Endowment FAQs

FY26 (July 1, 2025 – June 30, 2026)

What is an endowment?

An endowment is a pool of money or other assets that is invested so it can generate earnings and provide long-term, usually perpetual, financial support while keeping the original principal (the “corpus”) intact. An endowment is usually created by donations to a non-profit organization like St. Thomas. The funds are then invested, with the long-term goal of growing funds to provide a specified amount of financial support in the near-term as well as in the future. An endowment is therefore an act of perpetual support to the University of St. Thomas that provides intergenerational support.

How is an endowment different than a regular donation?

A regular gift is usually spent immediately on current needs. An endowment gift is intended to last forever; it is governed by specific spending rules and donor restrictions to ensure the "corpus" (the original gift) remains invested.

How does an endowment work?

When a donor contributes to an endowed fund, the principal is generally intended to remain invested permanently or for a very long period of time. Each year, St. Thomas distributes a portion of the fund’s value to support the purpose of the gift.

For example, a donor may establish an endowed scholarship fund. St. Thomas invests the gift, and each year a percentage of the fund’s value is used to provide scholarship awards to students. The remaining assets stay invested so the fund can continue supporting students in perpetuity.

Will my gift be invested separately?

In most cases, endowed gifts are invested as part of St. Thomas’ pooled endowment. This approach allows donors to benefit from St. Thomas’ institutional investment strategy, diversification and professional oversight.

Can I direct how the endowment is invested?

Generally, donors may restrict the charitable purpose of a gift, but they do not direct day-to-day investment decisions. Investment responsibility remains with St. Thomas’ governing board and Investment Committee. This allows St. Thomas to manage the endowment prudently, diversify the portfolio, comply with fiduciary obligations and apply a consistent investment strategy.

Why do universities use endowments?

Endowments provide long-term financial support that helps universities:

- Provide stable funding through changing economic conditions
- Support scholarships and financial aid
- Recruit and retain outstanding faculty
- Fund research, academic programs, libraries, museums, athletics and student services
- Reduce dependence on tuition and annual fundraising
- Preserve donor intent over time
- Strengthen the university’s long-term financial sustainability

Are there legal or tax specifics involved in creating and maintaining an endowment?

True endowments require the principal ("corpus") to be preserved indefinitely, with changes to this requirement needing donor consent or court approval. Some non-profit recipients of endowments are required by law to pay out a certain amount of those funds each year. St. Thomas has established a payout policy that balances the needs of the University in the present with its future needs.

Trustees of endowments must manage the funds in "good faith" according to the Prudent Person rule, as established by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This also means board or committee members overseeing endowment funds are deemed to have Fiduciary Duties over them. These rules provide peace of mind to donors that gifted funds will be managed appropriately and according to their intent.

The act of gifting and establishing endowments may come with tax benefits to the donor that should be discussed with a tax professional.

What is the governance structure of the University of St. Thomas endowment?

The Board of Trustees is responsible for setting the Investment Governance Policy of the university. The Board delegates the management responsibility to the Investment Committee. The Committee is comprised of experienced Board members and non-trustee investment professionals. The Investment Committee approves asset allocation recommended by an internal investment team and provides oversight to the investment program.

Who manages the endowment portfolio?

St. Thomas utilizes an internal team (Investment Office), led by Chief Investment Officer Sonali Dalal, to implement the investment policy and manage the endowment investments. The Investment Office is staffed with experienced professionals who are responsible for finding the best investment opportunities, monitoring performance and ensuring the portfolio is diversified and invested in accordance with the prescribed asset allocation, as approved by the Investment Committee.

What management and assessment fees are passed on to donors?

There are no management fees or assessment fees charged to the endowment. Only the actual expenses relating to the management of the endowment assets are charged. Expenses relating to the management of the endowment assets are comparable to those of other university investment offices. All investment manager fees are netted against the manager's fund performance, so the investment performance results reflect net of all manager fees.

What fees do investment fund managers charge?

