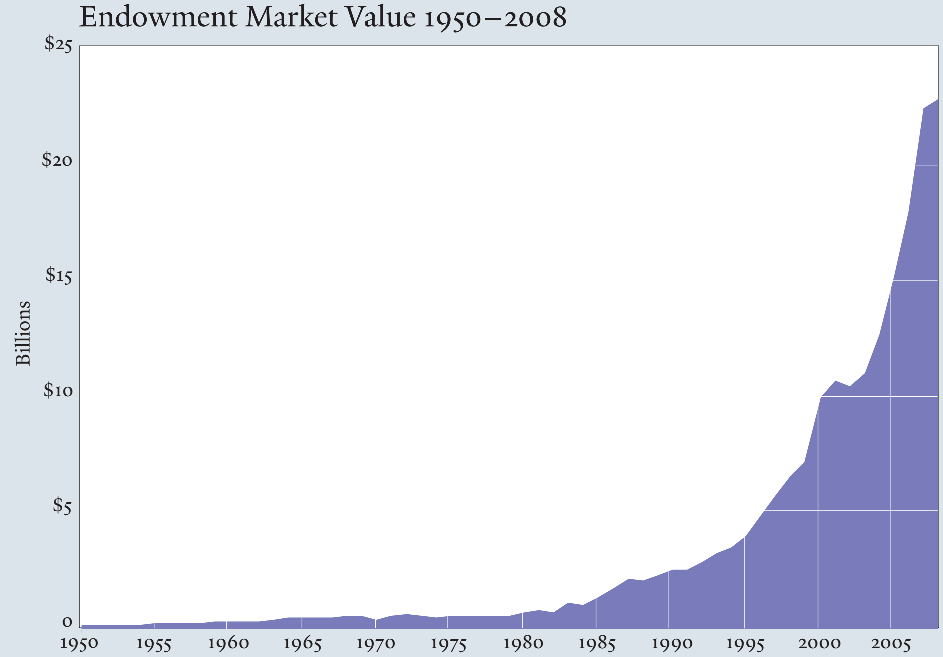
2008

The Yale Endowment

Endowment Highlights

	Fiscal Year				
	2008	2007	2006	2005	2004
Market Value (in millions)	$22,869.7	$22,530.2	$18,030.6	$15,224.9	$12,747.2
Return	4.5%	28.0%	22.9%	22.3%	19.4%
Spending (in millions)	$ 849.9	$ 684.0	$ 616.0	$ 567.0	$ 502.0
Operating Budget Revenues (in millions)	2,280.2	2,075.0	1,932.0	1,768.0	1,630.8
Endowment Percentage	37.3%	33.0%	31.9%	32.2%	30.8%
Asset Allocation (as of June 30)					
Absolute Return	25.1%	23.3%	23.3%	25.7%	26.1%
Domestic Equity	10.1	11.0	11.6	14.1	14.8
Fixed Income	4.0	4.0	3.8	4.9	7.4
Foreign Equity	15.2	14.1	14.6	13.7	14.8
Private Equity	20.2	18.7	16.4	14.8	14.5
Real Assets	29.3	27.1	27.8	25.0	18.8
Cash	-3.9	1.9	2.5	1.9	3.5

Endowment Market Value 1950–2008



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

Right:
Saybrook Court, in Saybrook College, one of the twelve residential colleges.

Introduction

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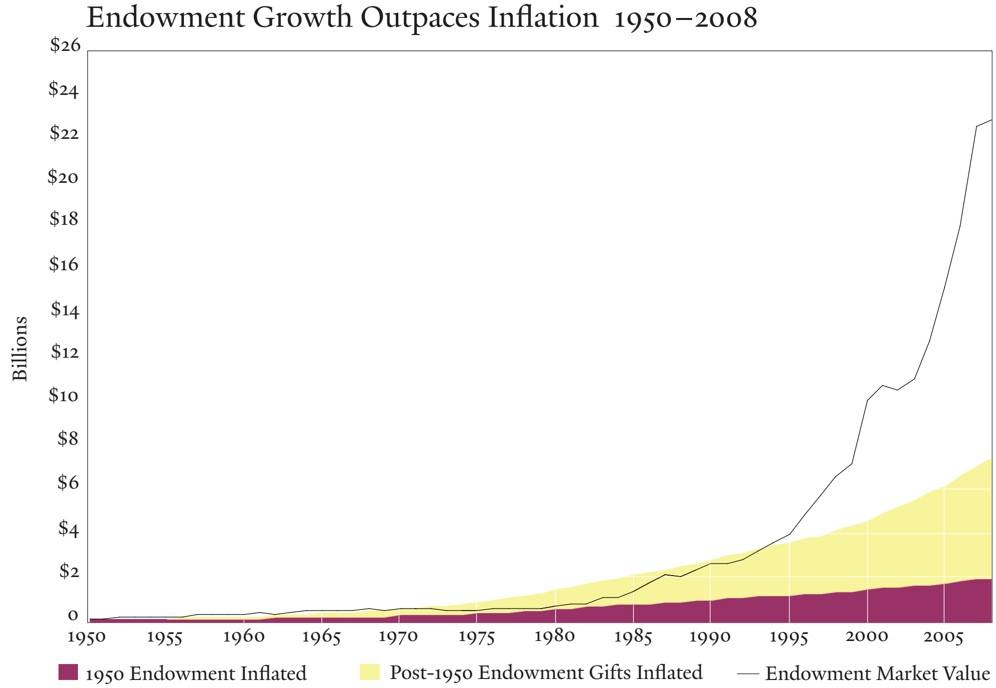
Yale's Endowment generated solid relative results in fiscal year 2008, as investment returns of 4.5 percent produced investment gains of $1.0 billion.

Over the past ten years, the Endowment grew from $6.6 billion to $22.9 billion. With annual net investment returns of 16.3 percent, the Endowment's performance exceeded its benchmark and outpaced institutional fund indices. The Yale Endowment's twenty-year record of 15.9 percent per annum produced a 2008 Endowment value of more than ten times that of 1988. 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 $218 million to $850 million, an annual growth rate of approximately 15 percent. On a relative basis, Endowment contributions expanded from 18 percent of total revenues in fiscal 1998 to 37 percent in fiscal 2008. Next year, spending will amount to $1.16 billion, or 44 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 1950–2008



Calendar-Year 2008 Update on Endowment Performance

As a matter of long-standing practice, Yale releases information on the performance of its Endowment only following the close of the University's June 30 fiscal year. Because the current economic crisis altered the financial landscape in dramatic fashion, Yale decided to release interim performance information to provide context for evaluating the University's investment, spending, and borrowing activities.

On December 16, President Levin delivered a message to Yale's faculty and staff that stated: "Our best estimate of the Endowment's value today is $17 billion, a decline of 25 percent since June 30, 2008." President Levin's estimate incorporated returns on marketable securities through October 31 and projections of writedowns on illiquid assets. Based on marketable security returns through December 31 and illiquid asset projections, the estimated investment decline remains at 25 percent.

Even though the significant decline in Yale's Endowment disappoints, it should not surprise. If a portfolio produces gains of 41 percent (as it did in the year ended June 30, 2000) and 28 percent (as it did in the year ended June 30, 2007), the possibility of suffering the symmetry of double-digit losses should be anticipated. That said, the fact that Yale last suffered an investment loss two decades ago (0.2 percent in the year ended June 30, 1988) makes the current decline in value all the more unwelcome.

Consider Yale's estimated decline of 25 percent in the context of returns for stocks and bonds. For the six months ending December 31, 2008, the broad U.S. equity market declined nearly 30 percent, developed foreign equity markets fell more than 36 percent, and emerging equity markets dropped more than 47 percent. Risky bonds provided no safe haven as the high-yield market declined 25 percent. Only U.S. Treasury bonds protected investor capital, returning just over 11 percent as investors sought the risk-free security of government obligations.

Based on investment results in the current crisis, some skeptics questioned the University's fundamental approach to portfolio management, which rests on the principles of equity orientation and diversification. These principles continue to support thoughtful and carefully considered management of Yale's Endowment.

Equity orientation makes sense for investors with long time horizons. In the midst of financial crises, some argue for higher allocations to risk-free assets, no doubt wishing after-the-fact for the now unattainable before-the-fact protection. Yet those who argue for greater protection against financial trauma ignore the opportunity costs of maintaining a substantial allocation to fixed-income assets. Recall that in the ten years ending June 30, 2008, the Yale Endowment returned 16.3 percent per year in contrast to 3.6 percent annually for U.S. stocks and 5.7 percent annually for U.S. bonds.

