, and Far East Index, and emerging markets, measured by the MSCI Emerging Markets Index.

Yale's investment approach to foreign equities emphasizes active management designed to uncover attractive opportunities and exploit market inefficiencies. As in the domestic equity portfolio, Yale favors managers with strong bottom-up fundamental research capabilities. Capital allocation to individual managers takes into consideration the country allocation of the foreign equity portfolio, the degree of confidence Yale possesses in a manager, and the appropriate asset size for a particular strategy. In addition, Yale attempts to exploit compelling undervaluations in countries, sectors, and styles by allocating additional capital and, perhaps, by hiring new managers to take advantage of the opportunities.



Wrexham Tower, from Branford College courtyard.

Private Equity

Private equity offers extremely attractive long-term risk-adjusted return characteristics, stemming from the University's strong stable of value-added managers that exploit market inefficiencies. Yale's private equity investments include participations in venture capital and leveraged buy-out partnerships. The University's target allocation to private equity of 17.0 percent far exceeds the 6.4 percent actual allocation of the average educational institution. In aggregate, the private equity portfolio is expected to generate real returns of 11.4 percent with risk of 29.0 percent.

Yale's private equity program, one of the first of its kind, is regarded as among the best in the institutional investment community. The University is frequently cited as a role model by other investors pursuing this asset class. Since inception, private equity investments have generated a 30.6 percent annualized return to the University. The success of Yale's program led to a 1995 Harvard Business School case study – "Yale University Investments Office" – by Professors Josh Lerner and Jay Light. The popular case study was updated in 1997, 2000, and 2003.

Yale's private equity assets concentrate on partnerships with firms that emphasize a value-added approach to investing. Such firms work closely with portfolio companies to create fundamentally more valuable entities, relying only secondarily on financial engineering to generate returns. Investments are made with an eye toward long-term relationships – generally, a commitment is expected to be the first of several – and toward the close alignment of the interests of general and limited partners. Yale avoids funds sponsored by financial institutions because of the conflicts of interest and staff instability inherent in such situations.



Yale University Art Gallery, Louis Kahn building;
view from Wurtele Sculpture Garden, 2006.

Real Assets

Real estate, oil and gas, and timberland share common characteristics: sensitivity to inflationary forces, high and visible current cash flow, and opportunity to exploit inefficiencies. Real assets investments provide attractive return prospects, excellent portfolio diversification, and a hedge against unanticipated inflation. Yale's 27.0 percent long-term policy allocation significantly exceeds the average endowment's commitment of 8.4 percent. Expected real returns are 6.0 percent with risk of 15.0 percent.

The real assets portfolio plays a meaningful role in the Endowment as a powerful diversifying tool and a generator of strong returns. Real assets provide relative stability to the Endowment during periods of public market turmoil, at the price of an inability to keep pace during bull markets. Pricing inefficiencies in the asset class and opportunities to add value allow superior managers to generate excess returns over a market cycle. Since inception in 1978 the portfolio has returned 17.4 percent per annum.

The illiquid nature of real assets combined with the expensive and time-consuming process of completing transactions create a high hurdle for casual investors. Real assets provide talented investment groups with the opportunity to generate strong returns through savvy acquisitions and managerial expertise. A critical component of Yale's investment strategy is to create strong, long-term partnerships between the Investments Office and its investment managers. In the last decade Yale played a critical role in the development and growth of more than a dozen organizations involved in the management of real assets.

Asset Allocations

	Yale University	Educational Institution Mean
Absolute Return	23.3%	18.6%
Domestic Equity	11.6	29.1
Fixed Income	3.8	14.3
Foreign Equity	14.6	20.0
Private Equity	16.4	6.4
Real Assets	27.8	8.4
Cash	2.5	3.3

Data as of June 30, 2006

Unusual Gifts

While the vast majority of gifts to Yale come in the form of cash and marketable securities, on occasion the University receives donations of real property. Notable items range from patented mining claims to a Lincoln-autographed copy of the Emancipation Proclamation to intellectual property rights on musical works. Although many unusual items are sold, some are maintained for use by students and faculty.

Nine patented mining claims located in Nevada came to the University in 1955 as part of the estate of Katherine Kilborn. When a mineral patent is granted by the United States government, it confers a fee-simple title to public lands to the holder. In this case, the patents were issued in the 1920s and 1930s by Presidents Herbert Hoover and Warren Harding. In order to obtain a mineral patent, the applicant had to demonstrate to the United States government that minerals existed within the claims in sufficient quantity to provide a living and that the claims were materially improved for such mining.

As part of the Kilborn bequest, the University acquired approximately 86 acres of mountainous land overlooking the Washoe Valley, near Reno, Nevada. Even though the mines never produced any significant amount of minerals, the land ultimately proved to have value for residential development.

In the late nineteenth century, Yale's first professor of paleontology, O.C. Marsh, who was also instrumental in founding the Yale Peabody Museum, led student expeditions into the American West. In 1877, inspired by a newspaper account of the Marsh project, several students in their senior year at Princeton embarked on their own expedition to the Bridger Basin. The results were published as the *Paleontological Report of the Princeton Scientific Experiment of 1877*. Princeton's emphasis on fossil invertebrate fieldwork continued until the collections were transferred to the Yale Peabody Museum in 1985. Noteworthy fossils in the collection include beautifully preserved saber-toothed cat skulls, the earliest known and most complete fossil bat, a Green River fish slab with one fish devouring the other, important collections of mammals from Argentina and Bolivia, and the famous fossils of a large herbivorous dinosaur and its baby offspring.

