Georgia Institute of Technology
Financial Services
Endowment Spending Policy
July 22, 2005

As endowments and investment pools often have very specific income and investment guidelines, we have recognized that a uniform spending policy could conflict with the investment requirements of more conservative endowments/investments. As such, we have identified two different categories of endowment/investment pools and the guidelines below detail how each category is to be identified, and then how the spending policy is to be maintained for that specified pool. Results of the endowments within each of these two specific pools will be examined annually in March of each year to determine return performance verses actual distribution. The required analysis will be based upon a rolling twelve-quarter performance ending with each calendar year, and any adjustments to the spending policy will need to be submitted to management for review and approval prior to the end of Georgia Institute of Technology's June 30 fiscal year-end for the spending plan for the next fiscal year.

Endowments/Investment Pools Utilizing 40% or More of Equities

The investment objective in this category of endowments/investment pools generally has a dual purpose: 1) income production through dividends and interest, and 2) corpus growth through capital appreciation. As such, we recognize that the total income of these investments result in part from each of these two investment objectives. Therefore, we have established this spending policy guideline in order to ensure intergenerational equity of the benefits of these endowments, as well as protection of the endowment corpus.

In order to achieve the protection of real principal value, the Institute has determined that endowment spending should be limited at a level not to exceed 3.5% of the average endowment principal value over the 12 quarters of the three previous calendar years for this endowment/investment category. The initial 3.5% level was determined by studying total investment return levels over both the required 12 quarter periods, as well as longer periods of the past incorporating the required principal growth to offset the inflation rate (determined by change in CPI) for the same period of time. Our total investment return objective is to exceed 3.5% plus the rate of inflation. We believe that this total rate of return can be achieved. Thus by maintaining a 3.5% spending policy limit for endowment pools that utilize 40% or more of equities (as defined by the dollars in the pool), we believe that we will achieve a reinvestment in principal that will keep pace with inflation and support rising dollar expenditures for the Institute's programs over the years.

Endowments/Investment Pools Utilizing less than 40% of Equities

The investment objective in this category of endowments/investment pools generally has a dual purpose: 1) income production through interest; and 2) protection of corpus through minimized investment risk. As such, we recognize that the income from these investments result primarily from interest; however, this is not the only source of income from these types of investment products. As interest bearing products are typically bought and sold throughout their life at a premium or discount of their face value to adjust for the differences between an instrument's coupon rate and the prevailing market interest rate, an investment pool over can result in principal growth. It is our position that these changes and/or principal gains are temporary in nature and reflects only interest rate trends, not realizable principal gains. As such, the Institute has determined that endowment spending must be no greater than the interest and/or dividends produced for endowment pools that utilize less than 40% equities (as defined by the dollars in the pool).