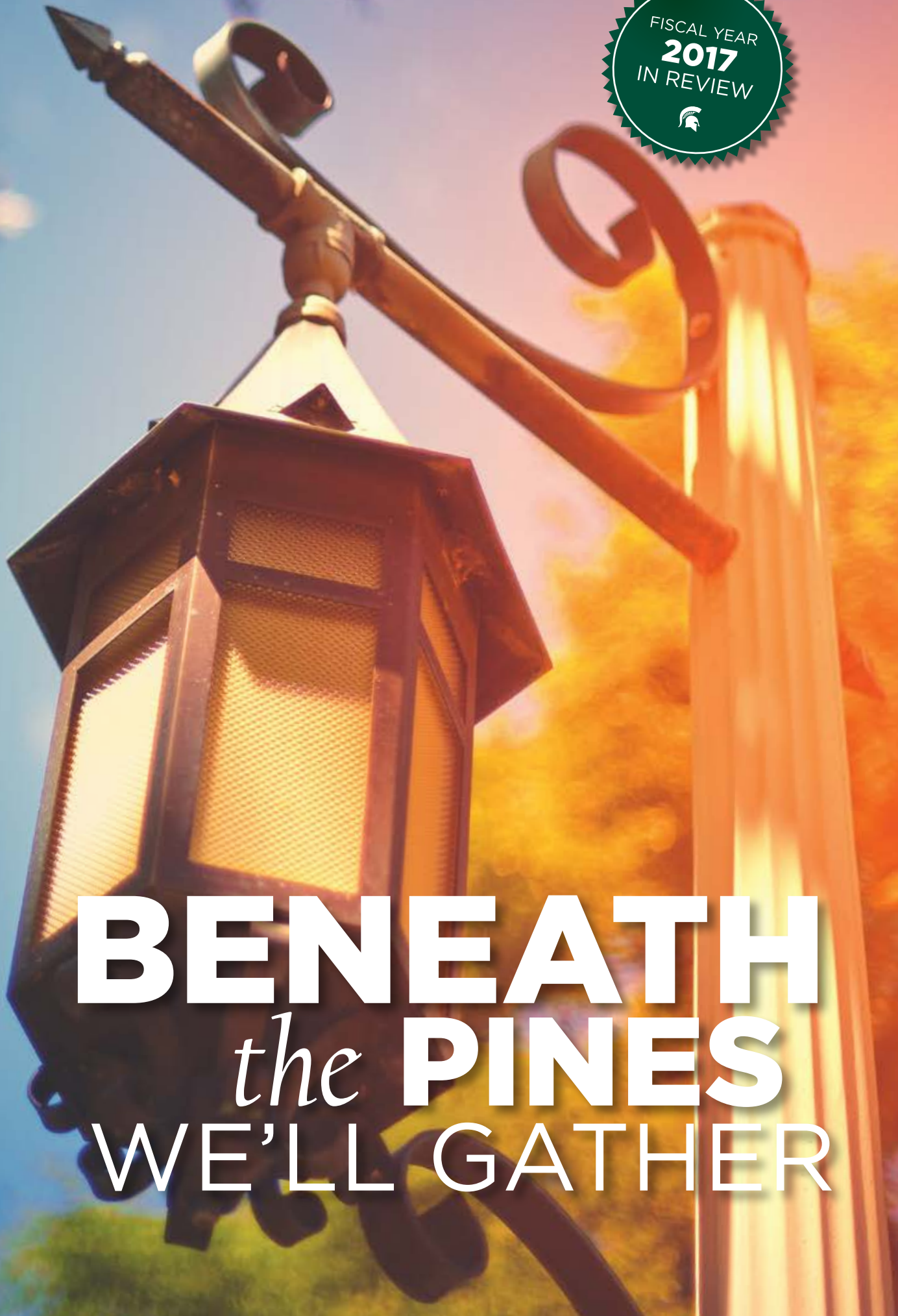


FOR DONORS AND FRIENDS OF MICHIGAN STATE UNIVERSITY

WINTER 2018

# DEVELOPMENTS



**BENEATH**  
*the* **PINES**  
**WE'LL GATHER**

*B*enefactors Plaza is a tranquil and beautiful tribute to the many whose significant financial gifts touch lives, encourage growth, and stimulate never-ending progress at Michigan State.

