Dear Donors,

Thank you for your continued confidence in Heidelberg University and your commitment to our students, faculty and staff. Your investments make Heidelberg a truly distinctive institution. Resources generated from your endowed funds and annual gifts help us to provide big opportunities and a lifetime of advantages in our mission to deliver a unique and excellent educational experience to every student, every day.

This past year’s market ride has resembled the wild ups and downs of the roller coasters at Cedar Point, compared to the steady growth we have enjoyed through the last run. Our team of advisors and trustees employs an investment strategy that is designed to preserve, protect and grow our General Endowment in a volatile environment. We are grateful for their talent, vision and hard work.

Having passed the $50 million plateau in our endowment in January 2018, we have embarked on our journey to $100 million. With a favorable market, energized thoughtful donors and a strategy for growth, we feel very confident that this will be possible. At present, Heidelberg counts more than $35 million in our funds for the future, our bequest intentions. This robust program, coupled with our current endowment, will grow further faster and will enable us to continue to be agile and appropriate in our planning for Heidelberg’s future.

This fiscal year, Heidelberg applied for and was subsequently awarded a major loan from the U.S. Department of Agriculture. The $38 million loan will be the catalyst in allowing the University to accelerate many of our needed building and renovation projects. It will also allow us to restructure our long-term debt. This financing is a game-changer in many respects. It will have far-reaching effects on our physical plant. The impact on our students in the ways they live, learn and interact will be dramatic. While it will improve our campus and the overall student experience, it is still a loan and we will have to repay it.

This report documents Heidelberg’s performance with the resources you have entrusted to us. Because of you, our students learn, grow and compete as scholars and athletes. They sing and dance, research and present. They learn to think, communicate, prepare for productive careers and integrate into the world around them. You provide space, equipment and opportunity. Thank you again for your generosity, your vision, your commitment, and the gift of the Heidelberg educational experience for all of our students.

All Hail Heidelberg!

Phil Ness
Vice President
University Advancement & Marketing
Authority

The Heidelberg University Board of Trustees has designated the oversight responsibilities for the General Endowment Fund to its Finance and Facilities Committee (the Committee). The Committee at its discretion may appoint an Investment Subcommittee that can serve on behalf of the full Committee. The Committee and the Investment Subcommittee will provide oversight and review of the investment program and have been authorized to retain professional services from investment consultants and investment managers. The Committee and Investment Subcommittee may delegate certain day-to-day responsibilities for implementing the investment program to these consultants and managers.
Heidelberg participated in the annual NACUBO-Commonfund Study of Endowments for the fiscal year ending June 2018. According to NACUBO, 802 U.S. colleges and universities participated in the study. Data gathered for the study show that participating institutions’ endowments returned an average of 8.2% (net of fees) for the 2018 fiscal year compared with 12.2% for the 2017 fiscal year. Based on the study findings, the decline in year-over-year performance for U.S. institutions was largely driven by a decline in the U.S. and international equity markets.

The following are charts highlighting Heidelberg’s General Endowment performance with respect to peers and national average.

**Mission**

The mission of this investment policy is to establish the parameters and structure of the investment program for the Heidelberg University Endowment Fund (the Fund.) The program will employ professional management to maintain the real purchasing power and provide prudent long-term growth of assets.
Heidelberg’s Asset Allocation Mix as Compared with National Averages (Asset Allocation %)

Other and larger endowments invest much more heavily in “alternative” investments.

Investment Principles
Fund assets shall be invested with skill, care and prudence, under the prevailing circumstances that a prudent person acting in a like capacity, and familiar with such matters, would use in the investment of a fund of like character and objectives. The investment portfolio shall be diversified to minimize the risk of large losses, unless circumstances at any given point in time indicate that diversification is clearly imprudent. Assets will be fully invested at all times; idle cash will be invested in money market funds or other short-term instruments.
Annual Investment Returns for 1-, 3-, 5- and 10-year Periods (Annual Returns %)

Heidelberg’s investment returns in 1-year, 3-year, and 5-year periods as compared to all endowments are consistent. The return benchmark against endowments between $51M-$100M is slightly better. While one-year returns are important, many endowment managers use 10-year average annual returns as a target for long-range planning purposes. While on a positive trajectory, the 10-year average annual return of 5.8% is still lower than institutions’ target rate of 7.2%.

% Change in Market Value FY2017 to FY2018

According to NACUBO, the average asset allocation in FY18 of the institutional participants in the study showed very little change from FY17. Non-U.S. equities, which produced last year’s highest return, 20.2 percent, fell to 6.8 percent in FY18, the largest decrease in percentage point year-over-year. U.S. equities returned 13.6 percent, a decrease from last year’s return of 17.6 percent. Short-term securities/cash/other returned 1.3 percent, just slightly less than last year’s 1.4 percent.

Note: Capital University’s large percentage change in market value is mostly due to the acquisition of Trinity Lutheran Seminary as of January 2018.
In FY2018, our endowment spending covered about 8.2% of our operating expenses, as compared with a 10% average for all institutions.

Note: Our spending rate is 5.0% in FY2019.

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General Endowment Spending Policy

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Period End Market Value</th>
<th>Trailing 12(^{*}) Quarterly Avg</th>
<th>Annual Spending Amount (6.0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>07/01/09-06/30/10</td>
<td>$ 26,190,393</td>
<td>5.0%</td>
<td>$ 1,474,044</td>
</tr>
<tr>
<td>07/01/10-06/30/11</td>
<td>$ 31,596,816</td>
<td>6.0%</td>
<td>$ 1,574,799</td>
</tr>
<tr>
<td>07/01/11-06/30/12</td>
<td>$ 30,108,632</td>
<td>8.0%</td>
<td>$ 2,062,951</td>
</tr>
<tr>
<td>07/01/12-06/30/13</td>
<td>$ 33,845,235</td>
<td>8.0%</td>
<td>$ 2,369,145</td>
</tr>
<tr>
<td>07/01/13-06/30/14</td>
<td>$ 43,211,990</td>
<td>6.5%</td>
<td>$ 2,087,277</td>
</tr>
<tr>
<td>07/01/14-06/30/15</td>
<td>$ 45,764,725</td>
<td>5.0%</td>
<td>$ 1,807,639</td>
</tr>
<tr>
<td>07/01/15-06/30/16</td>
<td>$ 44,827,642</td>
<td>7.0%</td>
<td>$ 2,840,707</td>
</tr>
<tr>
<td>07/01/16-06/30/17</td>
<td>$ 48,909,380</td>
<td>6.5%</td>
<td>$ 2,864,927</td>
</tr>
<tr>
<td>07/01/17-06/30/18</td>
<td>$ 52,245,539</td>
<td>6.0%</td>
<td>$ 2,754,887</td>
</tr>
</tbody>
</table>

Note: Our spending rate is 5.0% in FY2019.

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Annual Spending Rate % 2008-2018

In FY2018, our endowment spending covered about 8.2% of our operating expenses, as compared with a 10% average for all institutions.

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Spending Policy

The University has adopted a 5.0% annual spending policy for the Endowment Fund. In 2016, the Board of Trustees chose to deviate from the standard policy for strategic purposes. The quarterly spending amount (1.25% per quarter) is based on the average market value of the total endowment fund over the preceding 12 calendar quarters. The funds will be remitted during the last week of each quarter. The Investment Consultant will be notified should there be any change to this policy.
For questions, additional information and ways to support the Heidelberg Endowment, contact:

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