In 2001, Douglass Campbell (B.A. 1941) left his collection of nearly 100 presidential letters, documents, and signed photographs to Yale University. Over a twenty-



The collection of fossils from the American West acquired from Princeton University in 1985 includes *Icaronycteris index*, a bat found in sediments of the Green River Formation. This is the oldest known bat fossil and is exquisitely preserved. The specimen includes the full skeleton, as well as remnants of cartilage and wing membranes. The fossil suggests that bats had fully evolved flight by the Eocene, approximately 55 million years ago.

five-year period, Campbell gathered items that were handwritten or signed during the president's term of office. Among the noteworthy documents in the collection were letters penned by George Washington, Dwight Eisenhower, and Ronald Reagan; a photograph signed by John Kennedy; and a copy of the Emancipation Proclamation signed by Abraham Lincoln. The donor expressly authorized the University to sell the collection, with the understanding that proceeds from the sale were to be added to the Douglass and Marion Campbell Professorship Endowment in the Department of Economics.

The papers of Vladimir Horowitz and Wanda Toscanini Horowitz, donated to the School of Music, include a range of tangible personal property such as correspondence, photographs, recordings, tapes, articles, and Horowitz's Steinway. Among the highlights of the collection are 218 original, unpublished recordings of Carnegie Hall concerts that acclaimed pianist Vladimir Horowitz gave during the 1940s and 1950s.

The estate of Wanda Toscanini Horowitz provided additional financial support, which was placed in an endowment fund for the collection's maintenance, protection, and preservation. Additionally, Yale received an interest in the copyrights, royalties, and certain contracts related to the recorded performances of Maestro Horowitz and Maestro Toscanini. The copyrights are special endowment investments managed externally by a licensing agent familiar with protecting and promoting the works of world-renowned classical recording personalities. The goal of the manager is to preserve the artistic integrity and reputation of the maestros' works and maximize royalty returns from the Toscanini and Horowitz copyrights.

Bequeathed to the University by his widow, Carlotta Monterey O'Neill, the papers of Eugene O'Neill document his life and work. The collection spans the period from 1872 to 1970, with the bulk of the material dating from the 1930s to the 1950s, and includes books and papers relating to O'Neill's career, portraits of himself, artwork relating to performances, as well as the copyrights to and royalties of his literary canon. O'Neill wished not only for the preservation of the bequeathed collection, but also for the enhancement of the Yale School of Drama. Royalties from his works support the Eugene O'Neill Collection, the purchase of books in the field of drama, and the establishment of Eugene O'Neill Scholarships to be given to worthy students of playwrighting.

Yale's widely disparate group of generous donors find a broad range of ways to support the University. Whether in the form of a decades-old mining claim or a modern-day electronic funds transfer, donors ensure that current and future scholars will benefit from a truly world-class educational environment.

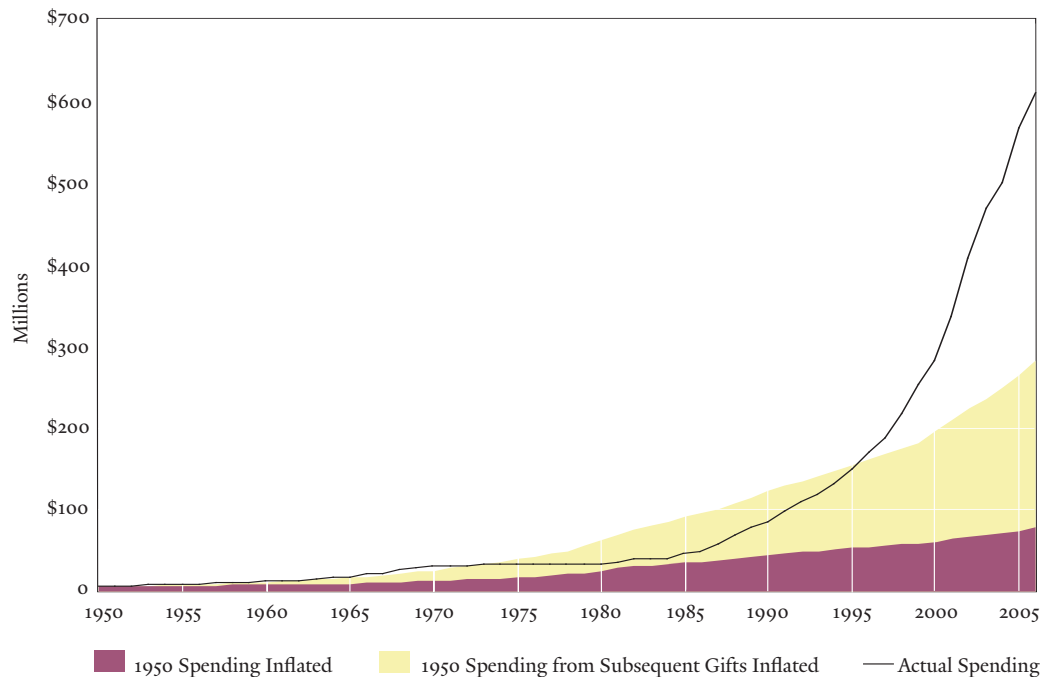
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The spending rule is at the heart of fiscal discipline for an endowed institution. Spending policies define an institution's compromise between the conflicting goals of providing substantial support for current operations and preserving purchasing power of Endowment assets. The spending rule must be clearly defined and consistently applied for the concept of budget balance to have meaning.

Yale's policy is designed to meet two competing objectives. The first goal is to release substantial current income to the operating budget in a stable stream, since large fluctuations in revenues are difficult to accommodate through changes in University activities or programs. The second goal is to protect the value of Endowment assets against inflation, allowing programs to be supported at today's level far into the future.

Yale's spending rule attempts to achieve these two objectives by using a long-term spending rate combined with a smoothing rule that adjusts spending gradually to changes in Endowment market value. The amount released under the spending rule is based on a weighted average of the prior year's spending adjusted for inflation and an amount determined by applying the target rate to the current Endowment market value.

Spending Growth Surpasses Inflation 1950-2006



The spending rule has two implications. First, by incorporating the previous year's spending the rule eliminates large fluctuations, enabling the University to plan for its operating budget needs. Over the last twenty years, annual changes in spending have been one-third as volatile as annual changes in Endowment value. Second, by adjusting spending toward the long-term target spending level, the rule ensures that spending will be sensitive to fluctuating Endowment market values, providing stability in long-term purchasing power.

