

WELLESLEY COLLEGE
OFFICE OF THE PRESIDENT

H. Kim Bottomly

March 31, 2016

The Honorable Orrin G. Hatch
Chairman, United States Senate Committee on Finance

The Honorable Kevin P. Brady
Chairman, United States House Committee on Ways and Means

The Honorable Peter J. Roskam
Chairman, United States House Ways and Means Subcommittee on Oversight

Dear Sirs:

Wellesley College and the College's Board of Trustees are pleased to respond to the questions posed in your letter of February 8, 2016.

Founded in 1870, Wellesley has a long and proud history as the nation's leading college for women, reflecting its enduring commitment to providing an excellent undergraduate education for women. Our leadership role depends upon our having the financial resources to fulfill this mission—for today's students, for generations of future students, and for every organization and every community that benefits from the women leaders that Wellesley has been so dedicated to—and so successful at—cultivating.

Fulfilling its mission as a top-tier residential college requires that Wellesley make numerous long-term commitments—to our students and faculty, to instructional initiatives, and to the maintenance and upgrading of facilities and technology. To meet these commitments, it is vitally important that the College have adequate financial resources—resources drawn in large measure from a robust and carefully managed endowment. Funds from our endowment enable Wellesley to dependably and continuously invest in the quality education that benefits our students—as well as the society into which they graduate—regardless of economic volatility or turns in the financial markets.

We recognize that the nature—as well as the function—of a college's endowment may not be well understood. Wellesley's endowment is made up of 3,133 individual funds, most of which have specific donor restrictions as to the type of activity they can support—and will continue to support in perpetuity. And so we welcome this opportunity to respond to your questions regarding how Wellesley's own endowment functions and



how income from endowed funds is used. More important, we welcome this opportunity to demonstrate how fundamental the endowment is to the mission and charitable purposes of the College. (In the fiscal year ended June 30, 2015, for example, 40 percent of Wellesley's total revenue was derived from our endowment.)

Need-Blind Admission

One of Wellesley's most fundamental institutional values and a central imperative in fulfilling our mission is our commitment to maintain our policy of need-blind admission for U.S. students. We also provide financial aid that *fully* meets each admitted student's demonstrated need. We deeply believe that students should be considered for admission solely on their talents, potential, and individual qualities rather than on their financial resources, and we want to continue to be able to provide the level of support that any qualified student may require in order to attend the College.

Consistent with—and in endorsement of—Wellesley's long-held values, our alumnae and friends have overwhelmingly chosen to earmark their endowment gifts for financial aid and faculty support, serving the dual goals of expanding access to a Wellesley education to all women—regardless of their ability to pay—while ensuring the continued excellence of our faculty and the superior education they provide.

Robust Financial Aid

One of the most encouraging results of our commitment to need-blind admission and to meeting a student's full need for aid throughout her time at the College is a remarkably socioeconomically diverse student body: Wellesley was ranked 6th among U.S. liberal arts colleges on economic diversity by the New York Times' College Access Index for FY2015. In that year, 58 percent of our students received financial aid, 29 percent came from families with incomes below \$60,000, and 19 percent of Wellesley students received federal Pell grants (their family incomes were under \$40,000). The average financial-aid grant at Wellesley for all students receiving financial aid was \$39,988, resulting in an average annual cost to attend Wellesley for these students of \$21,930. (Restricted and unrestricted endowed funds are used solely for need-based aid—Wellesley does not offer merit aid.)

In short, because of the College's financial-aid policies (primarily supported by our endowment), Wellesley has one of the lowest net prices—or cost of attendance—of the leading liberal arts colleges. And our students graduate with among the lowest average federal-debt obligations: \$8,225. (Wellesley was recently recognized as one of the top 10 colleges in the country for its students graduating with the *least* amount of debt by the Institute for College Access and Success.)

In the last year alone, the College provided \$51.3 million of financial-aid grants to students, of which \$27.1 million or 52.9 percent was funded by endowed funds restricted to financial aid. Additional financial aid was provided by alumnae as annual "current-

use” gifts (\$1.7 million), and by the College itself (\$21.8 million from unrestricted funds—more than half of which is funded by unrestricted endowed funds.

Outreach and Access

Wellesley communicates its comprehensive financial-aid policies—as well as the relatively low average *net* price of attending Wellesley—to the broadest possible audience of potential students and their families. To accomplish this, we use an integrated multimedia approach, and focus on low-income and first-generation college prospects to make sure that they and their families are aware that, for 60+ percent of our students, the actual cost of attending Wellesley is significantly lower than what the College charges for tuition, room and board, thanks to our generous financial-aid policies and our endowment.