You are the heart of MSU, and while it is a difficult time, we want to assure you that the work your gifts inspire and empower continues.

This issue features messages from MSU Interim President John Engler (page 2) and University Advancement Vice President Bob Groves (page 4) about the present and future of our university. Also, included is our annual report on the year in philanthropy (pages 6-11).

From modest beginnings in 1855, MSU has been built on the strength of its people. As a university with global reach, and with a research and education program of international distinction, MSU continues to serve as a touchstone for students, alumni, and our greater community. Today, more than ever, we thank you for all you do to support Michigan State.

# DEVELOPMENTS

*The generosity of thousands of alumni and friends empowers MSU's students, faculty, and leaders to accomplish the extraordinary every day.*

#### **Ways to Support Michigan State**

*Online Giving*  
You may make a gift securely online using your credit card. Visit [givingto.msu.edu](http://givingto.msu.edu).

*Cash, Stock, Real Estate, and Other gifts*  
To explore how you might provide financial support to MSU, contact the University Development office in your college or unit, or call (517) 884-1000.

*Estate Planning*  
To remember MSU in your will, personal trust, qualified retirement plan, or IRA, contact the Office of Gift Planning at (800) 232-4678 or (517) 884-1000.

*The correct reference is: Michigan State University, East Lansing, Michigan, and the federal tax identification number is 38-6005984. If you have already named MSU in your estate plans, please contact us so we can welcome you to the Linda E. Landon Legacy Society. For more information, go to [giftplanning.msu.edu](http://giftplanning.msu.edu).*

**Learn more at [givingto.msu.edu](http://givingto.msu.edu)**

#### *For Donors and Friends of Michigan State University*

*MSU Developments, published three times each year, is devoted to the inspiration and impact of private philanthropy at Michigan State University.*

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Robert W. Groves

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## A MESSAGE FROM INTERIM PRESIDENT **JOHN ENGLER**

**L**ike many Spartans, I was in disbelief that the horrific acts of Larry Nassar could be associated with our university. That is why I accepted the call from my beloved alma mater to serve as interim president.

I am well aware that much remains to be done to address the damage that Nassar did, while also getting the focus of our university back to its teaching and research mission. In addition, MSU has been thrust into the national dialogue concerning the sexual harassment of women, and we must respond with positive changes. It's an opportunity for us to become a national model of safety and respect for women, and a community where respect for others and civil behavior is a true reflection of what it means to be a Spartan.

I will call on my long experience as a Michigan lawmaker and governor, and as head of two large national organizations. I also hope to have guidance and support from dedicated Spartans like you. I am resolved that our actions should never fall out of alignment with our values. And I will do my utmost to be a trustworthy steward of MSU's assets, including state appropriations and your own gifts.

While we work to foster a more safe and accountable campus environment, it's worth remembering the firm foundation from which we work. That includes our talented faculty and staff, our committed students, and our engaged alumni and friends.

MSU has been an engine of individual opportunity and an agent for collective good for some 160 years. We cannot stop building what we have been so privileged to build. We will not allow one evil doctor to define us. Thank you for your words of encouragement, for your material support, and for your firm Spartan will.

John Engler, CANR '71  
Interim President



MSU'S BOARD OF TRUSTEES UNANIMOUSLY VOTED AT A MEETING ON JANUARY 31, 2018 TO APPOINT FORMER MICHIGAN GOVERNOR **JOHN ENGLER** AS INTERIM PRESIDENT OF THE UNIVERSITY. ENGLER, AN MSU GRADUATE, ASSUMED HIS DUTIES ON FEBRUARY 5, FOLLOWING THE RESIGNATION OF LOU ANNA K. SIMON.