Despite the conservative nature of Yale's spending policy, distributions to the operating budget rose from \$170 million in fiscal 1996 to \$616 million in fiscal 2006. The University projects spending of \$676 million from the Endowment in fiscal 2007, representing 34 percent of revenues.



The walkway connecting the courtyards of Saybrook and Branford Colleges.

Endowed Funding for Building Maintenance

Yale's massive physical plant includes approximately 240 academic buildings with nearly 13 million square feet of space on 225 acres, providing support for about 19,000 students, faculty, and staff. With a replacement cost of \$6.1 billion (that is, to reconstruct Yale's facilities today would cost \$6.1 billion), the physical plant represents a significant University asset.

Endowment funds for building maintenance are an important source of financial support. The earliest examples of this type of endowment were established to maintain existing buildings. One notable fund, established in 1914, was a bequest from Lord Strathcona and Mount Royal (LL.D. 1892), a Scottish-born Canadian railroad magnate and philanthropist. Yale used the funds for the maintenance of Strathcona Hall (now known as Sheffield-Sterling-Strathcona Hall, or SSS in current campus lingo), an academic facility named in his honor. His bequest also provided two professorships and a graduate fellowship in the sciences. Another physical plant endowment came from Henry P. Wright (B.A. 1868), the popular first dean of Yale College, who left a bequest in 1944 for the upkeep of Wright Hall, the Old Campus residence hall named for him. In addition, one of Yale's most generous benefactors, Paul A. Mellon (B.A. 1929), contributed \$500,000 in 1952 for the renovation and ongoing maintenance of Connecticut Hall,



Philanthropist John W. Sterling (B.A. 1864) at left, photographed with his Yale College roommate, Clinton L. Conkling, in their student residence in Connecticut Hall in 1863. Mr. Sterling's 1923 bequest to the University supported the creation of several buildings, along with an endowed fund for their maintenance.

which, dating to 1752, is the oldest existing structure on campus.

The year 1923 saw the creation of two important endowed maintenance funds based on a new model. Whereas previous donors had come forward with endowment gifts for the preservation of existing buildings, these two funds were established by the donor at the time of construction of the original building. A gift of \$250,000 from William Henry Sage (B.A. 1865) led to the building of Sage Hall for the School of Forestry & Environmental Studies (then known as the School of Forestry). Sage gave an additional \$50,000 to ensure its continuing maintenance. Building maintenance funds of more than \$3 million were part of the historic Sterling bequest, left by John William Sterling (B.A. 1864) when he funded a series of buildings that included Sterling Memorial Library, the Hall of Graduate Studies, the Law Buildings, the Hall of Medicine, and Sterling Divinity Quadrangle.

Other donors have contributed endowed funds to maintain buildings that they, or members of their family, gave to Yale. In 1927, William H. Harkness (B.A. 1922) established a fund with a gift for the maintenance of the classroom building that is named for his father, William L. Harkness (B.A. 1881), and is known simply as WLH. In 1960, C. Mahlon Kline (PH.B. 1901), donor of the Kline Science Center, allocated a generous amount for its maintenance. Funds from various sources were combined, in 1963, to establish a similar endowment for the upkeep of Kline Geology Laboratory. Members of the Beinecke family created the Beinecke Rare Book and Manuscript Library Maintenance Fund (1963) which covers some administrative charges as well as building upkeep.



Paul Mellon (B.A. 1929), one of the University's most generous benefactors, made possible the extensive renovation of Connecticut Hall, on Old Campus, in 1952 and provided a permanent fund for upkeep of the building, the oldest at Yale.

More recently, in 1986 Richard N. Rosenfeld (B.A. 1963) allocated funds for ongoing maintenance of Rosenfeld Hall after his original contribution funded the overhaul of this annex to Timothy Dwight College, which contains student rooms as well as classroom and meeting space. Monroe A. Jubitz, Sr. (B.A. 1939) and Virginia Anne Gilder (B.A. 1979) established endowments for the maintenance of Gilder Boathouse in 2000 and 2001, shortly after construction of Yale's new crew facility on the Housatonic River.

The most significant of Yale's endowed building funds, as a proportion of the total building cost, is the Luce Hall Maintenance Endowment, established in 1996 by the Henry Luce Foundation. For the maintenance of Luce Hall, the foundation made a gift equal to half the amount that financed the construction of the building itself. Luce Hall houses the Whitney and Betty MacMillan Center for International and Area Studies at Yale.

The need to restore and maintain Yale's legacy of existing buildings remains crucial. In recognition of this need, donors have added to the University's endowed maintenance funds. Sid R. Bass (B.A. 1965), who served on the Yale Corporation from 1982 to 1994, made a significant gift in 1995 for the Sid R. Bass Classroom Improvement Fund. He also contributed generously to extensive renovations of William L. Harkness Hall and Linsly-Chittenden Hall. In 1973 a bequest from John C. Outhet (B.S. 1924) provided endowed funding for maintenance and repair of the Becton Center for Engineering and Applied Science, built in 1970, and in 1996 a similar endowment was established using gifts from donors including Henry P. Becton (B.S. 1937).

Altogether, the current market value of Yale's building maintenance funds totals approximately \$565 million. The figure, while impressive, provides only a small portion of the amount actually needed to maintain Yale's buildings; in accordance with Yale's spending rule, building maintenance funds distributed a total of approximately \$19 million in 2006. With the University currently spending more than \$200 million annually on renovations, Yale would benefit from more endowed funding to ensure permanent upkeep of the campus that, aside from historic importance and beauty in its own right, directly contributes to the quality of the Yale teaching and learning experience.

The Capital Replacement Charge

Maintaining the University's facilities at a level that is competitive with other top universities is critical to preserving Yale's position as a preeminent educational institution. In the past, educational institutions failed to include the funding of physical plant maintenance in their budgets, with the result that many institutions suffered dramatic deterioration in their physical plants, even as they reported balanced budgets. To understand the economic reality of capital consumption required a new approach. Yale's innovative solution, the Capital Replacement Charge (CRC), incorporates a line item in Yale's annual budget that reflects the true economic cost of wear and tear on Yale's buildings.