Diversification, called a free lunch by Nobel laureate Harry Markowitz, allows construction of portfolios with superior risk and return characteristics. In the midst of a capital market dislocation, investors hoping for the protection provided by a diversified portfolio of assets frequently express disappointment at the crisis-induced tendency of risky assets to move together. The correlations between risky asset classes move toward one during periods when investors dump holdings of risky assets of all types to fund purchases of risk-free U.S. Treasury bonds. In a binary world where only risk and safety matter, otherwise dissimilar risky assets behave similarly. In the Crash of 1987 and LTCM crisis in 1998, flights to quality led to temporary market disruptions that caused diversification to lose its power. After the panics subsided, diversification once again mattered, as fundamental drivers of return determined results, not the overriding concern with safety. The crisis of 2008 differs from the crises of 1987 and 1998 in breadth, depth, and intensity. Yet, after the current crisis passes, prudent investors will reap the benefits of a well-diversified portfolio.

While the decline in Endowment value in the current financial crisis caused some observers to question the tenets of Yale's investment strategy, when evaluated with a time horizon appropriate for a long-term investor, the University's equity-oriented, well-diversified portfolio continues to provide the best foundation for future investment success. After the financial trauma recedes, Yale will once again benefit from the prospect of superior returns generated with prudent levels of risk.

The Yale Endowment

2

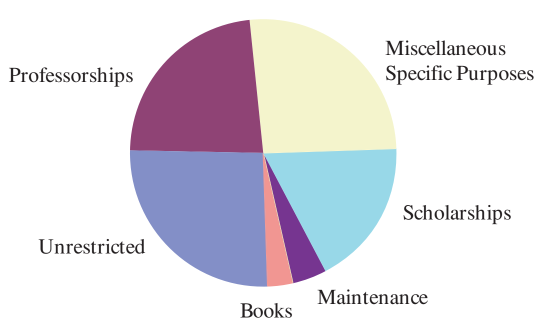
Totaling $22.9 billion on June 30, 2008, the Yale Endowment contains thousands of funds with a variety of designated purposes and restrictions. Approximately four-fifths of funds constitute true endowment, gifts restricted by donors to provide long-term funding for designated purposes. The remaining 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 (26 percent). Twenty-six percent of funds are unrestricted. Twenty-five percent of the Endowment benefits the overall University, with remaining funds focused on specific units, including the Faculty of Arts and Sciences (38 percent), the professional schools (23 percent), the library (8 percent), and other entities (6 percent).

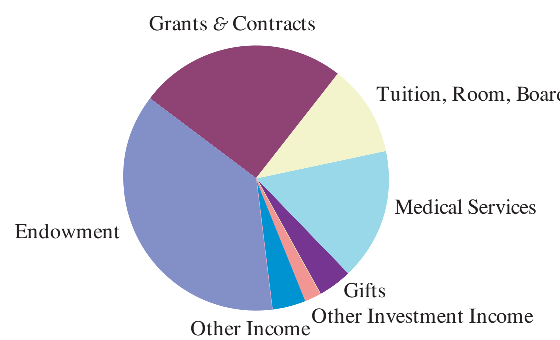
Although distinct in purpose or restriction, Endowment funds are commingled in an investment pool and tracked with unit accounting much like a large mutual fund. Endowment gifts of cash, securities, or property are valued and exchanged for units that represent a claim on a portion of the whole investment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

In fiscal 2008, the Endowment provided $850 million, or 37 percent, of the University's $2,280.2 million operating income. Other major sources of revenues were grants and contracts of $561 million (25 percent), medical services of $373 million (16 percent), net tuition, room, and board of $246 million (11 percent), other income and transfers of $105 million (5 percent), gifts of $92 million (4 percent), and other investment income of $54 million (2 percent).

Endowment Fund Allocation
Fiscal Year 2008



Operating Budget Revenue
Fiscal Year 2008



Investment Policy

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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 2008 Actual	June 2008 Target
Absolute Return	25.1%	21.0%
Domestic Equity	10.1	10.0
Fixed Income	4.0	4.0
Foreign Equity	15.2	15.0
Private Equity	20.2	21.0
Real Assets	29.3	29.0
Cash	-3.9	0.0

The target mix of assets produces an expected real (after inflation) long-term growth rate of 6.4 percent with a risk (standard deviation of returns) of 12.7 percent. Because actual holdings differ from target levels, the actual allocation produces a portfolio expected to grow at 6.5 percent with a risk of 12.8 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 2008 meeting, Yale's Investment Committee adopted a number of changes in the University's policy portfolio allocations. The Committee approved an increase in the private equity target from 19 percent to 21 percent to accommodate organic growth in private equity exposure as a percentage of the Endowment. For similar reasons, the University increased the real assets allocation from 28 percent to 29 percent. The increases in the illiquid asset classes were funded by a 2 percentage point decrease in the absolute return target allocation to 21 percent, and a 1 percentage point decrease in the domestic equity target allocation to 10 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 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 1988, nearly 75 percent of the Endowment was committed to U.S. stocks, bonds, and cash. Today, target allocations call for 14 percent in domestic marketable securities, while the diversifying assets of foreign equity, private equity, absolute return strategies, and real assets dominate the Endowment, representing 86 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 1988 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.

Yale's Residential Colleges — A Timeline

1920
Yale College and Sheffield Scientific School student body enrollment climbs to 3,000, a growth of 50% since 1900, straining campus facilities and the quality of student life. An increasing number of students live off campus.

1923
For the first time, Yale sets a limit on the number of freshmen admitted each year, attempting to hold the total at 850.

1925
President James Rowland Angell proposes that the Yale Corporation consider establishing a Residential College Plan "somewhat resembling the English colleges" of Oxford and Cambridge.

1928
Yale Corporation fellow Samuel H. Fisher secures the agreement of Edward S. Harkness, B.A. 1897, to finance the building of residential colleges at Yale with a commitment of about $12 million.

1930
Construction begins on the first colleges: Calhoun, Davenport, Jonathan Edwards, Pierson, and Trumbull.

1931
President Angell appoints the first Masters.

1933
The Classes of 1934, 1935, and 1936 enter the first seven residential colleges: Branford and Saybrook (both adapted from Memorial Quadrangle), Jonathan Edwards (on the site of two existing dormitories), Pierson and Davenport (newly built), Trumbull (new building displacing an old gym), and Calhoun (replacing several Divinity School buildings).

1933
Intramural competition for the Tyng Cup begins, pitting residential colleges against one another.

1934
The eighth college, Berkeley, replacing the old Berkeley Oval, opens for residents.

1935
The ninth college, Timothy Dwight, begins operations.

1940
The tenth college, Silliman, admits its first students.

1952
The creation of Sophomore Seminars, which later evolve into Residential College Seminars with small classes of ten students each, allows "the residential colleges to play a functional role in the educational system as well as in the social life of the undergraduates" (from President A. Whitney Griswold's 1955-56 Report of the President).

1953
Yale institutes a lottery system for assigning students to the colleges to ensure diversity and guarantee that each more closely resembles a cross-section of the entire student body. Before this date, students ranked colleges in order of preference and often had to be content with their second or third choice.

1961
Yale lays cornerstones for the eleventh and twelfth residential colleges, Morse and Ezra Stiles, on land acquired through gifts from John Hay Whitney, B.A. 1926.

1963
The colleges install Deans to provide academic counseling and to oversee student life.

1969
The first women (a group of 500) enter Yale College. Rejecting a suggestion to convert Trumbull College for exclusive female occupancy, all of Yale's colleges become co-educational.

The Tyng Cup.

1975
Plans to build two new colleges to accommodate enrollment increases are cancelled when the city of New Haven opposes the expansion.

1998
Yale completes the construction of a new residence facility ("swing space") to provide temporary quarters for one residential college per year during a round of renovations of all the colleges, starting with Berkeley College in 1998.

Calhoun College Master's house.

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 the asset classes 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 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 21 percent of the Endowment, below the average educational institution's allocation of 21.7 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 have historically provided returns largely independent of overall market moves. Over the past ten years, the portfolio exceeded expectations, returning 12.0 percent per year with low 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 significant sums alongside Yale, enabling the University to avoid many of the pitfalls of the principal-agent relationship.

Domestic Equity

Financial 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 21.7 percent of assets in domestic equities, Yale's target allocation to this asset class is only 10.0 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. 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 14.0 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 1-5 Year U.S. Treasury Index serves as the portfolio benchmark.

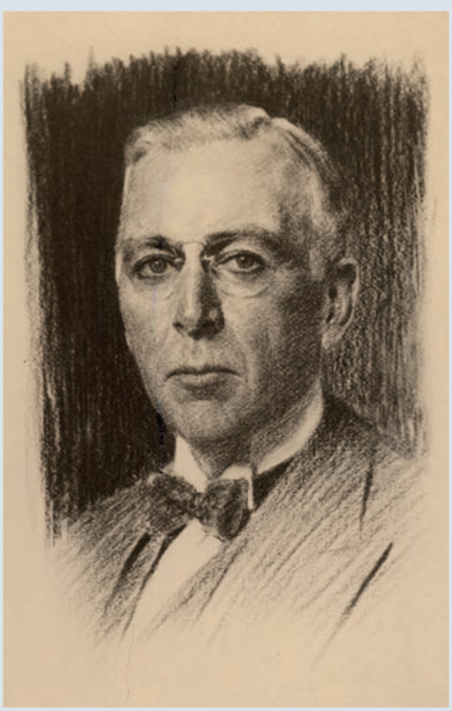
Yale is not particularly attracted to fixed income assets, as they have the lowest historical and expected returns of the six asset classes comprising the Endowment. In addition, the government bond market is arguably the most efficiently priced asset class, offering few opportunities to add significant 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.