## A MESSAGE FROM VICE PRESIDENT **BOB GROVES**

**T**hank you for your continued support of Michigan State University. It has been an emotional time for every Spartan I know—and it will take time for us to fully understand the damage inflicted by Larry Nassar. While our primary concern will always be the survivors, it is up to us to make sense of this tragedy and to move forward with changes that will ensure safety and accountability for everyone on campus. Furthermore, with your support, we remain committed to our primary missions of teaching, research, and serving the citizens of Michigan and the world.

I am confident that with the appointment of John Engler as MSU's interim president, we will be able to move quickly and effectively to reset our path. In fact, changes are already taking place. In mid-February, Interim President Engler, Provost Youatt, and three deans announced plans for a new structure for the university's health colleges, clinical practice, and student wellness programs. This effort will allow MSU to be the model for an accountable health culture. Additionally, a national search to find a permanent president will begin soon. While these efforts will be challenging, they are also an opportunity for MSU to show others what it means to be a Spartan.

I want to assure you that no matter what we must face as an institution in the coming days, you have our unwavering commitment that your intentions for your gifts will be respected. Gifts to MSU have been and will continue to be used for their intended purpose as specified by gift agreements or a designated fund's guidelines. This extends to gifts you have made, or plan to make through your estate, new commitments, and earnings from endowments. We adhere to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which governs the use of all gift funds held by charitable organizations in Michigan.

Simply put, MSU cannot and will not use your philanthropic support for any other purpose than what you designate in your written gift agreements with MSU. No part of a restricted gift to MSU will be used to satisfy any third-party claims against the university, including settlement amounts, judgments, legal fees, or other expenses. Your commitment will continue to support the talented students, world-leading faculty, and first-class programs that always have and always will be a part of MSU.

Many of you have shared a wide range of emotions and concerns about recent events. I want you to know that your questions and feedback have never been more important and I encourage you to be in communication with me or other members of the University Advancement team.

Bob Groves, Vice President for University Advancement



**BOB GROVES**, *Vice President for University Advancement*

# EMPOWER EXTRAORDINARY

THE CAMPAIGN for MICHIGAN STATE UNIVERSITY

## The 2017 Fiscal YEAR in PHILANTHROPY

MSU fundraising has been on the rise since the start of the *Empower Extraordinary* campaign in 2011. During the 2017 fiscal year, donors contributed \$254.6 million to MSU, making it the second year in a row that gifts to MSU surpassed a quarter billion dollars.

Every year some of the gifts received come in the form of pledges and charitable bequest commitments. In fiscal year 2017, the portion of actual dollars received was nearly \$200 million, the highest amount to date. Throughout the campaign, that number has steadily grown by an average of more than 12 percent each year.

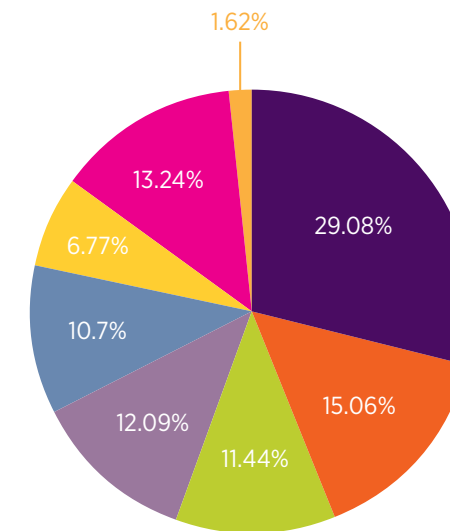
To date, more than 240,000 donors have contributed over \$1.5 billion during the campaign, which is scheduled to conclude on December 31, 2018. Fundraising continues in order to complete several of the campaign's key projects and goals, including endowed faculty positions and building projects.

In addition to fundraising for the Grand Rapids Research Center and the Business College Pavilion (see page 13), the MSU Board of Trustees approved the start of a planning process to expand and enhance facilities for the College of Music in 2017. The move followed lead gifts of more than \$7 million for the project.

Donors have created 75 new endowed faculty positions toward a campaign goal of 100. Nine positions were created in FY 17.