Historically, Yale followed a pay-as-you-go approach, relying almost exclusively on discretionary funds to address capital maintenance projects as they arose. When work needed to be done, the University secured money from any source it could, including the operating budget, gifts, and borrowing. This approach worked during periods of economic strength, but in the 1970s, when Yale, along with other universities, confronted financial difficulties, the University focused its scarce resources on critical operating expenses, necessarily reducing the money spent on facilities. The result was a sharp cutback in the long-term maintenance performed on Yale's physical plant. By the late 1980s, nearly two decades of underinvestment left Yale's campus in a state most kindly described as genteel poverty.

The deterioration of Yale's physical plant raised a fundamental question: how had Yale balanced budgets throughout the 1970s, even as the state of its facilities clearly declined? The answer lay in the quirks of the accounting conventions used by educational institutions. Yale's financial statements, like those of other universities, did not include a depreciation charge (which is meant to approximate the decline in value of physical assets in a given year) until 1990, and even after depreciation was introduced, it was based on the historical cost of buildings, unadjusted for changes in market values or inflation. In other words, until 1990, Yale did not account at all for the decline in its physical assets; after 1990, the University did so at a level that dramatically understated economic reality, because depreciation was based on values that were out of date by years, if not decades or centuries.

Based on standard accounting conventions, up until the 1990s Yale reported

balanced budgets, even as its physical assets declined. In reality, revenues did not match Yale's true costs, which should have included the very real expenses for physical plant maintenance that are accumulated each year. Clearly, every building must eventually be renovated or replaced; a building's use by students and faculty in a year brings the need for maintenance spending closer. Therefore, a truly balanced budget must include the costs of each year's capital consumption. But, because the educational community had focused on balancing budgets that did not include an accurate (or even any) depreciation charge, college and university budgets contained insufficient funds for physical plant maintenance. This was not fair to future generations, who would be disadvantaged with lesser facilities or who would be forced to fund a disproportionate amount of capital spending.

In the late 1980s and early 1990s, Yale regained financial strength, allowing it to address the growing problems in its physical plant. In 1996, Yale began incorporating in the budget depreciation charges that more closely matched economic reality. Even so, a comprehensive policy was needed to preserve inter-generational equity and ensure that the University maintained state-of-the-art facilities. In short, Yale needed a policy that kept the value of its physical plant in equilibrium. Much as a prudent endowment spending rule maintains the endowment's purchasing power so as not to disadvantage future generations of scholars, a responsible approach to building maintenance requires devoting adequate current resources, on a

smoothed, annual basis, to maintain the character and quality of Yale's physical plant.

The Yale Corporation adopted the Capital Replacement Charge in 2003 to put the maintenance of its physical plant in equilibrium. Under the program, the University includes in its operating budget a charge that reflects the true annual cost of long-term maintenance. To come up with an accurate assessment of capital charges, outside architects, working closely with Yale staff, analyzed the campus, building by building. By drilling down to a level of detail that factored in an individual building's windows and doorknobs, the University estimated the useful life of each building and the eventual replacement or renovation costs. With a detailed assessment of the likely timing and cost of future maintenance, Yale calculated an estimated level of annual support needed to fund long-term maintenance; in 2006, that figure totaled \$164 million, or approximately 2.7 percent of the estimated \$6.1 billion replacement value of Yale's facilities.

Because funding the full CRC at its inception would have been disruptive to Yale's programs, the University has been gradually incorporating the CRC in the budget. In 2006 the operating budget contributed \$98 million of the \$164 million capital replacement equilibrium level. The University expects to fund the full CRC in its operating budget by 2010. With the introduction of the CRC and the discipline it imposes, Yale ensures that both current and future generations of scholars will benefit from Yale's extraordinary physical assets.



The Beinecke Rare Book and Manuscript Library, shown during construction in 1961–1963, is one of relatively few campus buildings for which a maintenance endowment has been created (the gift of members of the Beinecke family).

Investment Performance

5

Performance by Asset Class

Yale has produced excellent investment returns. Over the ten-year period ending June 30, 2006, the Endowment earned an annualized 17.2 percent return, net of fees, placing it in the top one percent of large institutional investors. Endowment outperformance stems from sound asset allocation policy and superior active management.

Yale's long-term superior performance relative to its peers and benchmarks creates substantial wealth for the University. Over the ten years ending June 30, 2006, Yale added \$8.5 billion relative to its composite benchmark and \$9.1 billion relative to the average return of a broad universe of college and university endowments.

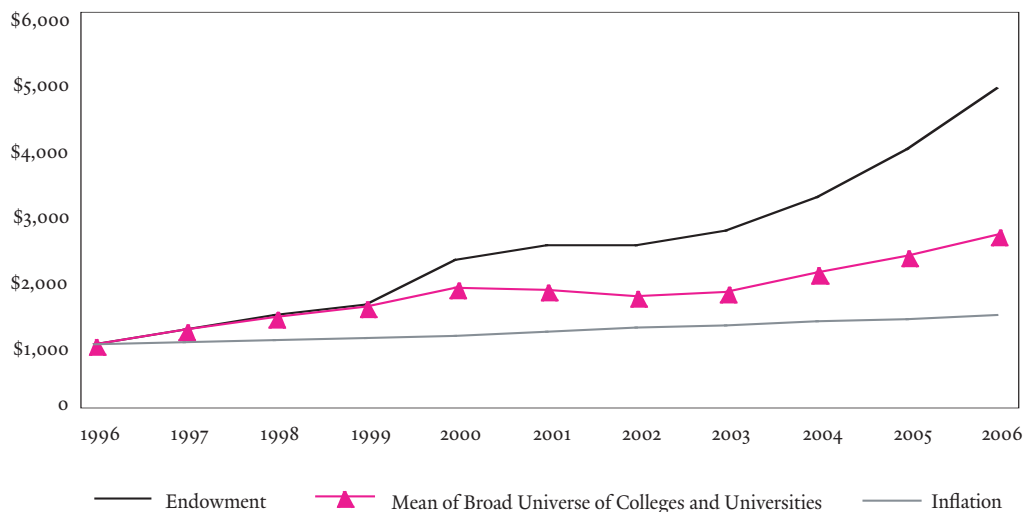
Yale's long-term asset class performance continues to be outstanding. In the past ten years every asset class posted superior returns, significantly outperforming benchmark levels.

