MIDDLEBURY’S FRIENDS AND SUPPORTERS often ask important questions about the College’s finances and the philosophy that guides budgetary decisions and the management of the endowment. This information sheet answers some of the most commonly asked questions.

THE BUDGET

What is Middlebury’s annual operating budget?
Middlebury’s fy’13 operating budget is $287 million, which includes the Monterey Institute operating budget.

What are Middlebury’s sources of revenue?
We have three major sources of revenue for the operating budget.

Tuition and Fees: Sixty-seven percent of the operating budget comes from undergraduate and graduate tuition and fees. In fy’13, the undergraduate comprehensive fee is $55,950, including the mandatory $380 student activity fee.

Endowment Earnings: Eighteen percent of the budget is drawn from a proportion of endowment earnings. Over the past 20 years, the endowment averaged an 8.9 percent return on investments annually.

Fundraising: A very important 8 percent of our operating budget comes from the Annual and Parents’ Funds, which exceeded their goals last year and are projected to meet their goals for this fiscal year.

What are Middlebury’s debt obligations?
As of November 1, 2012, Middlebury had approximately $270 million of outstanding debt. The College borrows at tax-exempt rates to expand and improve the infrastructure of the campus or to refund existing bonds.

The weighted, average interest rate of the outstanding debt is approximately 4.24 percent, with an average maturity of 25 years. We are adequately reserved to meet our annual debt service obligations as well as future bullet payments.

THE ENDOWMENT

How is Middlebury’s endowment used?
Hundreds of restricted and unrestricted individual endowments make up Middlebury’s endowment. Restricted endowments may be used only in the manner stipulated by the donor; they may be allocated for a particular program, for example. Unrestricted endowments may be used in any way the College deems necessary. A portion of endowment earnings is released each year to balance the operating budget, making up the difference between revenues and expenses. Middlebury’s spending policy governs the rate at which funds from the endowment are released; this protects the value of the endowment and maximizes the amount reinvested for future growth.
What is the value of Middlebury’s endowment?
As of September 30, 2012, the endowment market value was approximately $895 million, stated in accordance with guidelines established by the National Association of College and University Business Offices. Visit www.middlebury.edu/offices/administration/vpfin/investments for updates.

How has Middlebury’s endowment performed over time?
Like all colleges and universities with endowments, Middlebury experiences fluctuations on an annual basis. Yet, over the past 20 years, the endowment has averaged an 9.6 percent return on investments annually (as of 6/30/12).

![2002–2011 Middlebury Endowment Rate of Return](image)

Endowment Performance Average Over 10 Years

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
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</thead>
<tbody>
<tr>
<td>Middlebury Endowment</td>
<td>2.7%</td>
<td>12.6%</td>
<td>3.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td>MSCI All-Country World</td>
<td>-6.0%</td>
<td>11.4%</td>
<td>-2.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>5.4%</td>
<td>16.4%</td>
<td>0.2%</td>
<td>5.3%</td>
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Who manages the endowment?
Since 2005, Middlebury has contracted with Investure, a private investment management company, to manage the College’s investment portfolio. Investure works in concert with foundations and other college and university endowments, and helps develop guidelines and objectives, allocates assets, selects managers, monitors performance, and administers pooled investment vehicles open exclusively to its clients.

Middlebury’s investment officer at Investure is its founder, Alice Handy, whose CV includes 29 years of managing the endowment for the University of Virginia. She started as the first investment officer, later became treasurer and finally president of the University of Virginia Investment Management Company. She also served as state treasurer for the Commonwealth of Virginia. With a combined portfolio of some $9.1 billion, Investure provides a deep team of professionals and access to investment opportunities comparable to those of the larger endowments.

Alice Handy and Investure work closely with the Investment Committee of the Board of Trustees and with an on-campus financial professional. Under this arrangement, the Middlebury Investment Committee and Board of Trustees remain the fiduciary and are actively involved in making decisions regarding guidelines, asset allocation, and strategic changes in the portfolio, as well as continually monitoring the balance between performance and risk. Learn more at the Investure website: www.investure.com.

What is the mix of the endowment portfolio?
The assets in the portfolio are allocated as follows, according to a guiding principle that carefully combines conservative investments with growth opportunities:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Actual as of 9/30/12</th>
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<tr>
<td>Global Equities</td>
<td>36%</td>
</tr>
<tr>
<td>Alternative Equity</td>
<td>22%</td>
</tr>
<tr>
<td>Private Partnerships</td>
<td>35%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>5%</td>
</tr>
<tr>
<td>Cash &amp; Misc</td>
<td>2%</td>
</tr>
<tr>
<td>Endowment Pool</td>
<td>100%</td>
</tr>
</tbody>
</table>

What steps is the College taking to steward the endowment?
We carefully review our investment strategies to take advantage of opportunities as they arise. We always exert our best efforts to compound Middlebury’s capital at a satisfactory rate and to monitor exposures closely.

The relationship with Investure has enabled the College to take advantage of the company’s expertise across asset classes and gain access to high-quality investment managers that would not otherwise have been possible. Our return for the fiscal year ended June 30, 2012, was 2.7 percent.

How does Middlebury’s endowment rank versus peer endowments in size?
The market value of Middlebury’s endowment is above the median for the 21 peer schools with which we compare ourselves. The chart on the facing page shows that comparison as of June 30, 2011, the most recent date for which that information is available. This level helps the College focus on important areas, among them financial aid and faculty compensation, which are critical to our mission.
One of the best ways to appreciate the importance of the endowment is to look at its size per student. As of June 30, 2011, Middlebury’s endowment per student was just above the median of peer colleges at $361,000 per student.