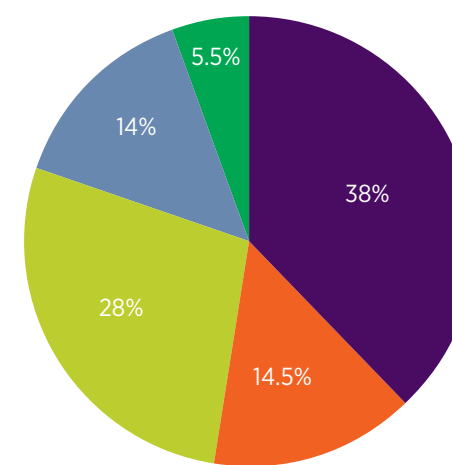
From July 1, 2016, to June 30, 2017



MSU INCOME  
dollars in millions

Net Tuition & Fees	\$859
Grants and Contracts	\$445
State Appropriations	\$338
Net Auxiliary Enterprises	\$357
Other Departmental Activities	\$316
Philanthropy	\$200
Investment Income	\$391
Capital Grants	\$48
<b>TOTAL</b>	<b>\$2,954</b>

TOTAL \$2,954



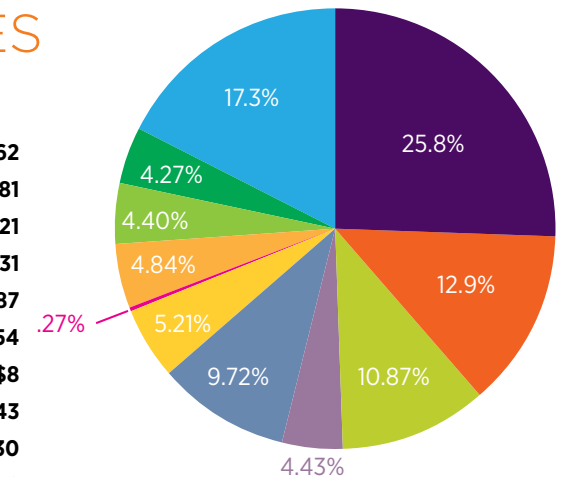
WHERE the GIFTS CAME FROM  
dollars in millions

Alumni	\$76
Other Individuals	\$29
Foundations	\$56
Corporations	\$28
Other Organizations	\$11
<b>TOTAL</b>	<b>\$200</b>

MSU EXPENSES  
dollars in millions

Instruction	\$762
Research	\$381
Auxiliary Enterprises	\$321
Academic Support	\$131
Public Service	\$287
Depreciation	\$154
Other	\$8
Institutional Support	\$143
Maintenance of Plant	\$130
Student Aid	\$126
Increased Value in Assets	\$511
<b>TOTAL</b>	<b>\$2,954</b>

\*Unaudited financials, Source: MSU Statements of Revenues, Expenses, and Changes in Net Position



WHERE the GIFTS WENT  
dollars in millions

Additions to Endowment	\$60
Research	\$39
Property, Buildings & Equipment	\$22
Student Financial Aid	\$22
Academic Division	\$16
Athletics	\$15
Life Income Agreements	\$2
Other Restricted	\$7
Unrestricted	\$2
Physical Plant	\$10
Public Service & Extension	\$4
Library	\$1
Faculty & Staff	\$0.18
<b>TOTAL</b>	<b>\$200</b>

Source: Voluntary Support of Education survey by the Council for Aid to Education