Over the past decade, the absolute return portfolio produced an annualized 12.9 percent, exceeding the passive benchmark of the One-Year Constant Maturity Treasury plus 6 percent by 2.4 percent per year and besting its active benchmark of hedge fund manager returns by 1.2 percent per year. For the ten-year period, absolute return results exhibited essentially no correlation to traditional marketable securities.

For the decade ending June 30, 2006, the domestic equity portfolio returned an annualized 14.2 percent, outperforming the Wilshire 5000 by 5.7 percent per year and the Russell Median Manager return by 5.2 percent per year. Yale's active managers have added value to benchmark returns primarily through stock selection.

Yale's internally managed fixed income portfolio earned an annualized 6.6 percent over the past decade, exceeding the Lehman Brothers Treasury Index by 0.5 percent per year and the Russell Median Manager return by 0.2 percent per year. By making astute security selection decisions and accepting illiquidity, the Endowment benefited from excess returns without incurring material credit or option risk.

Yale's Performance Exceeds Peer Results
1996 to 2006, 1996 = \$1,000

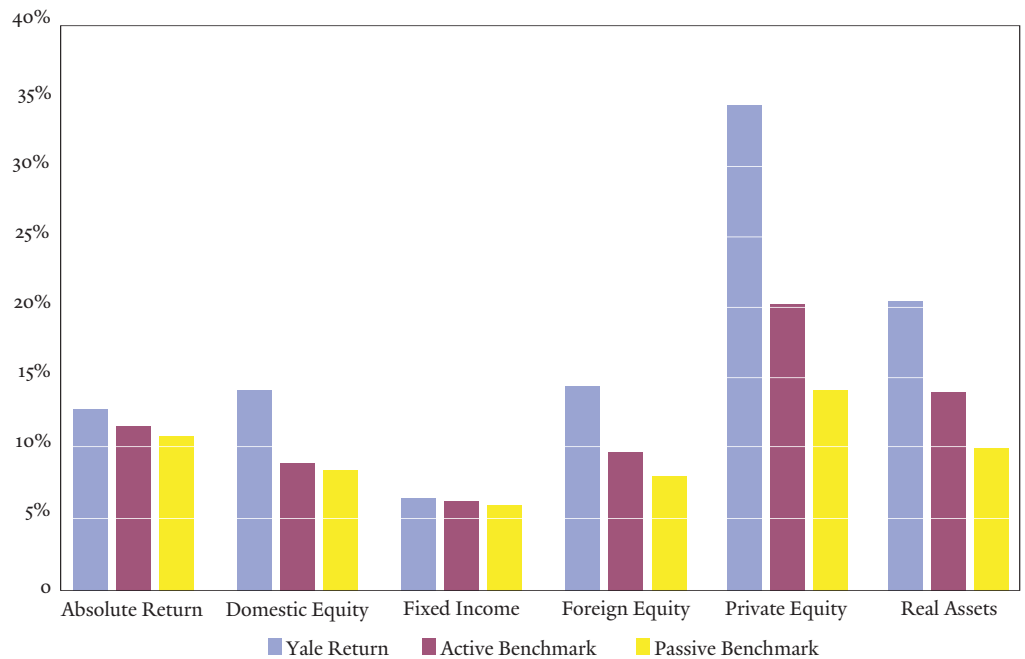


The foreign equity portfolio generated an annual return of 14.5 percent over the ten-year period, outperforming its composite benchmark by 6.4 percent per year and the Russell Median Manager return by 4.7 percent per year. The portfolio's excess return is due to effective security selection and country allocation by active managers.

Results from Yale's non-marketable assets demonstrate the value of superior active management. Private equity earned 34.4 percent annually over the last ten years, outperforming the passive benchmark of University inflation plus 10 percent by 20.2 percent per year and the return of a pool of private equity managers compiled by Cambridge Associates by 14.1 percent per year. Since inception in 1973, the private equity program has earned an astounding 30.6 percent per annum.

Real assets generated a 20.5 percent annualized return over the ten-year period, outperforming the passive benchmark of University inflation plus 6.0 percent by 10.4 percent per year and an active benchmark of real assets manager returns by 6.5 percent per year. Yale's outperformance is due to the successful exploitation of market inefficiencies and timely pursuit of contrarian investment strategies.

Yale Asset Class Results Trounce Benchmarks 1996 – 2006



Active Benchmarks

Absolute Return: CSFB Composite
Domestic Equity: Frank Russell Median Manager, U.S. Equity
Fixed Income: Frank Russell Median Manager, Fixed Income
Foreign Equity: Frank Russell Median Manager Composite, Foreign Equity
Private Equity: Cambridge Associates Composite
Real Assets: NCREIF and Cambridge Associates Composite

Passive Benchmarks

Absolute Return: 1-year Constant Maturity Treasury + 6%
Domestic Equity: Wilshire 5000
Fixed Income: Lehman Brothers Treasury Index
Foreign Equity: 50% MSCI EAFE Index, 50% MSCI EM Index
Private Equity: University Inflation + 10%
Real Assets: University Inflation + 6%

Management and Oversight

6

Since 1975, the Yale Corporation Investment Committee has been responsible for oversight of the Endowment, incorporating senior-level investment experience into portfolio policy formulation. The Investment Committee consists of at least three Fellows of the Corporation and other persons who have particular investment expertise. The Committee meets quarterly, at which time members review asset allocation policies, Endowment performance, and strategies proposed by Investments Office staff. The Committee approves guidelines for investment of the Endowment portfolio, specifying investment objectives, spending policy and approaches for the investment of each asset category. Twelve individuals currently sit on the Committee.