NBC Nightly News anchor Brian Williams speaks at a Morse College Master's Tea.

Endowed Funding for Residential Colleges

During Yale's tercentennial celebration, President Richard C. Levin remarked: "The residential college system is a major reason why students choose to come to Yale and a major reason why Yale College students report greater satisfaction with their education than students at most peer institutions. Our residential system offers its students both the intimacy of a small college environment and the vast resources of a major research university." President Levin echoed the sentiments of generations of Yale alumni when he described the residential college system as "one of the glories of Yale."

In the years following World War I, increasing undergraduate enrollment led to crowded living conditions in the University's dormitories, forcing large numbers of students to live off campus. Concerned that the dispersion of the student body would weaken bonds within the Yale community, the University sought a plan that would promote cohesion among the undergraduate classes. With the encouragement of longtime Yale benefactor Edward S. Harkness, B.A. 1897, Yale officials formulated a plan for ten residential colleges that drew its inspiration from the college systems of Oxford and Cambridge.



The implementation of a residential college plan benefited from the vision and generosity of Edward S. Harkness, whose gifts in 1928 supported the building of several colleges along with endowed programs.

The plan called for each residential college to occupy a plot roughly the size of a city block, with interconnected buildings enclosing a courtyard. Each college would appoint a Master to supervise and guide student activities. In order to create tightly knit communities, each college was to house only a few hundred students who lived in close proximity to faculty and enjoyed access to their own library, dining hall, common room, and other activity spaces.

In 1928, Harkness made a contribution of $12 million (the equivalent of over $200 million today) for the purpose of implementing the residential college system. Harkness's contribution allowed the University to construct Yale's first six residential colleges and adapt existing buildings to create another four. In time, students came to identify themselves not just as Elis, but as Berkeleyites, Saybrugians, or Sillimanders.

Ever since the inauguration of the first seven colleges in 1933, donor gifts of endowed funds supported and enhanced residential college life. Impressed by the success of the residential college program, Harkness followed his initial gift with an additional contribution of roughly $5 million to create an endowment to be "added to the University's General Funds, the income of which is to be used over a reasonable period of time for Head Master's salaries and the Student Aid Fund."

The residential college system—which grew to ten colleges by 1940 and twelve by 1963—came to define the undergraduate Yale experience. In addition to providing a close community that structures social life at Yale College, residential colleges provide forums for learning. In 1936, the generous contribution of Hendon Chubb, PH.B. 1895, created the Hendon Chubb Fund, which brought distinguished professionals in public life, science, and the arts to speak at the residential colleges. While Chubb's gift focused originally on Timothy Dwight College, a portion benefits all the colleges. These funds bring distinguished visitors to Yale to lecture and interact with students during informal sessions known as Master's Teas, which are hosted in college Masters' living rooms. Remarkable speakers have graced the couches of Yale College Masters over the years, including Harry Truman, Gerald Ford, Jimmy Carter, Ronald Reagan, Edward Heath, B.F. Skinner, Maya Angelou, Arthur Koestler, Margaret Marshall, John Kenneth Galbraith, Robert Redford, and Yevgeny Yevtushenko.

Hendon Chubb significantly enhanced the cultural life of the residential colleges by endowing the Chubb Fellows program in 1936. Similar programs have followed suit, providing a steady flow of prominent guests from the worlds of politics, business, and the arts who address students and engage in discussion programs.

A vital dimension in the development of Yale's residential college system came through the generosity of one of the University's most enthusiastic supporters, Paul Mellon, B.A. 1929. In 1952, Mellon responded to concerns expressed by some faculty members that the residential colleges were overly focused on social life at the expense of educational pursuits. An endowment established through Mellon's Old Dominion Foundation provided funding for small seminar courses to be offered in each college. Today, the residential college seminar program, which offers two courses per term in each residential college, allows students to explore topics outside of Yale College's core curriculum. Class topics are decided by a committee of students and graduate affiliates within each residential college. The current academic listings include college seminars such as Great Trials of the Century, the Music of India, Bioethics and the Law, Forensic Science, and Writing Half-Hour Television Comedy.

Paul Mellon's support increased in subsequent years, with gifts in 1958 that allowed the construction of two new colleges, Ezra Stiles and Morse. At the same time, Mellon financed the appointment of residential college Deans in all twelve of the colleges. Deans reside in each college and have day-to-day responsibilities for the social and academic development of students. Mellon's funding also supports the Scholars of the House program, which allows one student in each college to receive individual instruction in creative endeavors or advanced scholarship.

Endowments fund an abundance of academic programs and extracurricular activities in Yale's residential colleges. On the non-academic side, the college intramural sports program inspired a number of endowment gifts. Examples include the William and Martha Ford Fund, established in 1981 to support residential college intramurals, and the Paul Haviland Memorial Fund, established in 1935 to support intramural golf.

Long after they leave Yale, alumni continue to identify strongly with their college. One sign of this bond is the tradition of philanthropy by alumni on behalf of their residential colleges. Donors have given generously to establish additional Master's Tea and guest lecturer programs, visiting writer programs, book collections, arts activities, social functions, debates, contests, and prizes. Even students conducting research over the summer are supported in each college by donors such as the friends and family of John Bolt Morse, who in 1992 established a travel fellowship for one student per year at Jonathan Edwards College to study the fine arts.

Yale's great success with the residential college system piqued the interest of other American institutions. In recent years, universities seeking to improve the quality of undergraduate student life have looked to Yale as a model. In 1979, Princeton University's Committee on Undergraduate Residential Life recommended the creation of five residential colleges for freshmen and sophomores. Princeton expanded that network in 2002, adding four-year residential colleges for a portion of the student body.

Paul Mellon, who has supported a wide range of facilities and activities at his alma mater, had a major impact on the colleges. His support enabled Yale to build Ezra Stiles and Morse Colleges in the 1960s, in addition to creating deanships and special teaching funds for the colleges.

Printing presses, along with pottery shops, exercise rooms, music rehearsal spaces, and a "buttery" or snackbar, are among the many resources provided in the residential colleges. The press at Jonathan Edwards College (above), shown following the renovation of 2007-2008, was founded in 1936.

Foreign Equity

Investments in overseas markets expose the Endowment 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 5.0 percent of its portfolio to such opportunities, just short of the 6.0 percent allocated to foreign developed equities. Yale dedicates 4.0 percent of the portfolio to opportunistic foreign positions, with the expectation that holdings will be concentrated in markets that offer the most compelling long-term opportunities, particularly China and India. Yale's foreign equity target allocation of 15.0 percent stands below the average endowment's allocation of 20.3 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 (a) developed markets, measured by the Morgan Stanley Capital International (MSCI) Europe, Australasia, and Far East Index; (b) emerging markets, measured by the MSCI Emerging Markets Index; and (c) opportunistic investments, measured by the Higher Education Price Index plus 8 percent.

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.

The Dining Hall in Berkeley College.

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 21.0 percent far exceeds the 8.6 percent actual allocation of the average educational institution. In aggregate, the private equity portfolio is expected to generate real returns of 11.2 percent with risk of 27.7 percent.

Yale's private equity program, one of the first of its kind, is regarded as among the best in the institutional investment community, and the University is frequently cited as a role model by other investors. Since inception, private equity investments have generated a 30.9 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, 2003, and again in 2006.

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.

Walkway between Morse and Ezra Stiles Colleges.

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 asset investments provide attractive return prospects, excellent portfolio diversification, and a hedge against unanticipated inflation. Yale's 29.0 percent long-term policy allocation significantly exceeds the average endowment's commitment of 13.7 percent. Expected real returns are 6.0 percent with risk of 13.6 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 often provide relative stability to the Endowment during periods of public market turmoil. 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 17.6 percent per annum.