As part of the College’s outreach efforts, Wellesley economics professor Phillip Levine has developed an easy college-cost estimator, My inTuition, for prospective students and their families. Originally proprietary, this tool has been shared and is now in use at a growing number of other colleges and endorsed by QuestBridge, a non-profit organization that links high-achieving, low-income students with leading U.S. colleges and universities. My inTuition demonstrates to lower- and middle-income students and their families that the nation’s top liberal arts colleges are not only within their financial reach, but often represent their least expensive option. My inTuition poses six basic financial questions and takes only minutes to complete, providing an immediate and accurate estimate of a family’s projected contribution to their daughter’s Wellesley education.

Student Support

Wellesley also dedicates significant resources from unrestricted endowment funds to other benefits for our students and student prospects, including travel expenses for low-income applicants so they might visit our campus. Endowment income is also crucial to providing fully-staffed and resourced campus support services for students—among them health and counseling centers, an office of Intercultural Education, and an Office of Religious and Spiritual Life that serves the many faith traditions of our diverse student body. Wellesley’s endowment income also helps pay for numerous tutoring and academic support services that help to ensure a successful college experience for all students.

To provide maximum transparency, Wellesley routinely makes much of the information requested by your committees publicly available through the College's website (where our annual financial report is also available); through admission and financial-aid publications; and through a variety of public filings such as the National Center for Education Statistics and Integrated Postsecondary Education Data System [IPEDS], and the College’s Form 990, Return of Organization Exempt from Income Tax, that is filed with the IRS. We are also making this letter and our responses to your inquiries publicly available on Wellesley’s website.

We trust that the information provided below demonstrates the essential role the Wellesley College endowment plays in sustaining our commitment to our mission, and to ensuring that some of the nation's brightest young women—irrespective of their families' financial resources—have the opportunity to fulfill their potential and make their difference in the world—as Wellesley women have done so notably for the last one hundred years.

We will be happy to provide additional information as your committees may request.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Kim Bottomly', enclosed within a thin black rectangular border.

H. Kim Bottomly
President

Wellesley College Endowment
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Endowment Management

1. *What categories of assets are included in your college or university's endowment? For each category, please indicate the amount of funds that are:*
 - a. *unrestricted;*
 - b. *permanently restricted by donors;*
 - c. *temporarily restricted by donors;*
 - d. *permanently restricted by your college or university (quasi-endowments); and*
 - e. *temporarily restricted by your college or university.*
 - f. *For each restricted asset, please describe the uses for which the funds are restricted and the amount of the fair market value of the endowment apportioned to each use. How and why were the restrictions put into place?*

Response

Wellesley's endowment assets are categorized into separate classes based on the existence or absence of donor-imposed restrictions. Wellesley College reports its assets in its audited financial statements as follows:

a. Unrestricted: endowment assets that are not subject to donor-imposed stipulations. Unrestricted endowment assets may be designated for specific purposes by action of the Board of Trustees (e.g. quasi-endowment, in which case we have included them in 1d below) or may otherwise be limited by contractual agreements with outside parties.

b. Permanently restricted: endowment assets that are subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of this category of endowed funds permit the College to use all or part of the investment total return to fund the donor specified purposes. Permanently restricted endowment assets generally represent the historical book cost (market value at date of gift to the College) of contributions and other inflows of funds whose use by the College is limited by donor-imposed stipulations. These stipulations neither expire by the passage of time nor can they be fulfilled by actions of the College or otherwise removed by the College.

c. Temporarily restricted: endowment assets that are subject to donor-imposed stipulations that can be fulfilled by actions of the College, pursuant to those stipulations, or that expire by the passage of time. This category also includes realized and unrealized net gains on the permanent endowment.

d/e. Restricted: endowment assets that are designated by the College's Board of Trustees. You will note that we have stricken the word "permanently" in category d. Quasi-endowment, or funds designated by the Board of Trustees to act as endowment, cannot be permanently restricted. Board designations typically remain in force unless or until changed by subsequent Board vote. But they *can* be changed, and principal can be expended with Board approval.