Investment Committee

Charles D. Ellis '59, Chairman
*Former Managing Partner
Greenwich Associates*

Henry F. McCance '64
*Chairman
Greylock Management*

G. Leonard Baker '64
*Managing Director
Sutter Hill Ventures*

Jane L. Mendillo '80, '84 MBA
*Chief Investment Officer
Wellesley College*

Joshua Bekenstein '80
*Managing Director
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William I. Miller '78
*Chairman
Irwin Financial Corporation*

Shauna King
*Vice President Finance & Administration
Yale University*

Theodore P. Shen '66
*Former Chairman
DLJ Capital Markets*

James Leitner '75
*President
Falcon Investment Management*

Douglas A. Warner, III '68
*Former Chairman of the Board
J.P. Morgan Chase & Co.*

Richard C. Levin '74 PH.D.
*President
Yale University*

Fareed Zakaria '86
*Editor
Newsweek International*

The Investments Office manages the Endowment and other University financial assets, and defines and implements the University's borrowing strategies. Headed by the Chief Investment Officer, the Office currently consists of twenty professionals.

Investments Office

David F. Swensen '80 PH.D.
Chief Investment Officer

Anne Martin
Associate Director

Dean J. Takahashi '80, '83 MPPM
Senior Director

David B. Slifka '01
Senior Associate

Alexander C. Banker
Director

Celeste P. Benson
Senior Portfolio Manager

Alan S. Forman
Director

Shuba V. Raghavan
Senior Research Associate

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Deborah S. Chung
Associate General Counsel

Daniel G. Kilpatrick '03
Senior Financial Analyst

Kenneth R. Miller '71
Associate General Counsel

R. Alexander Hetherington '06
Financial Analyst

Peter H. Ammon '05 MBA, '05 MA
Associate Director

Dennis Hong '05
Financial Analyst

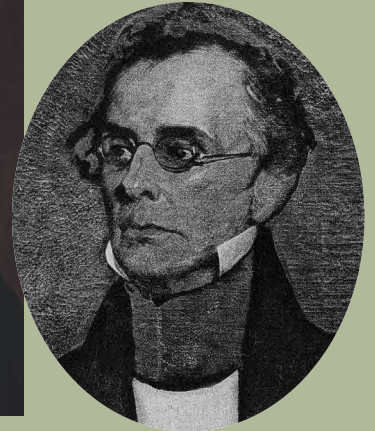
Michael E. Finnerty
Associate Director

Nicholas T. Shalek '05
Financial Analyst

Randy Kim '98, '04 MBA
Associate Director

Xiaoning Wu '04
Financial Analyst

Yale Law School and the Endowment



The world-renowned Yale Law School traces its origins to the modest offices of a practicing New Haven attorney, Seth Staples (B.A. 1797). Staples, who went on to win fame as a lawyer in the historic Amistad case of 1839, set up a law practice in the early years of the nineteenth century and began training students in the law.

When Staples moved to New York in the 1820s, the small New Haven firm passed to his partner, Samuel Hitchcock (B.A. 1809), who continued the apprenticeship program. Judge David Daggett (B.A. 1783), a former U.S. senator, joined Hitchcock and began lecturing in Yale College on public law and government. In 1843, the first Yale law degree was granted. Staples, Hitchcock, and Daggett are considered the founders of the School, which honors the three by incorporating visual references to their names in its coat-of-arms.

Judge Daggett earned the distinction of being the first incumbent of an endowed chair in law at Yale upon his appointment in 1833 as the Chancellor Kent Professor of Law. The professorship was named in honor of James Kent (B.A. 1781), who became the first law professor at Columbia in 1793 and later rose to the offices of chief justice and chancellor of the state of New York. Among Judge Daggett's successors as Kent Professor is former U.S. president and Supreme Court chief justice William H. Taft (B.A. 1878). The fund continues to support a faculty chair, held today by Professor Robert W. Gordon, a specialist in contracts, American legal history, evidence, the legal profession, and law and globalization.

During the late nineteenth century, the Law School, like the rest of Yale, progressed from an institution of great regional influence to one with a national impact. Certainly, endowed funds continued to recognize home state figures such as James E. English, a U.S. senator and governor of

Yale Law School recognizes as its founders three New Haven attorneys and teachers, whose law classes were offered by Yale College in the early nineteenth century: Seth Staples (B.A. 1797), center, whose name was symbolized in the School's coat-of-arms by the silver staples; David Daggett (B.A. 1783), left, whose family name was sometimes spelled "Doggett," as the dog in the shield indicates; and Samuel Hitchcock (B.A. 1809), whose family heraldic motif was a crocodile. The Law School arms were designed by Theodore Sizer, professor of the History of Art at Yale from 1927 to 1957.

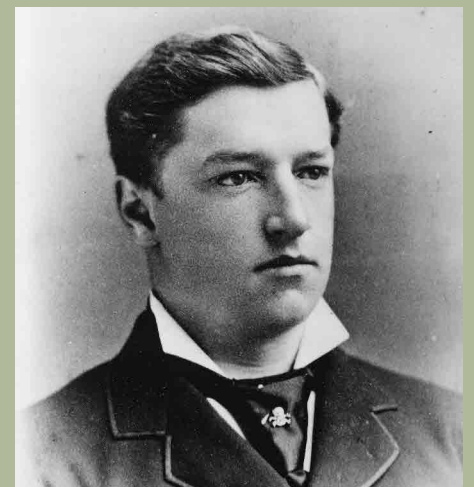
Connecticut, and William Storrs, a long-time law professor who was chief justice of the state of Connecticut. At the same time, the expanding scope of the School was reflected in the Morgan Fund, created in 1887 by Junius S. and J. Pierpont Morgan (LL.D. 1908), scions of the J. P. Morgan family, to establish the Edward J. Phelps Professorship. Phelps, a co-founder of the American Bar Association and its president from 1880 to 1881, taught at Yale Law School and served as ambassador to Great Britain, comptroller of the U.S. Treasury, and senior counsel for the United States in the Bering Sea controversy. The most recent incumbent of the Phelps chair was Anthony T. Kronman, a former dean of the School.