The illiquid nature of real assets combined with the expensive and time-consuming process of completing transactions creates 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	25.1%	21.7%
Domestic Equity	10.1	21.7
Fixed Income	4.0	12.1
Foreign Equity	15.2	20.3
Private Equity	20.2	8.6
Real Assets	29.3	13.7
Cash	-3.9	1.9

Data as of June 30, 2008

Spending Policy

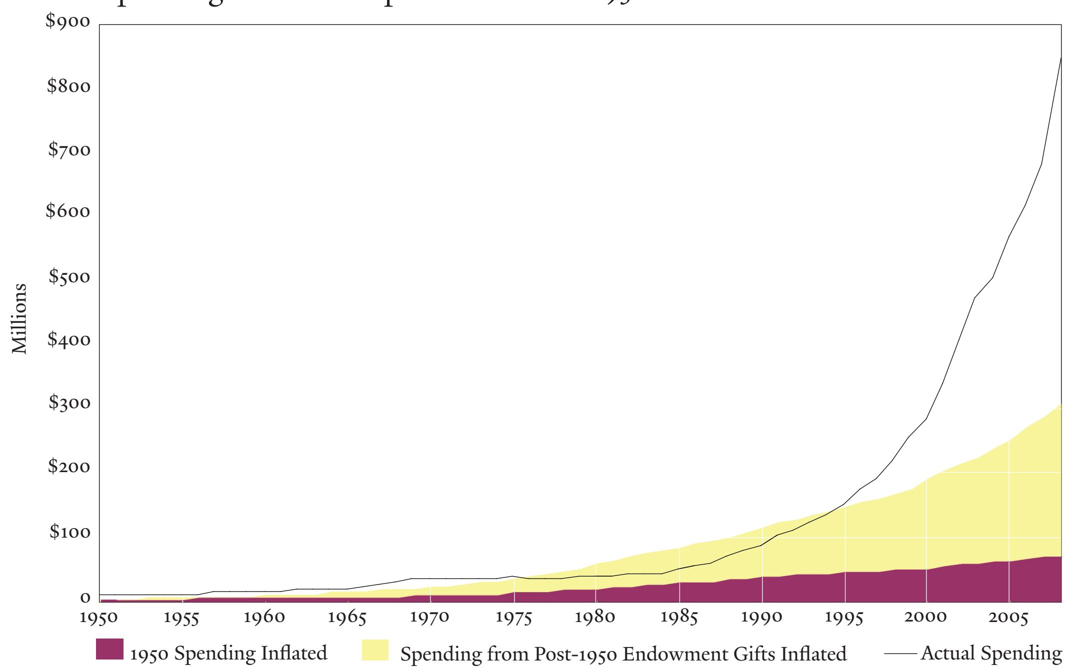
4

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.

The Endowment spending policy, which allocates Endowment earnings to operations, balances the competing objectives of providing a stable flow of income to the operating budget and protecting the real value of the Endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term spending rate target combined with a smoothing rule, which adjusts spending in any given year gradually in response to changes in Endowment market value.

The target spending rate approved by the Yale Corporation currently stands at 5.25 percent. According to the smoothing rule, Endowment spending in a given year sums to 80 percent of the previous year's spending and 20 percent of the targeted long-term spending rate applied to the market value two years prior. The spending amount determined by the formula is adjusted for inflation and constrained so that the calculated rate is at least 4.5 percent, and not more than 6.0 percent of the Endowment's inflation-adjusted market value one year prior. The smoothing rule and the diversified nature of the Endowment mitigate the impact of short-term market volatility on the flow of funds to support Yale's operations.

Spending Growth Surpasses Inflation 1950–2008



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 a fourth 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 $218 million in fiscal 1998 to $850 million in fiscal 2008. The University projects spending of $1.16 billion from the Endowment in fiscal 2008, representing 44 percent of revenues.

Leading the Colleges

A senior faculty member known as a Master heads each residential college. The Master, whose primary responsibility is to ensure the well-being of the college's students, lives on the college's premises, often takes meals with students, and oversees the intellectual and social life of the residential community. In the seventy-five-year history of the colleges, a number of remarkable individuals have served as Masters, strongly enriching the quality of undergraduate life.

Yale's first Master of a residential college was Professor Robert Dudley French (seated at right), who taught English at Yale for many decades and headed Jonathan Edwards College from 1931 to 1953.

The First Master

Jonathan Edwards College received the first Mastership in 1931, when Professor Robert Dudley French, B.A. 1910, PH.D. 1920, began his twenty-three-year stewardship, one of the longest tenures of any Master. After graduating, French began teaching English at his alma mater in 1915. *Time* magazine reported: "In 1920 he took over a Chaucer course, brushed up its fustiness, livened it, taught it well, increasing the enrollment from 30 to 300 in nine years." His books on Chaucer and Shakespeare are still used by students today. French's contributions to pedagogy included coaching students in the arcane sounds of Yale's famous "Long Cheer." As recalled by alumnus Frank Gibson, B.A. 1949, in the *Yale Alumni Magazine*:

"Placing both fists together high by his right shoulder, he swung them down across his belly and up to his left shoulder, emitting a long 'Oooooooo' which rose in pitch with the swing of his arms and was followed by an explosive 'OP!' as he slammed both fists down in a chopping motion. Up came the professorial fists again to left shoulder height. Looping back down, and back up to their starting point, they pulled another long 'Oooooooo' from the ample belly. Down slammed the fists. 'OP!' came the exclamation point, as if he had punched himself in his solar plexus. The professor's arms flew up as if he were a great bird about to take flight, then crashed to his sides. 'PARABALOU!' "

Polly Stone Buck became a beloved figure, and a host at weekly teas for students, during the tenure of her husband, Professor Norman S. Buck, as Master of Branford College from 1942 to 1959. Since 1997, spouses of Masters receive the title of Associate Master.

Yale's first Master was honored by the creation of a Commencement prize, the Robert Dudley French Award, which is given each year to a Jonathan Edwards student who has demonstrated intellectual leadership during his or her time at Yale.

The Associate Mastership

Norman S. Buck, B.A. 1913, PH.D. 1922, was a professor of economics at Yale and a University provost, but he was best known to students as the popular Master of Branford College, where he served from 1942 to 1959. Equally beloved among students was his wife, Polly Buck. Alumnus

Richard Hiers, B.A. 1954, B.D. 1957, said of Mrs. Buck: “I know of no one more devoted to Yale.” Polly Buck later penned a memoir about her Branford years. Describing afternoon teas, Mrs Buck wrote:

“The boys could get plenty of cocktails in their own rooms and those of their peers, for there were numerous small student parties on Sunday afternoons where more powerful drinks than tea flowed freely. But for those among the three hundred or so in our charge, for ‘whosoever wants to come’ there was a welcome in the Master’s house with food, hot tea, and good talk, and a homelike atmosphere they wouldn’t get elsewhere, sometimes not even in their own homes. I didn’t fool myself into thinking that food didn’t play a large part in bringing the boys, but a leaping fire on a winter Sunday afternoon, and lively conversation with the Master and with each other, was the real drawing card.”

The tireless efforts of Polly Buck and other Masters’ spouses led the University formally to acknowledge the importance of this role by awarding spouses the title of Associate Master in 1997.

Professor Vincent J. Scully with students following a lecture in the 1960s. A popular teacher of the History of Art and Architecture, he was Master of Morse College from 1969 to 1975.

Writer in Residence

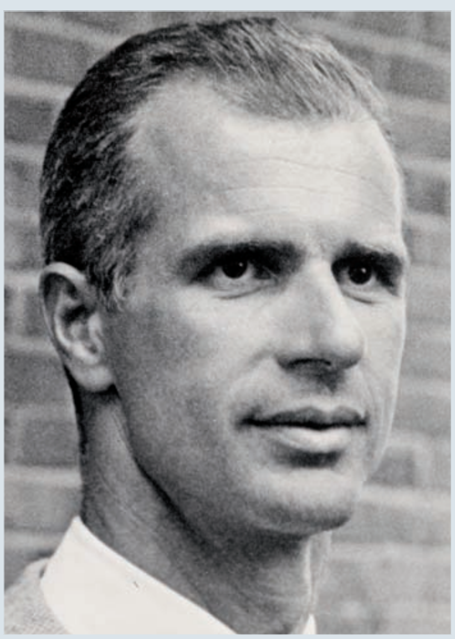
Author and journalist John Hersey, B.A. 1936, presided over Pierson College from 1965 to 1970 as the first non-academic Master at Yale. Born in Tianjin, China to missionary parents, Hersey arrived in New Haven in 1932. In the *Yale Alumni Magazine*, August Heckscher, a fellow member of the class of 1936, recalls:

“Among those who gathered as freshmen at Yale in the autumn of 1932, John Hersey quickly became a marked character. He arrived with the aura of the Far East, where he had spent the first ten years of his life: a tall thin youth, meditative, firm of purpose; an aesthete but also an athlete. He became one of a firmly cemented small circle of friends, but his influence spread, until he was a member of almost every group in the class where judgment and good advice were sought. When our class had the effrontery to declare itself ‘Yale's greatest,’ it must have been in part because of our being conscious of his presence—and his promise.”

A model example of the diverse passions that drive Yale undergraduates, Hersey played varsity football, wrote music criticism for the *Yale Daily News,* and was elected class secretary. After graduation, he remained active in University affairs even as he worked as a war correspondent covering Italy, Russia, China, and Japan for *Time* and *Life* magazines. His World War II experience inspired *The Wall*, the Pulitzer Prize-winning *A Bell for Adano*, and *Hiroshima*.

Aside from his Master’s duties, Hersey taught courses on writing. Students recall his thoughtful, constructive criticism and his generosity in making time for individual discussion and mentoring. The late 1960s were turbulent years for the country and its universities. In Hersey’s *Letter to the Alumni*, he drew upon his experiences during May Day weekend 1970, when over 15,000 demonstrators gathered on Yale campus to protest the murder trial of Black Panther leader Bobby Seale. No doubt his position as a college Master informed his insights on how the American university and its students were affected by the Vietnam War and the incendiary race relations of the time.