Approximately 50% of St. Thomas' investment managers' fees are performance-based, so the fees paid are not a constant percentage and depend on the level of investment returns generated. The Investment Office evaluates manager fees for reasonableness before investing with the manager and negotiates lower fees where possible. The Investment Committee annually reviews total investment management fees.

How does St. Thomas invest differently than an individual?

St. Thomas invests its endowment assets in accordance with its values and for the advancement of its mission. As a perpetual institution, St. Thomas has the advantage of being able to take a longer-term view toward investing that most individuals cannot. This enables strategic decision-making about asset allocation, rather than a short-term mindset. Further, this long time horizon and professional Investment Office staff may create access to unique investment opportunities not available to most individuals. As such, St. Thomas invests in asset classes that are long-term in nature and generally expected to reward investors for bearing economic, market

volatility and corporate earnings risk. To mitigate these risks, St. Thomas incorporates diversification into the portfolio at multiple levels.

How does diversification help the endowment?

Diversification means spreading investments across different asset classes, geographies, industries, managers and strategies. The goal is to reduce reliance on any single source of return.

Diversification cannot eliminate losses, but it can help manage risk and improve the likelihood that the endowment meets its long-term objectives.

What happens during market downturns?

Endowment values can decline during market downturns. However, portfolio diversification and spending formulas are designed to reduce the impact of short-term volatility on annual distributions.

Because spending is often based on an average market value over several years, distributions may be more stable than the market itself. The Investment Committee may also review liquidity, risk exposures and rebalancing opportunities during periods of market stress.

What is the investment objective of the endowment portfolio?

The objectives are to preserve the purchasing power of the endowment assets over the long term and produce a real investment return of 5% or more with a reasonable level of consistency. A real return accounts for the effect of inflation. Return consistency is important because it helps provide more stable and reliable support for St. Thomas and the advancement of its mission.

What is St. Thomas' investment strategy?

To meet the investment return objectives, the endowment has a high allocation to public and private equities, with the remainder allocated to bonds (Fixed Income) and diversifying/hedged strategies (Diversifiers). St. Thomas has a diversified public equity portfolio and a strategic allocation to private investments that have the goal of adding higher returns over the public markets over longer time periods.

Diversifying strategies are invested with the goal of reducing portfolio volatility while outperforming bonds. Investments in bonds provide protection against negative equity markets and liquidity for spending purposes.

Why does St. Thomas invest in alternative assets like private investments and diversifying hedge funds?

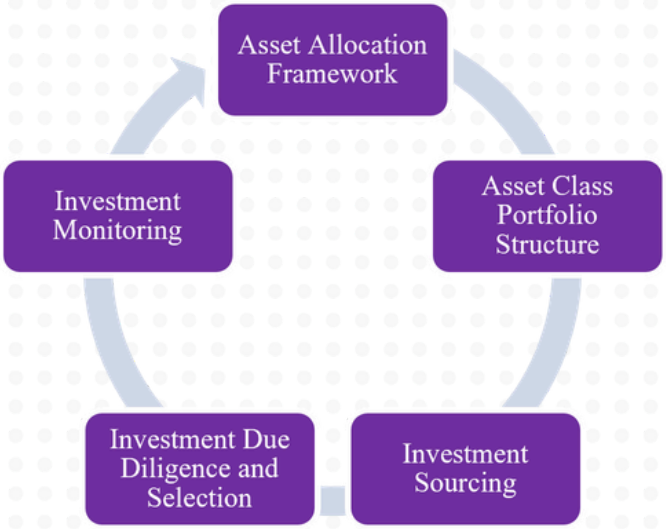
Alternative assets, such as private equity, venture capital, hedge funds, real estate, infrastructure and private credit, may help an endowment:

- Improve long-term return potential
- Diversify sources of return
- Reduce reliance on public stock and bond markets
- Access unique investment opportunities
- Hedge against inflation
- Match the endowment's long-term time horizon

Alternative assets also involve additional risks, such as illiquidity, valuation uncertainty, higher potential fees, manager selection risk and complexity. Careful due diligence is required before investing in these types of strategies.