The national import of the Yale Law School is reflected in part by the three U.S. presidents who are associated with the School—William H. Taft, Gerald R. Ford, and William J. Clinton. Taft served on the Law School faculty from 1913 to 1921, between his term as the twenty-seventh U.S. president and his appointment as chief justice of the Supreme Court. President Taft was commemorated in 1941 with the creation of the Taft Law Library Endowment Fund, the gift of a group of Yale Law School graduates led by John A. Hooper (LL.B. 1891), a man whose generosity resulted in the creation of thirty-eight separate endowed funds at Yale.

In 1980 a group of classmates instituted the Gerald R. Ford Fund to honor the thirty-eighth U.S. president, who received his LL.B. from Yale Law School in 1941.

The Ford Fund supports "a program of teaching and research on the interaction of law and public policy" involving distinguished visiting faculty, research fellows, teaching materials, seminars, colloquia, and publications.

In addition to President Taft, fifteen Supreme Court justices have been affiliated with the Law School. Justice William Douglas (1898-1980) was commemorated by the William O. Douglas Clinical Professorship of Law (1989), through a gift in memory of Gordon Bradford Tweedy (B.A. 1929, LL.B. 1932). Douglas joined the Law School faculty in 1928 and



William H. Taft (B.A. 1878) taught at the Law School from 1913 to 1921 after serving as the twenty-seventh president of the United States and before his appointment as chief justice of the U.S. Supreme Court. A total of fifteen Supreme Court justices have been affiliated with the School.



William O. Douglas, a member of the Law School faculty from 1928 to 1934, went on to head the Securities and Exchange Commission and was appointed to the Supreme Court in 1939. He is seen here during his career as a student debater.

left in 1934 for the nation's capital, where he served on and later chaired the U.S. Securities and Exchange Commission. Appointed by President Franklin D. Roosevelt to the Supreme Court in 1939, he remained an associate justice until 1975, a record tenure. Stephen Wizner, the current Douglas Clinical Professor, has taught and supervised students in the Law School's clinical program, and has taught non-clinical courses in trial practice, evidence, and ethics.

Potter Stewart (B.A. 1937, LL.B. 1941) served on the U.S. Supreme Court from 1958 to 1981, under Chief Justices Earl Warren and Warren Burger. A moderate on the Court, Stewart refused President Richard Nixon's offer of nomination to chief justice, choosing to continue on the bench as an associate justice for another twelve years. His papers reside in the Yale University Library, where they are sealed until the departure from the Court of the last justice who served with him. In 1986, his family, friends, and former law clerks created a professorship in his memory, the Potter Stewart Professorship of Constitutional Law, through which the holder of the chair offers courses both at the Law School and in Yale College. The incumbent since 1992 has been Paul Gewirtz, who also directs the Law School's China Law Center.

Numerous Law School graduates have served in Cabinet positions or in the U.S. Congress. Created in 1986 by contributions from IBM, the Nicholas de B. Katzenbach (LL.B. 1947) Professorship supports a scholar engaged "in Public Law or other branch of advanced legal scholarship." Katzenbach, a graduate of the Law School

and a member of its faculty from 1952 to 1956, had a distinguished career in government that included service as the 65th attorney general of the United States and as under secretary of state. From 1969 to 1986 he worked for IBM. The Katzenbach chair has been held by faculty members Burke Marshall, Paul Kahn, and, since 1999, Reva Siegel, who writes and teaches about constitutional law, antidiscrimination law, legal history, and inequality from diverse disciplinary perspectives.

Some endowments honor less well known political figures. Judah P. Benjamin (1811-84), born to English parents in the British West Indies and raised in the American South, attended Yale as a teenager from 1825 to 1828, but did not graduate. He practiced law in New Orleans, before winning election to the U.S. Senate in 1852 and 1858, reportedly the second man of Jewish descent to serve in that body. In February 1861 he resigned his Senate seat to join the cabinet of the Confederate South, holding successive posts as attorney general, secretary of war, and secretary of state. After the defeat of the Confederacy in 1865, Benjamin donned a disguise to escape by way of Florida, then made his way to the island of Bimini and finally to England. He practiced law in that country for the rest of his professional life, before spending his retirement in France. Benjamin won respect for his legal writings, declined President Franklin Pierce's

offer of a U.S. Supreme Court nomination in 1854, and later urged Jefferson Davis to free the slaves to help staff the Confederate army. The donor who endowed this library fund in Benjamin's name chose to identify himself only as "a New York lawyer."

A chair at the Law School is named for practicing lawyer David Boies, chairman of the firm Boies, Schiller and Flexner, who received his LL.B. magna cum laude from Yale in 1966 and served as chief counsel and staff director of the U.S. Senate Antitrust Subcommittee in 1978 and of the U.S. Senate Judiciary Committee in 1979. Winner of prominent awards and a respected author, Boies is well known as counsel to the Federal Deposit Insurance Corporation in litigation to recover losses for failed savings and loan associations in the early 1990s, as special trial counsel for the U.S. Department of Justice in its antitrust suit against Microsoft in the late 1990s, and as the lead counsel for former Vice President Al Gore in the aftermath of the 2000 presidential election. The Boies chair is to be held by a faculty member who exemplifies the "intelligence, imagination, and judgment that have been the hallmark of David Boies's exceptional career in the law." The first incumbent of the chair is Professor Robert C. Post, a specialist in constitutional law, the First Amendment, legal history, and affirmative action.

Some noteworthy funds that honor historical figures include: the Benjamin N.



The Law School Class of 1883 gathered for its twenty-fifth reunion, along with some faculty members (seated in middle row). One classmate came from Chile for the occasion. The Law School in those days was located in Hendrie Hall.