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The table below categorizes Wellesley College's endowment net assets as requested.
\$'s in thousands (000)

\$'s in thousands (000)	FY2013	FY2014	FY2015
a. Unrestricted	14,296	16,402	16,170
b. Permanently restricted by donors	431,772	482,316	508,922
c. Temporarily restricted by donors	625,935	761,067	776,743
d. Permanently Restricted by your college or university (quasi-endowments)	504,334	574,352	579,196
e. Temporarily restricted by your college or university (not applicable)	0	0	0
Total Endowment Net Assets	1,576,337 1,576,337	1,834,137	1,881,031
f. Endowment Value by Purpose			
Financial Aid	484,382	570,191	589,567
Faculty Salaries	497,450	559,360	568,207
Undesignated	249,597	294,775	296,986
Academic Programs & Initiatives	202,631	242,620	254,395
Student Services	38,210	46,053	47,900
Library	36,091	44,043	44,659
Facilities	35,213	40,146	41,714
General Institutional	32,762	36,949	37,602
Total Endowment Net Assets	1,576,337	1,834,137	1,881,031

The purposes shown in section f include all endowment assets, including both those that are permanently restricted and temporarily restricted by donors, unrestricted funds, and quasi-endowment funds whose purpose was designated by the Board of Trustees but not restricted by donors.

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2. *Does your college or university hold any investments that are not included in the endowment? If so, what are they, and what are their fair market values and basis? How are they used to further the educational purpose of the college or university?*

Response

The College has several such investments. The market value and book value (basis) for these investments is listed in the table below.

One of these investments comprises the proceeds from a debt issuance to be used to fund facilities renewal and modernization projects on our campus during fiscal 2016 and 2017. These unexpended construction funds are listed as operating investments in the College’s Statement of Financial Position.

Another category of investments includes planned giving funds from “split-interest” agreements consisting primarily of annuities, pooled life income funds, and charitable remainder unitrusts that are managed externally. These investment assets are included at fair value within the planned giving investments line on the College’s Statement of Financial Position.

In addition, the College invests some planned giving unit trusts in which it has a remainder interest commingled with its endowment. These assets are included in the Investments line in the Statement of Financial Position, but they are not endowment assets.

The College has a small number of accounts that are not pooled. These are held for a few affiliated non-profit constituent groups on campus such as Friends of Wellesley College Athletics and Friends of Wellesley College Art to support activities on campus which are aligned with, and supportive of, the College’s charitable mission. These investments are included in the fair value of the College’s investment total on the Statement of Financial Position.

\$’s in thousands (000)	FY2013		FY2014		FY2015	
	Mkt Value	Bk Value	Mkt Value	Bk Value	Mkt Value	Bk Value
Operating investments (Construction Funds)	44,892	45,000	42,775	45,000	43,445	45,000
Planned giving investments (held in trust and managed externally)	67,178	51,239	69,253	47,194	65,711	50,487
Planned giving investments (managed by the College alongside the endowment)	3,846	3,715	3,936	3,338	5,332	4,414
Non-pooled investments	213	213	213	213	213	213

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3. *What is your endowment size, as measured by total fair market value of its assets? What has been the net growth and net investment return on your endowment each year?*

Response

Net growth in the value of the endowment reflects net investment gain or loss, new contributions, and the amounts spent in support of the College's mission.

\$'s in thousands (000)	FY2008	FY2009	FY2010	FY2011
Endowment market value	1,629,331	1,287,082	1,330,045	1,523,452
Growth (ending value/beginning value)	-2.6%	-21.0%	3.3%	14.5%
Net return (after fees)	1.22%	-16.97%	9.34%	20.36%

\$'s in thousands (000)	FY2012	FY2013	FY2014	FY2015
Endowment market value	1,468,370	1,576,337	1,834,137	1,881,031
Growth (ending value/beginning value)	-3.6%	7.4%	16.4%	2.6%
Net return (after fees)	0.75%	12.47%	18.80%	5.91%

4. *How much has your college or university spent each year to manage the endowment, and how many staff and contractors are employed to manage the endowment? For any fees paid to nonemployees for investment advice, asset management, or otherwise, please provide detail on the amounts paid, to whom, and the fee arrangement.*

Response

The Investment Office currently employs a dedicated staff of 8 investment and operations professionals who focus primarily on management of the College's endowment assets. Investment Office costs include the compensation and benefits for the investment staff; administration and custody fees; outside advisors and consultants other than investment managers; occupancy, legal, travel, and office expense.

Investment management fees include those paid directly to investment managers and fees subtracted from net asset values in comingled vehicles. Investment returns are reported net of all fees.