## COMMITMENTS TO SPECIFIC UNITS FY17

Michigan 4-H Foundation	\$1,149,613
Broad Art Museum	\$2,280,538
Broadcasting Services	\$5,016,582
Campus Planning and Administration	\$188,351
College of Agriculture & Natural Resources	\$21,497,162
College of Arts & Letters	\$3,181,925
College of Communication Arts & Sciences	\$1,138,866
College of Education	\$8,963,719
College of Engineering	\$20,766,763
College of Human Medicine	\$17,674,457
College of Music	\$12,507,349
College of Natural Science	\$8,023,573
College of Nursing	\$2,508,236
College of Osteopathic Medicine	\$2,138,385
College of Social Science	\$7,263,431
College of Veterinary Medicine	\$9,221,269
Eli Broad College of Business	\$25,920,910
Graduate School	\$5,025,617
Honors College	\$459,402
Intercollegiate Athletics	\$42,887,769
International Studies and Programs	\$13,563,402
James Madison College	\$1,368,561
Libraries and Information Technology Services	\$5,034,149
Lyman Briggs College	\$175,846
MSU College of Law	\$2,026,101
MSU Museum	\$1,206,217
MSU Press	\$14,884
Residential College in the Arts and Humanities	\$1,413,617
Student Affairs and Services	\$2,023,260
University Scholarships	\$14,716,068
Wharton Center	\$3,537,031
General University	\$11,774,993
<b>TOTAL</b>	<b>\$254,668,046</b>

96,749

SPARTANS

(ALUMNI & FRIENDS)

GAVE IN FY 2017

## STATE'S SHARE OF MSU'S BUDGET

A combination of affordability and fiscal responsibility at Michigan State has benefited the state of Michigan for generations. MSU's economic impact exceeds \$5B annually. Additionally, MSU enrolls the highest number of resident students in the state, 13,000 more than its nearest peer.

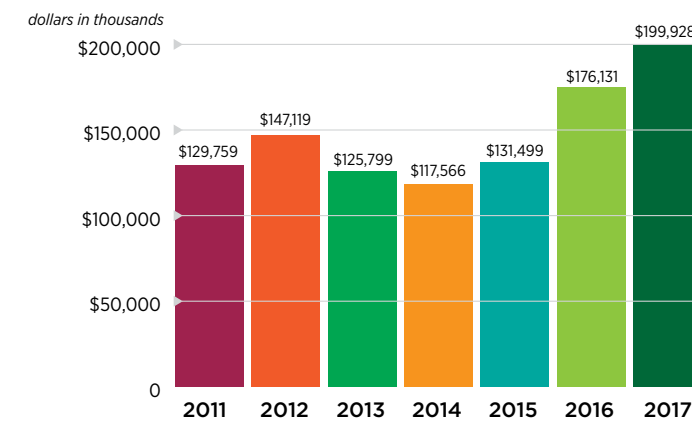
Today, Michigan ranks 45<sup>th</sup> out of 49 states who reported their rate of change to appropriations over ten years, requiring MSU to operate with one of the lowest rates of state appropriations per student in the Big Ten. MSU lags the Big Ten average by \$3,624 per student, approximating \$168 million in resources. State financial support has accounted for less than one-quarter of MSU's total operating revenue for more than a decade.

FISCAL YEAR	MSU'S TOTAL REVENUE	STATE OF MICHIGAN APPROPRIATIONS	PERCENT
2006	\$1,733	\$403	23.3%
2011	\$2,212	\$346	15.6%
2017	\$2,954	\$338	11%

