

*The **importance** of the Mayo Clinic **endowment***



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Clinic endowment

Permanent fund provides annual financial support

By Jeffrey W. Bolton, chief financial officer, Mayo Clinic



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— Jeffrey W. Bolton

What does the term “endowment” mean?

An endowment establishes a permanent fund designed to provide a perpetual stream of annual financial support. Endowed gifts help secure the patient-focused mission at Mayo Clinic through support of research, education and medical practice innovation in perpetuity. Benefactors establishing endowment gifts create a lasting legacy in their name for a school, department, program, professorship, scholarship or one of many other opportunities.

Because of the importance that the endowment plays in Mayo’s future success, members of Mayo Clinic Board of Trustees also have designated a portion of unrestricted funds to serve as an endowment.

What is the mission of the endowment at Mayo Clinic?

The mission of Mayo Clinic’s endowment is to provide perpetual and predictable financial support that allows Mayo Clinic to invest in innovative research and education aimed at achieving excellence in patient care. Some of these



initiatives have long time horizons before they ultimately benefit patient care.

Without stable support from the endowment, we are limited in our ability to make those long-term investments that allow us to constantly create the practice of the future.

Why is the endowment important?

It is not possible to generate sufficient income from our practice and other related activities in a predictable manner to support the level of investments needed in research and education. Many practices, procedures and devices used today grew out of research conducted years ago.

We need to be able to maintain and accelerate the pipeline of innovation to the practice from our research programs and then ensure that it is embodied within our

educational programs. We have been blessed with wonderful benefactors who support our annual fund-raising efforts, but large-scale research initiatives cannot be built and sustained through annual fund raising alone. The endowment provides a stable foundation of financial support to buffer difficult financial years in the practice or challenging periods of annual fund raising.

When was the Mayo Clinic endowment established?

The endowment for Mayo Clinic was established in 1915 through the generosity of Dr. William J. Mayo and Dr. Charles H. Mayo. It was solidified with the creation of Mayo Properties Association in 1919. Through the creation of this charitable, nonprofit corporation, the Mayo brothers gave all Mayo Clinic's assets and earnings to a charitable corporation focused on supporting medical education and research. In addition, the Mayo brothers and their spouses made significant gifts to the endowment from their personal savings.

The Department of Development was established in 1970 with the original charge of seeking funds and endowment gifts to establish Mayo Medical School. That mission was soon expanded to include support for capital projects as well as programs in medical practice, research and education.

What is the value of Mayo Clinic's endowment?

Our endowment market value at the end of 2005 was about \$1 billion, with 58 percent of the funds restricted

by benefactors and the remaining 42 percent designated by Mayo Clinic Board of Trustees.

Most of the board-designated endowment comes from two amazingly generous and unrestricted gifts: Barbara Woodward Lips and the George M. Eisenberg family. Both gifts have been placed in the endowment and generate income supporting our research and education programs. Three endowed professorships have been established to honor Mrs. Lips and eight endowed professorships have been established to honor the Eisenberg family.

Mayo Clinic's total revenue was approximately \$5.8 billion in 2005. Less than 1 percent of Mayo Clinic's revenue comes from its endowment. In 2005, the endowment generated about \$36 million in support of research, education, practice initiatives and charity care.

What are Mayo Clinic's other sources of revenue?

About 83 percent of Mayo Clinic's total revenue comes from the practice. Another 8 percent is derived from a set of diversification activities that build from our core practice and research but provide outreach and other related services. Research grants and contracts make up 5 percent and the remaining revenue comes from philanthropy and other sources.



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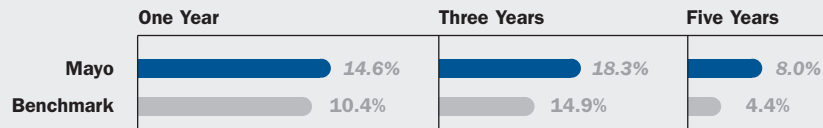
What is the governance structure of the endowment?

Mayo Clinic Board of Trustees provides governance oversight for endowment investment strategy, asset allocation, investment performance, the percentage of the fund that is allocated annually to support operations and overall financial management.

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Mayo Clinic Investment Returns

Year ended December 31, 2005:



An Investment Advisory Committee of Mayo Clinic Board of Trustees, led by Robert E. Allen, former chair and chief executive officer of AT&T Corporation, reviews these activities and reports to the full board. An Investment Subcommittee reviews and approves all specific investment decisions and ensures adherence to our investment policy.

Administratively, Treasury Services is responsible for recommending our investment strategy and asset allocation, identifying and recommending managers that meet our mandate, closely monitoring performance and managing risk. Treasury Services, with the oversight of Mayo Clinic Board of Trustees, has been able to deliver investment returns that are consistently above our market-based benchmarks.

How is the endowment structured?

The underlying concept for the endowment is that the principal of any gift to the endowment is preserved in perpetuity and the income generated from that original gift is allocated to support our academic mission.

As with most charitable organizations, Mayo has invested its assets using a total-return strategy (rather than one oriented toward generating interest or dividend

income that would be allocated to operations), with an allocation to operations that is intended, on average, to preserve the *real* purchasing power of the original gift.

Annually, we allocate about 5 percent of a three-year moving average of the endowment’s market value to support operations. This level of distribution is expected to maintain the inflation-adjusted *purchasing power* of the initial gift. That is, on a long-term basis, the endowment principal, net of distributions to operations, will grow as a result of unallocated investment returns at a pace equal to or exceeding inflation.

Another important point is that the fund is unitized by gifts in order to maintain the appropriate tracking of donor intent with the actual use of funds.

What asset classes constitute the endowment?

The endowment is invested in a long-term, broadly diverse portfolio. Major asset classes include global equities, absolute return funds, private equity, venture capital, real assets and fixed income. Each of these major asset classes is broken into subcategories and reviewed and re-evaluated every year.

What are some key milestones in the history of Mayo's endowment?

Following the initial endowment gift from the Mayo brothers, the endowment grew primarily through the generosity of benefactors who recognized the importance and value of the endowment to ensure the long-term sustainability of Mayo Clinic's medical research and education program.

For the next several decades, income generated from the practice was reinvested in current spending for research, education and expansion of the practice. Additionally, net cash flow from operations was needed for capital investments to support and expand the mission.

Mayo Clinic Board of Trustees' decision to designate the two significant, unrestricted gifts (from the Eisenberg family and the Lips estate) that Mayo received provided major growth to the endowment in the 1990s. In recent years, Mayo Clinic leadership has recognized the importance of building the endowment. Mayo Clinic's objective is to achieve an endowment market value of \$2 billion in the next five to seven years to ensure sustained support for our education and research programs. In addition to emphasizing the importance of the endowment with our benefactors, Mayo will allocate a significant portion of net income to the endowment and to maximize the impact of benefactor dollars.

Mayo leadership has committed to matching allocated income from newly created endowments in four target



areas: research funds, career development, research professorships, and program directors in selected research areas.

This was the same philosophy of the Mayo brothers: "All the moneys that are received by Mayo Clinic, beyond a reasonable and just return to its staff, are used to create endowments, the income of which shall be devoted perpetually to the relief of human illness, to the advancement of research as to the cause and prevention of disease and to medical education..." ■

For additional details on the Mayo Clinic endowment or the matching gifts program, please contact any Mayo Clinic development officer by calling 1-800-297-1185 (toll-free).