What are the investment objectives and strategies at the present time?
Our primary objectives are to grow the value of the portfolio and to protect the net value from loss over the long term.

The endowment’s long-term horizon allows for a large allocation to equity-oriented strategies, where the potential for long-term capital appreciation exists.

Other assets, which include but are not limited to hedging, derivative, or diversification options, are also used to reduce risk and overall portfolio volatility.

The endowment is diversified across asset classes and managers.

Under normal circumstances, not more than 70 percent of the endowment’s net assets will be held in vehicles using “lockups” that exceed 12 months. (“Lockup” is defined as an expected period until all or substantially all of the value from an investment vehicle can be received in cash by the endowment.) As a general rule, not more than 40 percent of the endowment’s net assets are held in vehicles using lockups that exceed 60 months, recognizing that private-partnership cash flows are unpredictable.

The endowment is managed to maximize annualized returns, net all costs, over rolling 10-year periods, while adhering to the stated risk parameters.

The endowment is deployed in a manner that seeks to avoid 25 percent or greater peak-to-trough declines in inflation-adjusted unit value.

The endowment is structured to avoid annualized shortfalls exceeding 3 percent, relative to the mean return of large endowments reporting to the National Association of College and University Business Officers, over rolling 10-year periods.

Creating a Sustainable Business Model

What principles guide the financial decisions the College is making?
Budget decisions reflect the College’s mission and core values. Our top priorities are our academic program and our need-blind admissions policy for U.S. students.

How does Middlebury determine what proportion of endowment to release each year for budget support?
Our goal is to maintain the principal of the endowment, to ensure that future generations of students benefit from the generosity of donors, just as current and past generations have. Therefore, the College has set the spend rate from endowment earnings at a 5 percent maximum, annually.
The amount drawn annually from the endowment is 5 percent of the total endowment. Middlebury’s budget is calculated on a three-year average. This ensures that the endowment support for the budget from year to year remains relatively stable.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Return Rate</th>
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<tbody>
<tr>
<td>FY’10</td>
<td>17.7%</td>
</tr>
<tr>
<td>FY’11</td>
<td>18.1%</td>
</tr>
<tr>
<td>FY’12</td>
<td>2.7%</td>
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Is Middlebury exploring new sources of revenue?
Yes. Unlike many colleges, we have the potential to strengthen the College’s long-term financial underpinnings by developing a fourth revenue stream. In April 2010, the College entered into a partnership with K12, a technology-based education company, to create a new venture to provide language instruction for pre-college students.

The new company—Middlebury Interactive Languages (MIL)—builds on Middlebury’s position as the leader in language teaching among institutions of higher education. MIL offers online language-learning courses based on the Middlebury immersion pedagogy. The Middlebury Interactive Courses cover five languages—Spanish, French, German, Chinese, and Latin—and provide multiple levels from third grade through 12th grade. In addition to these courses, MIL offers a portfolio of world language products, both online and in brick-and-mortar schools. These include the Middlebury-Monterey Language Academy, a full-immersion, summer residency program for students in grades 8-12; the Middlebury Interactive Languages Summer Day Academies, a two-week day program for middle school students at four sites; Powerspeak12, robust online language courses for grades 3-12; Avant STAMP assessment; and MIL Professional Development. Each product is designed with the goal of language proficiency and aligned with national standards set by the American Council on the Teaching of Foreign Languages.

Philanthropy

How has the economy over the past several years affected gifts to the College?
Multyear commitments, which tend to be earmarked for the endowment and which provide future revenue for our operating budget were affected by the downturn in the economy after the fall of 2008. In the past two fiscal years, however, donors began again to make longer-term commitments. In fact, with the close of the most recent fiscal year, support rebounded in such a way that fiscal year 2012 was Middlebury’s fourth most successful year of fundraising. These gifts help enormously, and we are very grateful for those donors who have been able to make scheduled gifts.

How has Annual Giving performed?
Alumni and parents support Middlebury at a high level, reflecting their loyalty and belief in the College’s leadership and in the power of a Middlebury education. Each year, their annual gifts provide 8 percent of the College’s budget. Last year, Annual Giving exceeded its goal of $17 million, raising a total of $18.54 million. This year’s goal is to raise $17.8 million in expendable funds.

Over the past 10 years, alumni participation has ranged from 53 percent to 62 percent, and the College is consistently ranked among the top schools in the U.S. for alumni participation. Only a handful of colleges consistently reach participation of more than 50 percent. This year, our goal is to reach 58 percent alumni participation.

Middlebury has an outstanding record of support from current and past parents as well. The Parents’ Fund has exceeded its fundraising goals for the past three years, raising a record $2.7 million in FY’12. This year’s goal is to raise $2.5 million.

How is the Middlebury Initiative progressing?
The Middlebury Initiative is a fundraising campaign that seeks to raise $500 million to build on the College’s established strengths, to extend its reach and influence, expand the range of opportunities available to its students, and secure Middlebury’s position as the global liberal arts college.

As of October 31, 2012, $405 million had been raised. To reach the goal will require gifts of all sizes and the participation of all alumni, parents, and friends through leadership gifts, planned gifts, and the Annual and Parents’ Funds.

The Endowment’s Long Legacy

Middlebury’s first endowment was created in 1816. It consisted of $50,000 in subscriptions from local benefactors. By 1908, the endowment had reached $400,000.

Some of the earliest endowed funds were earmarked for specific scholarships and professorships, and many of these endowments continue to provide critical support today. For example:

- The Catharine E. Waldo Fund has been awarding grants to students in need since 1864.
- The John C. Baldwin Professorship, created in 1866 with $22,500, is held today by Michael Olinick.
- Margaret K. Nelson is the A. Barton Hepburn Women’s Professor. This fund was established in 1908 with $50,000.