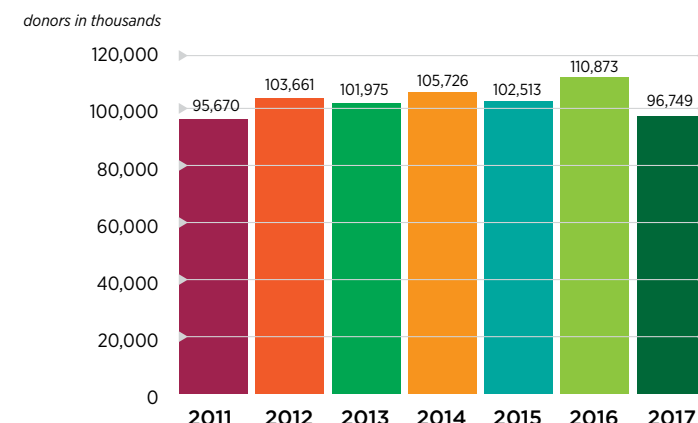
dollars in millions

## GROWTH IN PRIVATE SUPPORT AND DONOR BASE

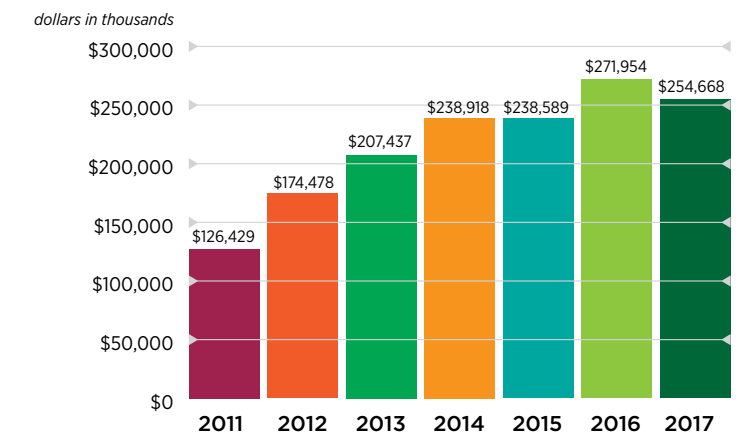
### CASH RECEIPTS



### DONORS



### TOTAL COMMITMENTS, INCLUDING PLEDGES AND PLANNED GIFTS



## MESSAGE FROM THE CIO



### MSU ENDOWMENT GROWTH

The fiscal year ending June 30, 2017 was a strong year for global markets and for MSU. The MSU Endowment was valued at \$2.7 billion after returning 16.2 percent while global equity markets reached new highs. Over the same period, the common benchmark for long-term investors, a 70/30 blend of

global stocks and bonds, returned 12.8 percent. As a result of this strong performance and your generosity, the endowment was able to fund nearly \$130 million in program support this past year.

### OUR APPROACH

Our performance was mainly driven by returns on active global equity, which had underperformed the equity indices for the last few years. Our hedge fund portfolio also had a strong performance, both in absolute terms, as well as risk-adjusted terms. The results were, in part, due to focused attention over the last year as we worked to diversify the strategies and to reduce fees. The only detractor for the year was our small allocation to real assets.

### FUTURE OUTLOOK

While we cheer the market's strong performance in 2017, it must be said that it was not the year many were expecting. We continue to observe slower than expected global growth, modest improvements in productivity, a tightening labor market, and the Fed's gradual tightening of monetary policy. With record high valuations for both stocks and bonds, our long-term return expectations remain low. Undoubtedly, this is a challenging time to invest, but not one without opportunities. We work hard to identify those opportunities, to focus on lowering the fees, and to consider market forces that may change the playing field.

The staff of the Investment Office is honored to be stewards of your legacy to MSU. We are always available to discuss our investment objectives, philosophy, and approach to managing this important asset for future generations of Spartans.

Go Green!

Philip Zecher, Ph.D. '96  
Chief Investment Officer  
Michigan State University

## COMMON INVESTMENT FUND

The MSU Endowment was valued at \$2.7 billion as of June 30, the end of the 2016/17 fiscal year. Over the past ten years, the endowment has produced more than \$856 million to fund student scholarships, endowed professor support, program support, and to cover other annual university expenses.

MSU's Common Investment Fund (CIF) returned 16.2 percent in the 2017 fiscal year, above the median rate of our peers. The CIF's long term performance of 5.1 percent over the past 10 years remains above the median of 4.7 percent for our peers, and has continued to meet the funding obligations to the university.

### INVESTMENT OBJECTIVES OF THE CIF:

- To achieve a total rate of return sufficient to generate the amount annually made available for spending by the MSU programs supported by endowment funds,
- To simultaneously provide a modest increase in the inflation adjusted value, and
- To achieve the desired return while assuming only moderate risk.