What is St. Thomas' investment process?

The St. Thomas Investment Office uses an institutional investment process to source and evaluate high-quality third-party investment managers to execute the asset allocation. The process begins by considering the portfolio structure and allocations within each asset class. Each year, the Investment Office screens hundreds of investment firms and their strategies, ultimately allocating capital to eight to 10 new investments through a comprehensive due diligence process. Third-party managers are evaluated based on their investment talent, track record and potential fit within the portfolio. This screening and evaluation is part of a continuous portfolio review process that seeks to continually improve the portfolio, as illustrated below.



How are investment managers selected?

Investment managers are selected through a rigorous due diligence process. Each year, the Investment Office directly sources hundreds of investment opportunities and evaluates managers based on a range of criteria that may include:

- Investment philosophy and process
- Long-term performance
- Risk management
- Organizational stability
- Experience of the investment team
- Fees and terms
- Transparency and reporting
- Alignment of interests
- Compliance and operational controls
- Fit within the overall portfolio

Managers are monitored regularly and may be replaced if they no longer meet St. Thomas' standards or portfolio needs.

How does St. Thomas evaluate endowment performance?

Endowment performance is generally evaluated over long periods, rather than based on a single quarter or year. The Investment Committee reviews portfolio allocations and investment performance with Investment Office staff every quarter.

St. Thomas compares performance to:

- Spending needs plus inflation
- A policy benchmark based on the endowment's asset allocation over both the short and long term
- Market indexes
- Risk-adjusted return measures

Because endowments invest for the long term, short-term fluctuations are expected. The key question is whether the portfolio is meeting its long-term objectives while managing risk appropriately.

What amount is available to spend for St. Thomas' needs?

The spending rate in fiscal year 2026 was 5.0%. The annual spend rate from endowment assets is determined by the Investment Committee and approved by the Board of Trustees. The market value of the endowment equals the cumulative total of gifts received, adjusted by investment earnings or losses and disbursement awards.

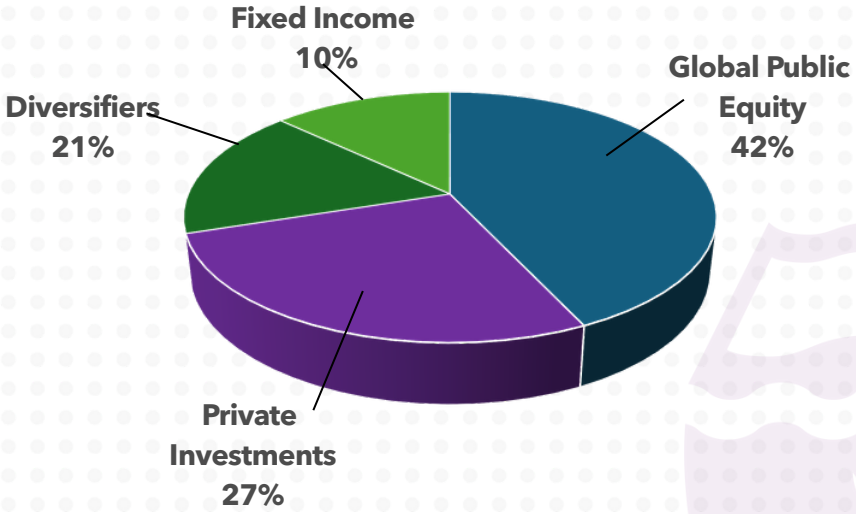
How is the university's endowment currently invested?

The university's endowment currently has a 67.5% target allocation to public equities and private investments and a 32.5% combined allocation to bonds and diversifying strategies; however, it is invested very differently than a traditional "70/30" passively invested portfolio.

The equity allocation is invested 42% in global public equity diversified across geography and sectors, and 27% is invested in private investments. The remaining non-equity allocation to bonds and diversifying strategies is invested 10% in Fixed Income and 21% in a variety of hedged strategies intended to hold value in equity downturns.