Cardozo Prize (1947), the gift of an anonymous donor in honor of Justice Cardozo, who served on the U.S. Supreme Court from 1932 to 1938; the W. Averell Harriman Fund (1963), established by a gift from W. Averell Harriman (B.A. 1913), a diplomat who held positions as ambassador to England and other countries, under secretary of state, assistant secretary of state, and governor of New York; and the Henry R. Luce Professorship of Jurisprudence (1955), a gift from Henry R. Luce (B.A. 1920), founder of *Time*, *Life*, and other publications.

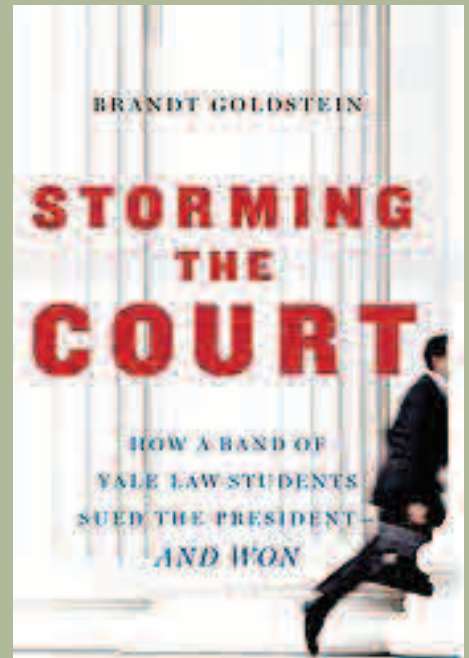
Endowment for student support plays a critical role in allowing Yale Law School to attract the best and the brightest, regardless of ability to pay. The Lillian Goldman Perpetual Scholarship Fund (1994), established by Lillian Goldman of New York City, a distinguished businesswoman, philanthropist, and friend of Yale Law School, provides aid for students in financial need who have a demonstrated interest in women's rights, with a preference for women students. The John V. Lindsay Public Service Fellowship (2000) is supported by gifts from classmates, friends, and former colleagues of John V. Lindsay (B.A. 1944, LL.B. 1948), congressman from 1959 to 1965 and mayor of New York City from 1965 to 1973. The fund supports summer fellowship grants to students taking positions in government, public administration, and public interest law in New York City.

A new chapter in the history of Yale Law School has been its focus on human rights issues, often in an international context. The Allard K. Lowenstein International Human Rights Law Project, created by students of the School in 1981 with sup-

port of the late Congressman Lowenstein (LL.B. 1954), is now funded by an endowment created in 1996 by the Lowenstein Trust and a bequest from Kenneth B. Schwartz (B.A. 1977, J.D. 1981). The Lowenstein Project sponsors a Law School course called the Lowenstein International Human Rights Clinic, as well as conferences, guest speakers, student research, and advocacy projects in locations as diverse as Bosnia, Burma, Cambodia, Central Asia, Darfur in Sudan, El Salvador, Eritrea, and the United States.

Additional funding for the Lowenstein Clinic comes from the Orville H. Schell, Jr. Center for International Human Rights, founded at the Law School in 1989 to honor the distinguished lawyer (B.A. 1930) who was vice chair of Helsinki Watch and chairman of Americas Watch. The Schell Center sponsors a range of human rights activities including symposia, the Yale Human Rights and Development Law Journal, as well as coordination and communication efforts with the international human rights community. The Vivien Wei-Ying U Fund for Human Rights (1998) provides endowed support for the Schell Center, including funding for an annual fellowship to allow visiting scholars or practitioners to spend a year at the Law School as Schell Fellows conducting research and participating in the life of the School's human rights community.

Even before these funds were established, Yale Law School's Lowenstein Clinic and other organizations had shown a strong interest in human rights, as evidenced by a lawsuit on behalf of Haitian refugees in 1992. Students in the Lowenstein Clinic, along with Professor Harold Koh, now the dean of the Law School,



The Allard K. Lowenstein International Human Rights Law Project and a related course inspired a group of Yale Law students to sue the government on behalf of Haitian refugees in 1992. Graduate Brandt Goldstein's book on the subject appeared in 2005.

became interested in the plight of the Haitians, who were detained at Guantanamo Bay in Cuba and faced forced repatriation to the repressive regime that had seized power in September 1991. A recent book by Brandt Goldstein (J.D. 1992), *Storming the Court*, portrays the efforts of Professor Koh and the students, who brought a suit to force the recognition of political rights of the refugees. When a New York court suspended the deportations and allowed the Yale team access to the refugees at Guantanamo, the government filed appeals that went to the Supreme Court. Ultimately the remaining refugees were freed after the *Haitian Centers Council v. Sale* Supreme Court decision in June 1993, although the government was allowed to return future refugees to Haiti without hearing. Another Supreme Court decision, in 2004, which recognized that prisoners at Guantanamo Bay had legal rights, was seen as a subsequent vindication of the arguments brought by the Yale group.

Endowed funds honor some of the legal field's towering figures and support the activities of one of the world's finest law schools. In particular, Yale Law School endowed funds enhance the School's ability to attract and retain students and faculty of unparalleled quality, simultaneously honoring the past and providing hope for the future.



Mrs. Lillian Goldman, a philanthropist who supported scholarships as well as the renovation of the Lillian Goldman Law Library in Memory of Sol Goldman, is shown at the rededication of the library in 2000 with then Dean Anthony T. Kronman and former Dean Guido Calabresi.

Sources

Much of the material in this publication is drawn from memoranda produced by the Investments Office for the Yale Corporation Investment Committee. Other material comes from Yale's financial records, Reports of the Treasurer, and Reports of the President.

Pages 6-12

Educational institution asset allocations and returns from Cambridge Associates.

Page 18

The Endowment's annual return for the ten years ending June 30, 2006 ranks in the top one percent of institutional funds as measured by the SEI Large Plan Universe.

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Sterling Memorial Library Manuscripts and Archives.

Page 24, above
Storming the Court: How a Band of Yale Law Students Sued the President—and Won, by Brandt Goldstein (New York: Scribner: 2005). Book cover used courtesy of the publisher.

Page 24, below
Photo of Lillian Goldman, A. Kronman,



Harkness gate in Branford College.