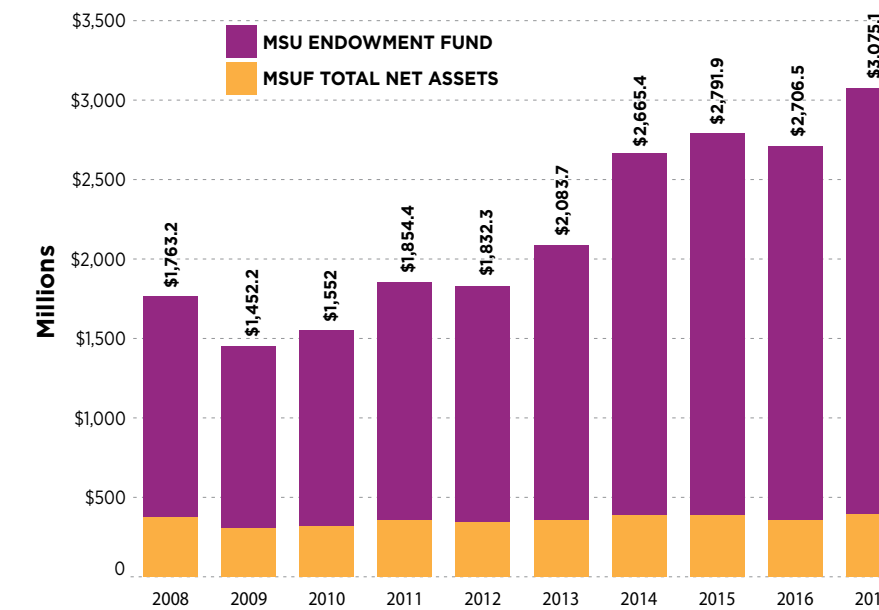
### ENDOWMENT SPENDING POLICY:

- The programmatic spending rate currently stands at 4.6 percent of a 20-quarter average of the market value of those funds invested in the CIF. The spending rate is reviewed annually against the projected long term CIF returns and the impact of inflation, and was reduced from 4.8 percent in 2017. The rate is intended to protect against inflation and provide a modest increase for endowment growth.
- On December 10, 2010, the MSU Board of Trustees amended the endowment spending policy to authorize annual assessments of up to 1 percent of the market value of those endowments in the CIF. The stewardship charge was reduced to .55 percent beginning in the 2016/17 fiscal year.
- An upcoming reduction of the stewardship charge to .50 percent for fiscal year 2019—to correspond with a reduction of the spending rate to 4.4 percent in 2019—has been approved by the MSU Board of Trustees.

## TOTAL ENDOWMENT MARKET VALUE

(MSU & MSU Foundation)

As of June 30, 2017

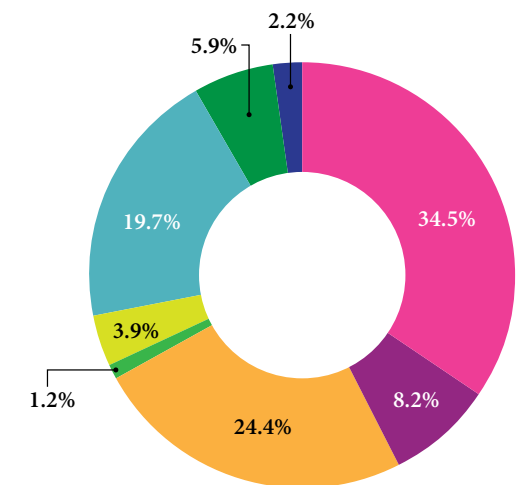


Source: MSU Investment Office; Net total includes MSU Foundation dollars. Institutional dollars are also included to maximize investment strategies.