Shortly before his death, Hersey was honored by the University with the establishment of the annual John Hersey Lecture. Two-time Pulitzer Prize and National Book Award winner David McCullough, B.A. 1955, the first author to present a lecture in the series, praised Hersey for having “portrayed our time with a breadth and artistry matched by very few. He has given us the century in a great shelf of brilliant work and we are all his beneficiaries.”



Author and journalist John Hersey became the first Yale residential college Master from outside the tenured faculty ranks. He held the Mastership of Pierson College from 1965 to 1970 while offering courses on writing.

Focus on Architecture

It is fitting that the Mastership of Morse, one of Yale’s two modernist residential colleges, was once filled by art historian Vincent J. Scully, B.A. 1940, PH.D. 1949.

During more than sixty years on the faculty, Professor Scully has offered popular courses that opened students' eyes to the history of art and architecture and to the innovative buildings that distinguish the Yale campus.

Scully currently holds the position of Sterling Professor Emeritus of the History of Art and continues to lecture in Yale College as well as at the University of Miami. As the second Master of Morse College, serving from 1969 to 1975, the eloquent professor increased awareness of the unique architectural charms of Morse and Stiles, two buildings that clashed with the neo-Gothic aesthetic that dominates Yale's campus.

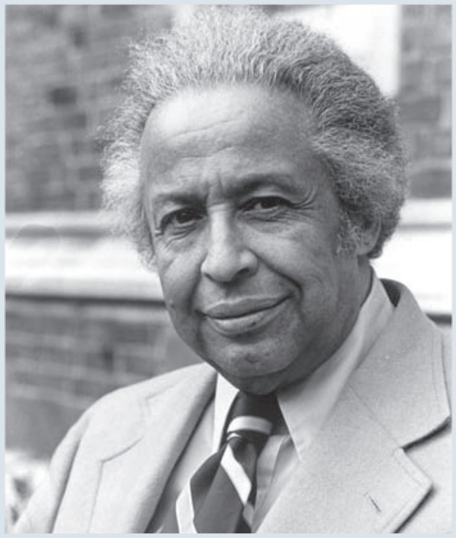
His twenty books include *Shingle Style and the Stick Style*, *Density by Design: New Directions in Residential Development,* and *Yale in New Haven*: *Architecture and Urbanism* (a co-authored work), as well as numerous studies of the works of Louis Kahn, Philip Johnson, and other modern architects.

Donors created two different professorships to honor Professor Scully (at Yale College and at the School of Architecture) and a number of prizes bear his name. He has been honored for his writing and teaching by the College Art Association, the Society of Architectural Historians, the National Building Museum, and the Urban Land Institute.

A First at Davenport

Katharine "Kitty" Lustman-Findling came to New Haven in 1955 after earning degrees

The first woman in Yale's history to serve as a Master, Katharine "Kitty" Lustman-Findling became Acting Master of Davenport College in 1971 after her husband, Dr. Seymour Lustman, died while heading the college.



Charles Twitchell Davis was the first African American Master at Yale. A professor of English, American Studies, and African American Studies, Davis served as Master of Calhoun College from 1973 to 1980.

in education from Northwestern University and Chicago Teachers' College. An expert in elementary education, Lustman-Findling taught at the Yale Child Study Center and later directed its nursery. In 1970, along with a group of Yale undergraduates, Lustman-Findling founded the Calvin Hill Day Care Center. In 1971, after the sudden death of her husband, psychiatry professor and Davenport Master Dr. Seymour Lustman, the University asked Lustman-Findling to assume the college's Mastership.

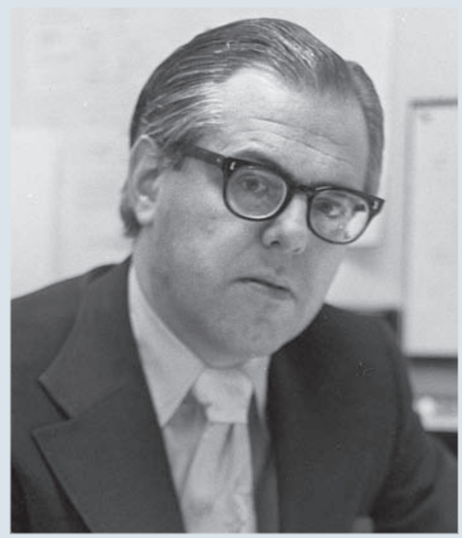
As the first woman Master, Lustman-Findling guided and mentored Yale College's first class of women students, who matriculated in 1969. Lustman-Findling served until 1973, after which she continued to be heavily involved in the University by contributing to pediatric research and supporting community education efforts. In 1983 the Calvin Hill Day Care Center's kindergarten was named in Lustman-Findling's honor.

Breaking New Ground

Charles Twitchell Davis, a professor of English, American Studies, and African American Studies, profoundly influenced the development of African American studies at Yale and elsewhere. He headed Yale's African American Studies program and became the first African American to receive tenure on the Yale faculty as well as the first to act as a residential college Master, leading Calhoun College from 1973 to 1980.

Davis's groundbreaking publications included studies of Richard Wright and Walt Whitman, along with *Black Is the Color of the Cosmos* (an anthology of his articles) and *The Slave's Narrative*. His academic work points out the importance of slave narratives not just to historians and literary critics, but "to anthropologists and folklorists, historians of art and musicologists, sociologists and political scientists, linguists and psychologists, philosophers and legal historians, and economists and theologians."

In 2005, with support from the President's Office, current Calhoun Master Jonathan Holloway established the Charles T. Davis Lecture Series. Presenters have included composer Anthony Davis (the son of Charles T. Davis) and acclaimed jazz pianist Jason Moran.



A renaissance man with interests that ranged from detective fiction to the history of the British Empire, History professor Robin Winks served as Master of Berkeley College from 1977 to 1990.

History, Espionage, and Detective Fiction

When Yale hosted a symposium honoring Master Robin Winks a few years after his death, it took four different panel discussions to do justice to his rich career and broad-ranging interests. Aside from his multi-volume history of the British Empire, expertise on the U.S. National Park system, studies of Canada and New Zealand, mastery of African American and Maori history, and works on espionage and detective fiction, Winks found time to serve as a popular Master of Berkeley College from 1977 to 1990.

Winks's interests led him to visit every national park in the United States—

estimated at 367—and to serve on the National Parks Advisory Board. He spent a year in New Zealand, where he completed a master's thesis on the Maori people. One of his final works, *Cloak and Gown: Scholars in the Secret War, 1939-1961*, profiled the many Yale graduates active in the OSS and CIA.

Winks held the titles of Randolph W. Townsend Jr. Professor of History and John B. Madden Master of Berkeley College. Students, colleagues, and friends immortalized the professor with a gift that endowed the Robin Winks Travel Fellowship for a History major specializing in International Studies.

The Record Holder

No Master, past or present, comes close to matching the length of Robert F. Thompson's tenure. Known as "Master T" to his students, Master Thompson recently began his fourth decade on the job. Appointed to head Timothy Dwight College in 1978, Master T has witnessed the coming and going of thousands of Yale undergraduates. As a teacher of art history courses, including From West Africa to the Black Americas: The Black Atlantic Visual Tradition, and New York Mambo: Microcosm of Black Creativity, he erases the conventional boundaries between academic work and extracurricular life. As the Master of Timothy Dwight, Thompson heads the prestigious Chubb Fellowship, an endowed lectureship that has brought world leaders, writers, and artists to speak with TD students. Former Chubb Fellows have included Presidents Harry S. Truman, Ronald Reagan, and George H.W. Bush, B.A. 1948; Israeli prime ministers Shimon Peres and Moshe Dayan; Nobel laureate Toni Morrison; author Norman Mailer; *New York Times* correspondent R.W. Apple; actor Robert Redford and director Curtis Hanson.

"I take a holistic view of what I do—my teaching and my mastering are all one," he has stated. One example of this integration is the Master's house over which he presides, which displays numerous works of art from Africa and South America. "I use my house as a teaching aid," says Master T. "I teach off the walls."

The New Dean

In the October 10, 2008 announcement of Mary Miller's (PH.D. 1981) appointment as the fifteenth Dean of Yale College, Yale President Richard Levin said, "She is a magnificent scholar, a devoted teacher, and a terrific Master." After serving the University for twenty-eight years as a faculty member and nine years as the Master of Saybrook College (1999-2008), Miller became the first woman to serve in the College's highest office.

Mary Miller, the Master of Saybrook College since 1999, and Sterling Professor of the History of Art, left her position in December 2008 to serve as the fifteenth Dean of Yale College.