The St. Thomas endowment had a return of 13.2% in FY26. Did other institutions have a similar outcome?

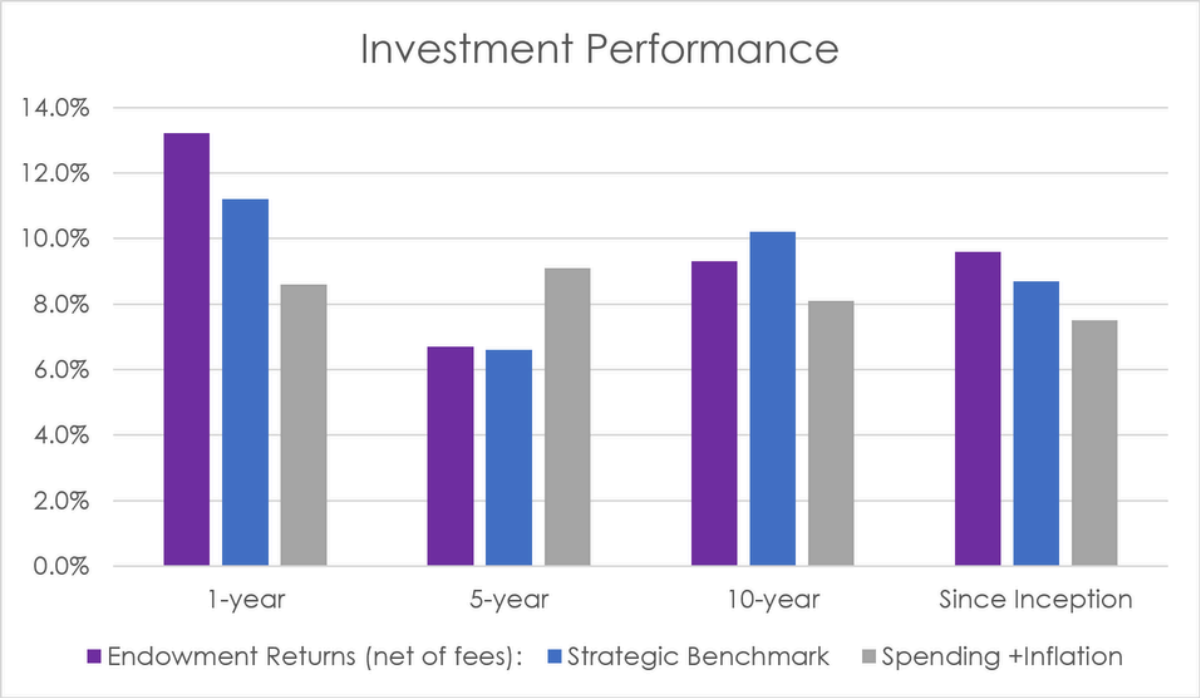
The portfolio returns are in line with most institutions with a similar-sized allocation to private investments.



The portfolio outperformed the portfolio benchmark over the last year and has outperformed the benchmark since inception in 1984. The portfolio generated strong positive returns across the public equity portfolio. The public markets rallied strongly to close out the fiscal year after a significant decline in the month of March. Most equity indices recorded double-digit returns during the fiscal year.

In contrast, the private markets did not replicate the public market rebound. This is not surprising given the large private market outperformance over the last five years and the lagging nature of private investment returns relative to public market returns. However, the recent surge in venture capital activity in the artificial intelligence sector has led to outsized

venture capital performance within the private investment portfolio. The Diversifiers/hedged strategies allocation generated positive returns in line with expectations during the fiscal year, providing valuable protection from the March sell-off in equities. The Fixed Income allocation, which consists of U.S. government and high-grade corporate bonds, provided solid returns and slightly trailed its benchmark returns during the fiscal year.



St. Thomas reports on a fiscal year that begins July 1 and ends June 30.

Questions? Contact University Advancement at (651) 962-6950.

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