## ASSET ALLOCATION

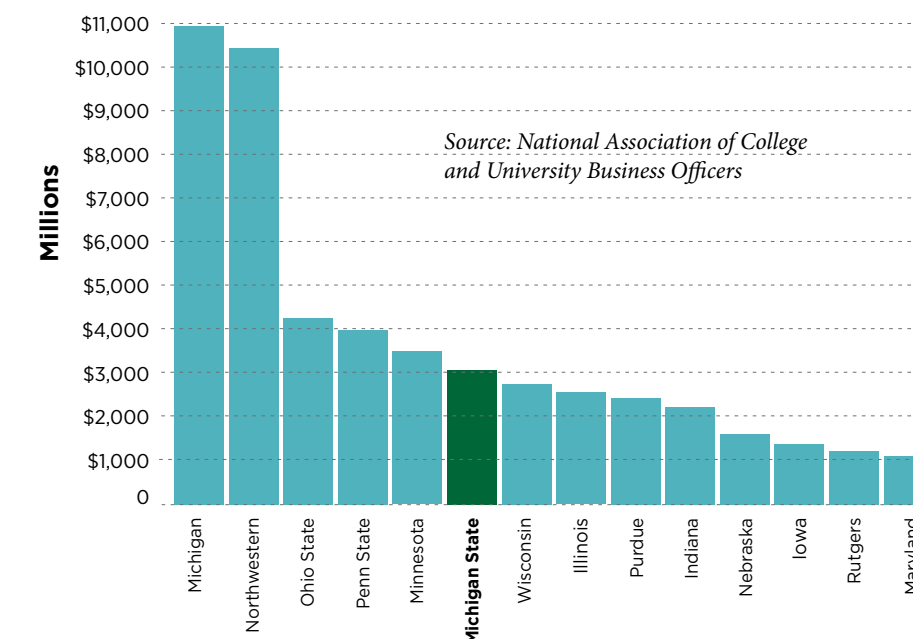
As of June 30, 2017

MSU seeks to achieve its investment objectives by diversifying across major asset classes as well as within each asset class. The investment policy, approved by MSU's Board of Trustees, outlines the asset allocation. Approximately 240 different investment vehicles are now used to invest the funds. Cambridge Associates serves as MSU's investment consultant.



## COMPARED TO BIG TEN PEERS

Endowment Market Values, As of June 30, 2017



Source: National Association of College and University Business Officers

- Global Equities
- Emerging Markets Equity
- Hedge Funds
- Marketable Real Assets
- Private Real Assets
- Private Investments
- Fixed Income
- Private Real Estate

# THE IMPORTANCE OF FUNDRAISING

## HOW DO ENDOWMENTS WORK?

Based on MSU's investment performance, a \$100,000 scholarship endowment established in 1997 grew to a market value of \$183,212 by 2017. Over these years, the investment also distributed \$154,221 to support students, enough to have provided 61 scholarships of \$2,500 each.



## TAXES, MSU, AND YOU

Universities watched closely as Congress negotiated and eventually passed the Tax Cuts and Jobs Act of 2017, which was signed into law December 22, 2017.

“First and foremost, we watched for the sake of our students and graduates. The final bill made no changes to the tax-exempt status of tuition waivers, and also kept the student loan interest deduction intact. For this, we are thankful, as changes to either would have put additional strain on young people, who have already taken on significant financial burdens in pursuit of an education,” says Bob Groves, vice president for University Advancement.

Tax code changes that apply to charitable giving and will impact higher education include:

- Seat premiums for football and basketball season tickets, which were formerly 80% tax deductible, will no longer be tax deductible.
- An increase in standard deduction to \$12,000 for an individual and \$24,000 for married couples filing jointly.
- Charitable gifts are still deductible.
- The federal estate and gift tax exemption has been increased to \$11 million for an individual and \$22 million for married couples. While very few will now be subject to federal estate tax, there are still many excellent reasons to carefully plan one's estate, including ensuring that your charitable intentions are carried out and your loved ones are provided for as you intend.

Please contact the Office of Gift Planning at (517) 884-1000 to discuss how these changes may affect your charitable giving to MSU.

## GROUND Breaking

From the official ground breaking ceremony in September to steel beams going up in December, construction of the Business Pavilion is unfolding for the Eli Broad College of Business at MSU. The three-story project is ushering in the latest in technology and collaborative learning areas—the kind of flexible, open spaces needed to groom business leaders who will be expected to thrive in team environments. A glass-walled atrium will afford panoramic views of the Red Cedar River and an expanded career center will serve students, recruiters, and corporate partners. The 100,000-square-foot-facility, adjacent to the North Business College Complex and Eppley Center, is expected to be completed in 2019. To date, more than \$32.5 million has been raised toward the \$60 million fundraising goal for the building.



**MICHIGAN STATE**  
UNIVERSITY

## **Developments**

*University Advancement*  
*University Development*  
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