A world-renowned scholar of Mayan art, Miller played a central role in numerous documentaries about the peoples of Mexico and Central America. One of her books, *The Blood of Kings: Ritual and Dynasty in Maya Art* (with Linda Schele), won the Alfred H. Barr, Jr. Award from the College Art Association of America. In 1994, Miller was elected to the American Academy of Arts and Sciences. In recognition of her scholarship, Miller was appointed the Vincent Scully Professor of the History of Art in 1998 and was named the Sterling Professor in the History of Art, the highest honor bestowed on Yale faculty, in May 2008.

Mary Miller is an accomplished teacher and mentor. She was featured prominently in the "Great Teachers at Yale" series created by the Association of Yale Alumni. Miller remained in her post as Saybrook's Master until December 2008, when she officially became the new Dean of Yale College. In her new role, Dean Miller plans to stay intimately involved in student life, saying, "I admire the talent and diversity of student life, and that is why I was interested in taking this position."

The record for the longest tenure as a residential college Master is held by Robert F. Thompson, Professor of the History of Art and African American Studies, who was appointed Master of Timothy Dwight College in 1978 and continues in the position today.

Investment Performance

5

Yale has produced excellent investment returns. Over the ten-year period ending June 30, 2008, the Endowment earned an annualized 16.3 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 has created substantial wealth for the University. Over the ten years ending June 30, 2008, Yale added $10.5 billion relative to its composite benchmark and $13.6 billion relative to the average return of a broad universe of college and university endowments.

Performance by Asset Class

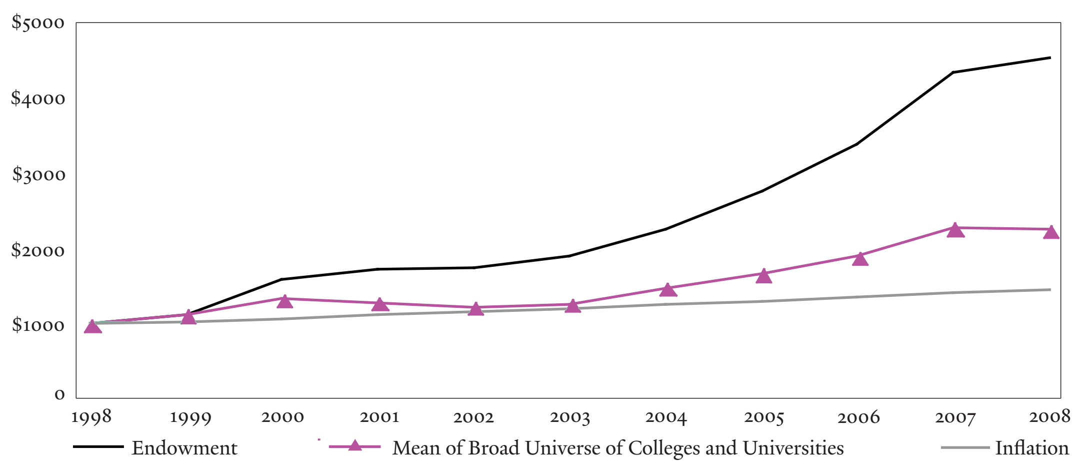
Yale's long-term asset class performance continues to be outstanding. In the past ten years every asset class posted superior returns, significantly outperforming benchmark levels.

Over the past decade, the absolute return portfolio produced an annualized 12.0 percent, exceeding the passive benchmark of the One-Year Constant Maturity Treasury plus 6 percent by 1.5 percent per year and besting its active benchmark of hedge fund manager returns by 1.9 percent per year. For the ten-year period, absolute return results exhibited essentially no correlation to traditional marketable securities.

For the ten years ending June 30, 2008, the domestic equity portfolio returned an annualized 11.1 percent, outperforming the Wilshire 5000 by 7.5 percent per year and the Russell Median Manager return by 6.6 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 6.2 percent over the past decade, exceeding the Lehman Brothers Treasury Index by 0.4 percent per year and the Russell Median Manager return by 0.7 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
1998 to 2008, 1998 = $1,000

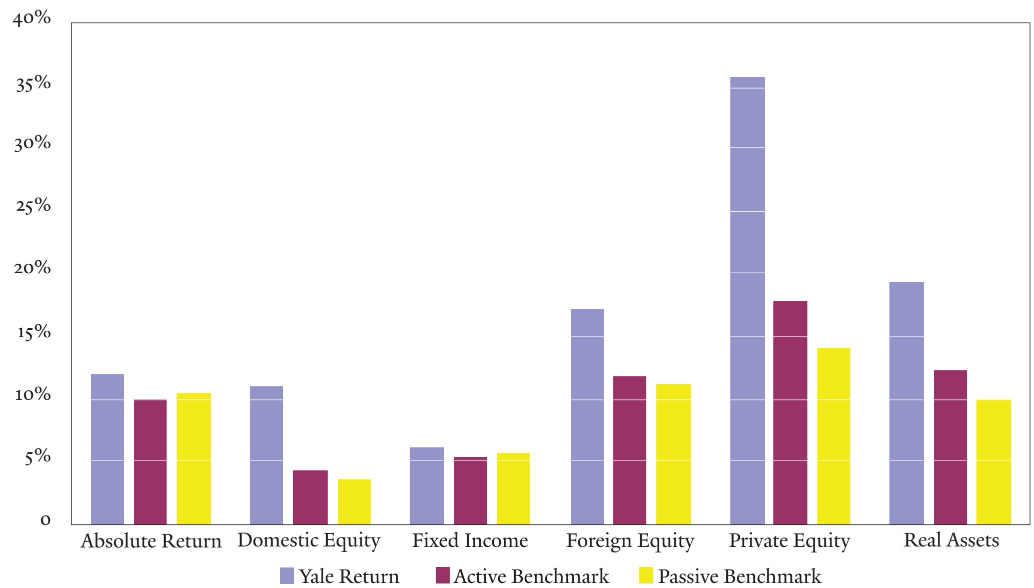


The foreign equity portfolio generated an annual return of 17.3 percent over the ten-year period, outperforming its composite benchmark by 6.0 percent per year and the Russell Median Manager return by 5.4 percent per year. The portfolio's excess return is due to effective security selection and country allocation by active managers.

Results from Yale's non-marketable assets demonstrate the value of superior active management. Private equity earned 35.9 percent annually over the last ten years, outperforming the passive benchmark of University inflation plus 10 percent by 21.7 percent per year and the return of a pool of private equity managers compiled by Cambridge Associates by 18.0 percent per year. Since inception in 1973, the private equity program has earned an astounding 30.9 percent per annum.

Real assets generated a 19.4 percent annualized return over the ten-year period, outperforming the passive benchmark of University inflation plus 6.0 percent by 9.3 percent per year and an active benchmark of real assets manager returns by 7.0 percent per year. Yale's outperformance is due to successful exploitation of market inefficiencies and timely pursuit of contrarian investment strategies.

Yale Asset Class Results Trounce Benchmarks
1998 – 2008



Active Benchmarks
Absolute Return: CSFB/Tremont 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 1-5 Year U.S. Treasury Index
Foreign Equity: Blend of MSCI EAFE Index, MSCI EMF Index, University Inflation + 8%
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.

Investment Committee

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G. Leonard Baker '64
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Shauna King
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Editor
Newsweek International

Residential College Eponyms

While many devoted Yalies can recite the names of the twelve colleges without pause, few can recall the stories of the ten men and two towns whose names grace the colleges. Some of the men were involved in Yale's founding, while others dedicated their careers to transforming and expanding the University. Several went beyond Yale's gates to become prominent figures in government, science, and religion. Indeed, as a group, they truly embody the motto "For God, for Country, and for Yale."

Laying the Foundations

Several eponyms were prominent in the early history of New Haven and Yale. John Davenport founded the New Haven Colony in 1638. In England he was a prominent Puritan minister and became the New Haven Colony's first clergyman. Davenport had an acute understanding of the need for a learned ministry to ensure proper interpretations of the Bible and believed a local college was necessary. While no school began during his lifetime, his support of education is memorialized in Davenport College.

John Davenport, a Puritan minister from England, founded the New Haven Colony in 1638 and became its first clergyman. Davenport College is named in his honor.

Abraham Pierson was a one-time student of Davenport. Pierson went on to Harvard, where he graduated in a class of five, and wound up as minister of Killingworth (now Clinton), Connecticut. In November of 1701 the founders of Yale selected Pierson to be the first rector. Pierson's congregation at Killingworth refused to buy back the house they had given him, however, leaving Pierson unable to leave and the new College in limbo.

A statue in Old Campus honors Abraham Pierson, who became the first rector of Yale in 1701 and is the eponym for Pierson College.

Pierson spent his time as rector leading his congregation and running Yale from his home in Killingworth. To leverage his two positions—and perhaps to save time—Pierson had his students memorize his sermons verbatim each week, arguably one of the first homework assignments given at Yale.

Yale's uncertain place of origin is reflected in the names of two of its residential colleges. The story of Yale's founding involves a meeting in November of 1701 of ten ministers in the house of Reverend Samuel Russel in Branford, Connecticut. At this meeting, each of the ministers laid books—forty in all—upon a table and proclaimed: "I give these books for the founding of a college in this colony." While the validity of this story is debated, it serves as the symbolic founding of the College and is immortalized in Yale's Branford College.