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The Cost of Managing Wellesley's Endowment

\$'s in thousands (000)	FY2013	FY2014	FY2015
Investment Office Cost	3,308	3,972	4,692
<i>Cost expressed in basis points (bps = one hundredth of one percent) as a % of endowment average FY value</i>	23	26	25
<i>Number of full time staff</i>	6	7	8
Estimated Management Fees	23,111	25,162	24,054
<i>Cost expressed in basis points as a % of endowment average FY value</i>	153	151	133
Total Investment and Management Fees	26,419	29,134	28,746
<i>Total Cost expressed in basis points as a % of endowment average FY value</i>	176	177	158

5. *If your endowment is required to file a Form 990 separately from your college or university's Form 990, please provide the endowment entity name(s) and Employment Identification Number.*

Response

Not applicable.

Endowment Spending and Use

6. *How does your college or university determine what percentage of the endowment will be paid out each year? If any, what has been the target endowment payout as a percentage of the endowment's beginning balance each year? If that answer differs from the percentage paid out, please explain why. Please attach any payout policies or guidance.*

Response

Endowed funds are intended to support the mission of the College by providing a sustainable level of support to the operating budget both today and in perpetuity. The College's endowment spending policy seeks to balance the need for current support with the goal of maintaining endowed funds' purchasing power over time. Since the College has made long-term commitments, it is important that the College's spend rule provides for predictability and consistency from year to year. (This moderates the effect on the College's operating budget from short-term market fluctuations.) Spending from the endowment increases less following market gains, and decreases less following market declines, than if the rule were based solely on the market value of the endowment. The trustees approve a spending rate at their annual winter meeting for the upcoming fiscal year.

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Wellesley's spend rule is not based primarily on a target percentage of the endowment market value. Rather, the College uses a rule in which the payout is a weighted average of prior-year spending adjusted for inflation (80%), and 4.25% of the most recent endowment value (20%). The sum of the two elements is tested against a three-year average of past endowment unit-values so that spending is no greater than 5% and no less than 4% of the three-year average value, adjusted for inflation. Please see the attached spend-rule policy.

This spend rule was updated in the fall of 2013, and implemented for FY2015, with a subsequent (non-material) update in the fall of 2015. The College usually reviews and updates the spend rule every three years, although its basic philosophy and structure have been consistent since 2007.

Actual endowment spending in a given year, expressed as a percentage of the endowment market value at the beginning of the year is shown in response to Question 8 and does not reflect the averaging and weighting described above.

7. Does your college or university have policies regarding spending the endowment principal? Has your college or university ever spent endowment principal? If so, under what circumstances?

Response

Wellesley has operated in compliance with the Uniform Management of Institutional Funds Act (UMIFA) and subsequently the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which became law in Massachusetts on July 2, 2009

In practice, the College has spent endowment principal only when required to meet the stipulations of the donor when there has been a formal vote of approval by the Board of Trustees in the case of quasi-endowment.

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8. *How much and what percentage of the endowment's beginning balance has your college or university spent each year? How much and what percentage of the endowment's return on investment has your college or university spent each year?*

Response

\$'s in thousands (000)	FY2008	FY2009	FY2010	FY2011
Endowment size (ending value)	1,629,331	1,287,082	1,330,045	1,523,452
Spending in dollars	76,584	81,199	86,612	79,107
Spending as a % of beginning endowment market value	4.58%	4.98%	6.73%	5.95%

\$'s in thousands (000)	FY2012	FY2013	FY2014	FY2015
Endowment size (ending value)	1,468,370	1,576,337	1,834,137	1,881,031
Spending in dollars	78,392	79,924	81,487	82,561
Spending as a % of beginning endowment market value	5.15%	5.44%	5.17%	4.50%

Each year, per the process outlined in answer to question 6, spending is determined on a per-unit basis which establishes the total spending from the endowment in dollar terms. From this authorized spending, it is then possible to calculate a spend rate using the beginning endowment value as the denominator. (As noted above, this is a calculation based on a one-year snapshot of endowment value and not the three-year average used by the College.)

The College's spend rule is designed to allow for prudent current spending from endowment funds while minimizing the risk that the purchasing power of the funds erode in the future. In order to preserve intergenerational equity, current spending, expected inflation, and expected investment returns must all be taken into account. Assuming long-term gross-investment return expectations of 7.00%, investment office expense of 0.25% and long-term inflation expectations at 2.50%, our modeling and analyses indicate that a targeted spending rate of 4.25% would preserve intergenerational purchasing power and equity. The spending policy aims to ensure consistent multigenerational levels of support over time without undue downward fluctuations in spending when returns are below spending, or negative (as has happened in three of the past eight years).