In that same meeting, the clergymen decided that the College would be in the town of Saybrook, Connecticut. However,

The Russel house, in Branford, Connecticut, is believed to be the site of the founding of Yale College. In honor of the first location of the school, one of the residential colleges is called Branford College.

Rector Pierson's predicament prevented the College from moving to Saybrook until his death in 1707. Nine years later, an Act of the Connecticut Colony moved the College to New Haven. Saybrook College obtained its name from this temporary home of Yale.

While Pierson was instrumental in the educational foundation of the early College, one of the most important financial contributions came from George Berkeley in 1731.

Before Yale came to New Haven, it was located for a few years in Saybrook, Connecticut, a fact commemorated by this stone located in the town of Saybrook and by the naming of Saybrook College.

Berkeley was an acclaimed philosopher in the early eighteenth century and the founder of "Immaterialism." His religious conviction and belief in the purity of the new world led him to attempt to start a college in the Bermudas. He spent several years preaching in Providence, Rhode Island, hoping for funds from Parliament to start his college. Unsuccessful, Berkeley decided in 1731 to donate his 96-acre farm and more than 800 books to the fledgling Yale College and return to England.

Bishop George Berkeley (1685-1735) of Ireland was a benefactor of the recently founded Yale College during his stay in the colonies. Yale honors the association through the Berkeley Fellowship, created from the proceeds of land he left to Yale, and the naming of one of the first of the residential colleges.

Though seemingly modest now, this donation represented an enormous gift to the then very small school.

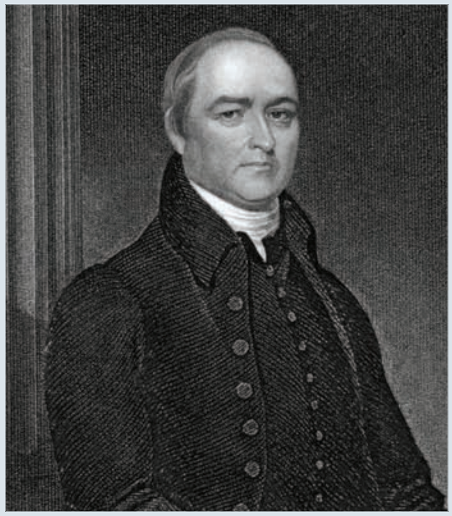
Towards a University

The early Yale was almost exclusively a place of religious study. However, by the mid-eighteenth century, the urge to broaden the horizons of the University was already felt. Several residential college names commemorate individuals' efforts to lead the College through trying times and transform it into a university.

Ezra Stiles graduated in Yale's class of 1746 and returned to tutor from 1749 to 1755. He went on to serve as a minister in various congregations around the Northeast before serving as President of Yale. Stiles began his presidency in 1778 and stewarded the College through the

Ezra Stiles College is named for an important President of the University; during his tenure from 1778 to 1795, he reformed the curriculum and raised academic standards. He graduated from Yale in 1746.

precarious years of the Revolution. The war made it impossible to procure food for the students in winter, forcing Stiles to dismiss the students for several months in the winter of 1778-1779. Then, with the students back, the British attacked New Haven by sea on July 5, 1779. Stiles evacuated the books and manuscripts of the College while his son led a large group of students and professors in mobilizing the city's defenses. While the Elis and New Haven residents fought bravely, the city was taken. However, an advancing American army quickly forced the British to retreat. The commander of the invading British force expressed his disappointment



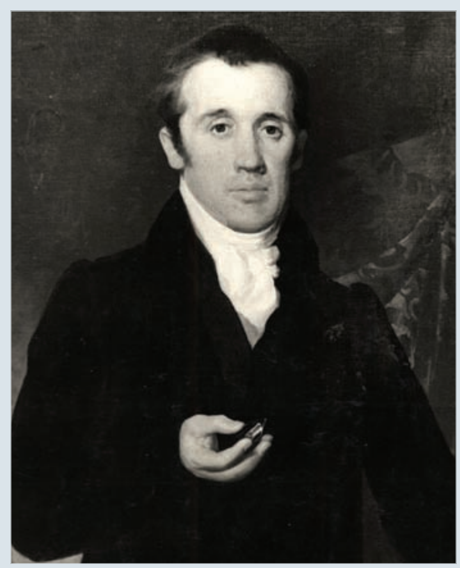
Timothy Dwight, B.A. 1769, as Yale's President from 1795 to 1817, introduced the study of chemistry and founded the medical school in 1810. His grandson of the same name, President from 1886 to 1899, helped make Yale a true university.

by writing, "That place is spacious and a very considerable town; it has the largest university in America, and might with propriety be styled the parent and nurse of rebellion." Stiles reconvened the College in October. The rest of Stiles's presidency was spent expanding the curriculum and introducing a rigorous examination system.

The first Timothy Dwight followed Stiles as Yale's President in 1795. The elder Timothy Dwight (grandfather of the second Timothy Dwight) was an extremely precocious child. He read the Bible at the age of four and began college-level studies at the age of nine, graduating first in his Yale class in 1769. As President, Timothy Dwight founded the medical school in 1810 and expanded offerings in science. He was the first President to envision Yale as a multifaceted University.

Timothy Dwight's efforts to expand the sciences included the establishment in 1798 of a new professorship in chemistry. After four years of searching, Dwight settled upon Benjamin Silliman, a Yale graduate of 1796 who worked as a tutor and studied as a law student. Silliman had little background in science and had never studied chemistry, yet Dwight saw potential. Silliman spent the next two years in Philadelphia studying chemistry and returned to Yale to begin teaching in 1804. Over the following decades, Silliman became America's greatest proponent of science. In addition to teaching at Yale, he gave public lectures around the country and established the *American Journal of Science and Arts*. Silliman shared Timothy Dwight's dream of Yale as a more expansive university and helped found the School of Engineering in 1852 before retiring in 1853 at the age of seventy-four. He taught at Yale for fifty-four years.

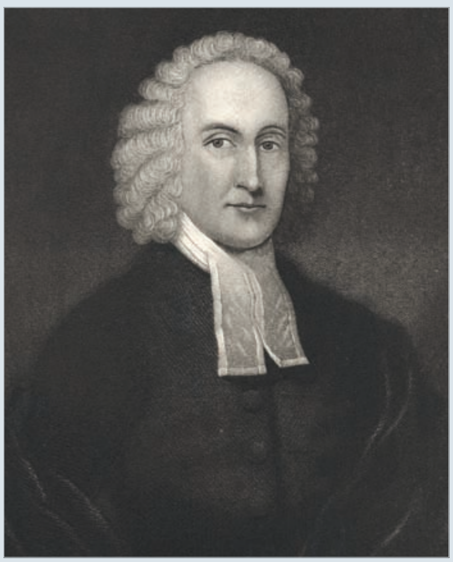
Timothy Dwight's and Benjamin Silliman's efforts to create a university were achieved under the presidency of Timothy Dwight's grandson in 1887. The younger Timothy Dwight in many ways served as the bridge between the nineteenth-century Yale College and the twentieth-century Yale University. A graduate of the Yale class of 1848, Dwight was inaugurated as President in 1886 and was the last minister President. His presidency was marked by dramatic expansion and diversification of learning. Under his tenure, enrollment increased 150 percent, faculty more than doubled, and Old Campus was added to the physical plant. Equally important, Dwight was able to bring the disparate schools of Yale together into a coordinated university, ending the animosity and division between the disciplines. To pay for all this, Dwight astutely managed the Endowment, took no salary, and contributed much of his personal fortune to the University. He resigned in June 1899, having transformed the old Collegiate School into a modern university.



Benjamin Silliman, who inspired the naming of Silliman College in 1940, taught at Yale from 1804 to 1853 and became an influential force in American science education.

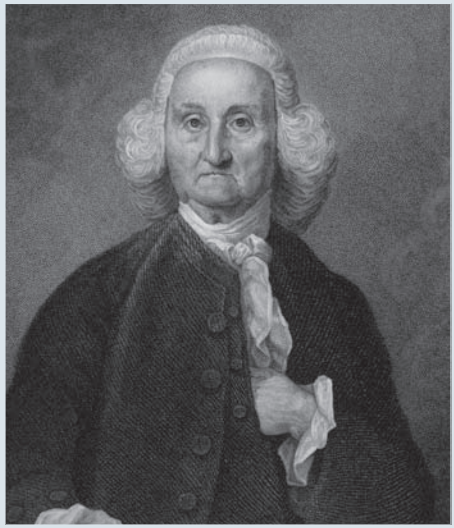
Beyond Yale's Gates

Four of the twelve colleges are named for men whose greatest contributions were made outside of Yale's gates. Jonathan Edwards entered Yale at the age of twelve, graduating as valedictorian in 1720. He then tutored at Yale from 1724 to 1726 before becoming a preacher. The late 1720s saw much religious drift in New England. A lack of farmland meant young men had to wait longer to marry and gain independence, leading to restlessness among youth. Edwards reacted by developing a hard-hitting preaching style with vivid images of sin and damnation, which were offset by the potential for salvation by faith alone. Despite his reputation for sermons such as "Sinners in the Hands of an Angry God," Edwards became a voice for moderation and compromise between the "New Lights" and "Old Lights" during the Great Awakening.