Thus the College does not target (or calculate) spending as a percentage of the net total return year by year. Rather, Wellesley relies on the spend rule to ensure that, over time, the College does not either underspend or overspend its endowment. In order to achieve intergenerational equity over the long term, spending must be less than total returns, and total return must meet or exceed spending—plus inflation—over time. (In any given year, the total return can exceed spending, or spending can exceed total return.) Over the ten-year period ending June 30, 2015, the nominal return of the endowment was 8.2%. Over

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the same period, spending plus inflation was approximately 7.8% (with average spending of 5.1% and inflation of 2.7%).

9. *What percentage of your endowment does your college or university devote to financial aid for student tuition? How much for other forms of student financial aid? Please specify the types of non-tuition financial aid provided.*

Response

In FY15, Wellesley awarded need-based financial-aid grants of \$51.305 million. (In addition, \$1.930 million of Federal Pell grants were awarded to Wellesley students.)

As a residential college, financial-aid awards are based on the College’s comprehensive fee, which includes tuition, room, and board. Financial aid at Wellesley College is awarded as a package based solely on need, and is credited to student accounts in two equal installments, at the beginning of each semester. These funds are used to offset charges for tuition, room, and meal plans—in full or in part—for students with demonstrated financial need. It is worth noting that the vast majority of financial aid awarded by the College is in the form of grants, which do not need to be repaid. This helps Wellesley students graduate with some of the lowest debt levels in the country.

The total value of endowment funds restricted for Wellesley financial aid grants is listed below.

\$’s in thousands (000)	FY2013	FY2014	FY2015
Endowment Value – Financial Aid	484,382	570,191	589,567
% of Total Endowment Value	30.7%	31.1%	31.3%

The College draws on endowment funds annually, consistent with the spending policy, to support total financial-aid grant awards. Data on total financial-aid grant allocations and the amount supported by the endowment is as follows:

\$’s in thousands (000)	FY2013	FY2014	FY2015
Total Wellesley Grant Aid Awarded	50,561	51,934	51,305
Restricted Endowment draw designated for Financial Aid	26,231	26,811	27,138
% of Fin Aid Grants funded by Endowment	51.9%	51.6%	52.9%

In addition to direct support of financial aid from donor-restricted funds, current use gifts, and grants, the College provided \$21.771 million for financial aid in FY15 from unrestricted sources. Of this amount, the draw from undesignated endowment (shown in the response to question 1.f) was approximately \$13.364 million in FY15, and the balance was made up by the general operating funds of the College.

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10. Does your college or university have policies regarding whether it is allowed to accept funds restricted to a specific purpose? Has your college or university ever declined a donation because it was restricted to a certain purpose? If so, please describe those specific scenarios in which your school rejected a donation.

Response

The College has a Gift Acceptance Policy governing acceptance of gifts restricted to a specific purpose. The College has not in recent memory declined a donation because of a specific restriction. The College fundraising staff works closely with potential donors to ensure that restricted gifts meet the College's highest needs and priorities.

11. How much and what percentage of your college or university's endowment is invested in real property (not including REITs or other publicly-traded securities)? Please list and describe your college or university's real estate holdings, including real estate held by the college or university, the endowment, and all related entities. If the college or university has made any Payments in Lieu of Taxes, please provide the date and amount of the payment.

Response

The endowment has no direct real property holdings.

The College's real estate holdings consist of its 450-acre campus and 6 properties for faculty housing. All real property is held directly by the College.

12. Does your college or university grant naming rights to donors based on certain donation levels? If so, please describe the naming rights program, including how much and what percentage of any naming rights donations your college or university has used for tuition assistance.

Response

The College does grant naming rights to donors based on the purpose of the restricted fund and certain minimum contribution levels. The minimum contribution level is typically set to ensure that the income produced by the restricted endowed fund fully covers the cost of the activity supported.

The dollar amount and percentage of naming rights donations in each of the past three years for endowed restricted funds in support of financial aid is presented below.

\$'s in thousands (000)	FY2013	FY2014	FY2015
Gifts and Bequests to Named Endowed Funds	8,378	44,488	20,434
Gifts and Bequests to Named Endowed Financial Aid Funds	5,342	19,492	11,682
% of Gifts and Bequests to Named Endowed Financial Aid Funds	63.8%	43.8%	57.2%

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Conflicts of Interest

13. *What conflict of interest policies does your college or university have in place to address financial interest in endowment investments (including potential conflicts of interest among and between governing boards, trustees, executives, internal employees tasked with overseeing the endowment, and external asset managers of endowment assets)? How do you vet board members' potential conflicts of interest? What are your policies if a conflict arises with a member of the board of trustees?*

Response

The College has a written conflict-of-interest policy and disclosure protocol that covers all Trustees, Officers and Senior Administrative Staff, members of the Investment Office, and non-trustees who are members of any Committee. It also serves as a guide for all other College employees. All covered persons receive guidance on the College's policy annually, and are required to complete disclosure forms each year. New board members and covered persons receive training at orientation. As a general principle, the College seeks to minimize actual conflicts of interest and even the appearance of conflicts.

Potential conflicts of interest that meet certain criteria are required to be disclosed on Schedule L of the College's Form 990, (Return of Organization Exempt from Income Tax) that is filed with the IRS. For at least the past three years, there have not been any business transactions involving interested persons that require such Schedule L disclosure. Any potential conflicts and relationships of note are reviewed in an annual report to the Audit Committee. The policy states that un-conflicted board members will determine the course of action if a board member is conflicted.

WELLESLEY COLLEGE

Wellesley College Endowment Spending Policy

The Trustees of Wellesley College have established an endowment spending policy that attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing support for current operating budgets. Wellesley's spend rule applies to, and is calculated based on, endowment unit value. Each year the trustees approve the rate of spending per endowment unit for the following year. As a general rule, spending per unit is a weighted average of the prior year's spending and 4.25% of the endowment unit value. The amount of allowable spending will be capped at 5.0% or no less than 4.0% of the average of the last three years' known endowment unit values adjusted for HEPI inflation*.

In the spending rule described below endowment spending may be distorted by economic volatility or natural disaster that occurs early in the fiscal year. For that reason, judgment may occasionally need to be applied to the calculation of endowment spending. If the Provost, Chief Investment Officer and the Vice President for Finance and Administration believe that some adjustment to the regular calculation of spending is appropriate, their assessment will be presented to the Finance Committee at its winter meeting. The rationale and the impact of any deviations from the normal method will be included in the budget materials presented to the Board of Trustees at the time the endowment spending vote is taken.

Methodology for setting annual spending per endowment unit for the following year:

- The per unit endowment spending amount that would have resulted from the actual value of HEPI (rather than the HEPI forecast) inflated by the forecast of current year HEPI** inflation and weighted 80% (a).
- The rate of 4.25% is applied to the most recent December endowment unit value and the result is weighted 20% (b).
- The total of (a) + (b) is the allowable spending rate per endowment unit for the following year.
- The allowable spending rate will be checked relative to the average of the last three known values of an endowment unit as of June 30th, adjusted for HEPI. If the per unit spending rate exceeds 5.0% (or does not reach 4.0%) of the average of the last three known endowment unit values adjusted for HEPI inflation***, the spending policy is considered violated, and the target spending rate per endowment unit and/or the weights applied to (a) or (b) may need to be adjusted to decrease (or increase) allowable spending per endowment unit.
- The Finance Committee will review the calculation of the spend rate per endowment unit at its winter meeting (or a subsequent meeting). With Trustee approval, this rate will be used to distribute income per endowment unit for the coming year.

*HEPI: Higher Education Price Index is an inflation index designed specifically for higher education and is a more widely accepted indicator for colleges and universities than CPI.

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** Current fiscal year HEPI, which is not known at the time endowment spending calculations are made, will be estimated using the fourth-quarter results of the Philadelphia Federal Reserve Bank Survey of Professional Forecasters for the fourth-quarter to fourth-quarter percent change in CPI for the year ahead (CPIB) plus 0.8 percentage point.

*** For example, when calculating the endowment spending per unit for FY 2011, the trailing three year endowment unit value would be the average of the endowment unit values for FY 2009, FY 2008, and FY2007 adjusted by HEPI (using actual HEPI when known in prior years, and an estimate of HEPI in the current year that is equal to the fourth-quarter results of the Philadelphia Federal Reserve Bank Survey of Professional Forecasters for the fourth-quarter to fourth-quarter percent change in the CPI for the year ahead (CPIB) plus 0.8 percentage point.