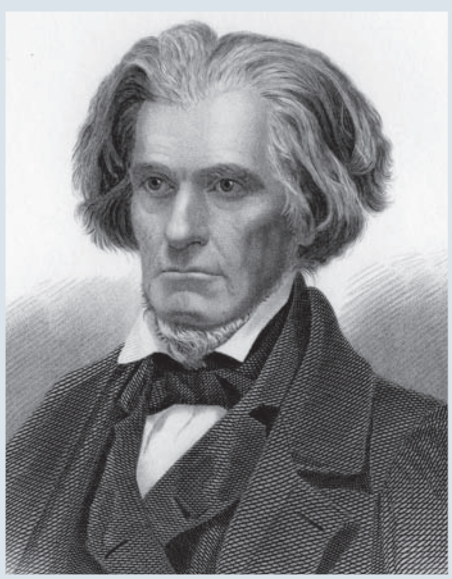
Jonathan Edwards served as a tutor at Yale from 1724 to 1726 before becoming a clergyman who won fame for his writings and sermons during the Great Awakening. His name was given to one of the first residential colleges.

Jonathan Trumbull was the governor of Connecticut from 1769 to 1784. When the Revolutionary War broke out, he was the only colonial governor to side with the colonists. As a result, he was both Connecticut's last colonial governor and its first state governor. Under his leadership, Connecticut was the largest contributor of munitions and supplies to the continental army, earning it the nickname "The Provision State."



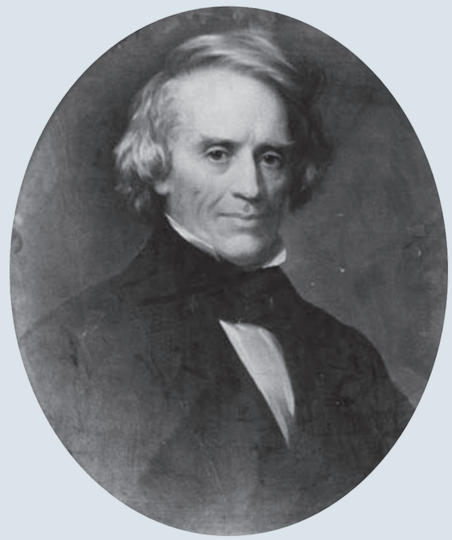
A governor of Connecticut from 1769 to 1784, Jonathan Trumbull received an honorary doctorate of laws (LL.D.) in 1779. Trumbull College is named to honor the man who led Connecticut from colony to statehood during the Revolution.

John Calhoun graduated from Yale in 1804. Born and raised in South Carolina, Calhoun exemplified the geographical diversity that had recently developed at Yale. After the war Yale's reputation had spread to the South and attracted a substantial number of southern students. Calhoun went on to hold a number of elected offices including the Vice Presidency under both John Quincy Adams and Andrew Jackson. However, Calhoun is best known for his staunch defense of state's rights in the face of the anti-slavery movement. Although his views on slavery have long been discredited, his positive contributions to national government were many and significant.



Calhoun College was named for John C. Calhoun of South Carolina, who served as a U.S. Senator, in various cabinet positions, and as Vice President of the United States under Presidents John Quincy Adams and Andrew Jackson.

Samuel Morse studied under Silliman and graduated in 1810. He is best known for his contributions to the telegraph. Morse invented both the technology for single-wire telegraphy and the technology for message transmission over long distances. He would go on to co-develop Morse Code with Alfred Vail. Less well known is his devotion to painting during his early life. Unfortunately, his later years were marked by a long and tiring patent fight over the invention of the telegraph. Ultimately, the Supreme Court ruled in his favor, though Morse never received full recompense for his invention.



Samuel F. B. Morse, a Yale graduate noted for developing the telegraph as well as for his portraits and other paintings, inspired the naming of Morse College at Yale in 1963.

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-two professionals.

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Berkeley College Courtyard.

The Berkeley College Endowed Mastership

John B. Madden, in whose honor the first endowed Mastership of a residential college (Berkeley) was created in 1988.

In 1988, a directed gift created the University's only endowed Mastership when friends of the late John Madden (B.A. 1941), who was a successor trustee of the Yale Corporation from 1975 to 1987, honored his memory by establishing the John B. Madden Mastership of Berkeley College. As the Dean of Yale College said at the gift's announcement, "This endowment reflects not only the dedication and loyalty of the donors, but also the richness of life and variety of experience that the donors and their successors have had as students residing in the colleges." The donors considered this Mastership the ideal way to honor John Madden, a former resident of Berkeley, a generous donor, and a dedicated alumnus.

Madden served as partner at the New York banking firm of Brown Brothers Harriman & Co. from 1955 until his death in 1987, holding the position of managing partner from 1968 to 1983. While sitting on the Yale Corporation through the terms of three Yale University Presidents, he chaired various committees including the Corporation Committee on Investment, which oversees the University's endowment operations. Today, his picture hangs in the Investments Office with a quotation found in his datebook.

> *I returned, and saw under the sun,*
> *that the race is not to the swift,*
> *nor the battle to the strong, neither*
> *yet bread to the wise, nor yet riches*
> *to men of understanding, nor yet*
> *favour to men of skill; but time and*
> *chance happeneth to them all.*
> —Ecclesiastes, Chapter 9, Verse 11

Former Yale University President Benno C. Schmidt, Jr. called Madden one of his closest advisers and said that he "helped put Yale's financial house in order after the difficult decade of the 1970s." The Madden fund was created by gifts from Robert V. Roosa, a group of the honoree's fellow alumni, and colleagues from Brown Brothers Harriman & Co.

John Madden distinguished himself during his Yale career by becoming President of Phi Beta Kappa and receiving the Hart Lyman Prize for excellence of character and achievement. After graduating from Yale, he served as a captain in the U.S. Army during World War II and saw action in both Europe and the Pacific. Funds left to Yale in his will endowed the John Beckwith Madden '41 Scholarship Fund, which provides financial aid to a Yale undergraduate each year, with preference to students from Brooklyn, New York, where Madden and his family had their home.

Other Support for Berkeley

Berkeley not only benefits from a specifically endowed Mastership, but the college enjoys a range of endowed support for various activities. "Endowments have fueled practically every aspect of residential college life," says Berkeley Master Marvin M. Chun, who administers twenty endowments that are earmarked specifically to his college. "Thanks to the Walker Memorial Fund, we have the best-equipped woodshop on campus. Endowed funds support the Berkeley College Orchestra, student trips to Broadway, a new poetry project to sponsor public readings, and other creative and performing arts." Endowments provide monies for Master's teas, which over the years allowed students to interact with distinguished guests such as Meryl Streep, Julia Child, and Stephen King.

Right: Popular professor Marvin M. Chun, Department of Psychology, became the John B. Madden Master of Berkeley College in 2007. The position was endowed in 1988.

Financial and Investment Information

Educational institution asset allocations and returns from Cambridge Associates.

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 8-9, 12-14, 20-21
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Morse College

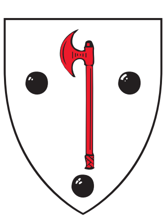

Pierson College


Saybrook College


Silliman College


Ezra Stiles College


Trumbull College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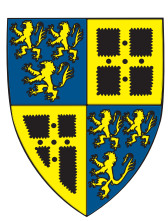
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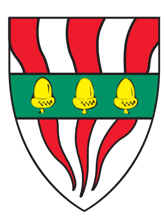
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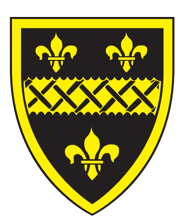
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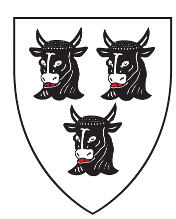

Trumbull


Berkeley College

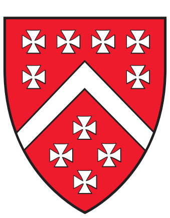

Branford College


Calhoun College


Davenport College


Timothy Dwight College


Jonathan Edwards College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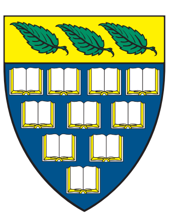
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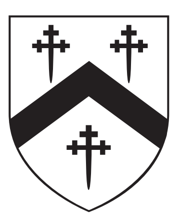
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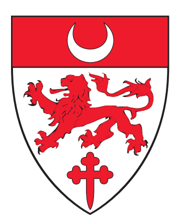
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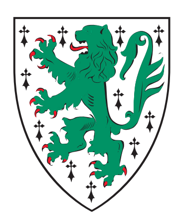
Jonathan Edwards