



The President

February 29, 2008

Chairman Max Baucus
Senator Charles Grassley
Senate Finance Committee
219 Dirksen
Senate Office Building
Washington, DC 20510

Dear Senators Baucus and Grassley,

Hamilton College is pleased to enclose a report in response to your January 25 letter. We appreciate the opportunity to describe to the committee our endowment spending and financial aid policies, and have found the process of preparing the report to be constructive and illuminating.

The attached information demonstrates that we are committed to making the finest possible education affordable to students from all income levels. Providing the best possible liberal arts education is exceptionally labor intensive, since it involves small classes and intense student-faculty relationships. There is no question that we would be a more “efficient” enterprise if we placed students in large lecture halls with teaching assistants, but the type of education we provide is predicated on the belief that students learn best in small settings with outstanding teacher scholars.

Keeping higher education accessible to students from low- and middle-income families is a priority for us. This reflects our history and exemplifies the ideals of the College that is named for Alexander Hamilton, who rose from humble beginnings and, thanks to scholarship support, became one of the most influential minds in our nation’s history. The College’s decision in early 2007 to reallocate endowed funds from non-need-based aid to need-based aid strengthened our ability to remain affordable to the greatest number of students possible. In a recent letter to alumni, parents and friends of the College, I noted some fundamental principles that guide us:

1. We will continue to be a school of opportunity.
2. We will continue to increase our financial aid budget and make this a priority in the next capital campaign.
3. We will explore the possibility of becoming need-blind in admission so that we can enroll the strongest applicants, without regard to their ability to pay.
4. We will remain committed to enrolling excellent students who are the first in the family to attend college.
5. We will continue to assess regularly all institutional expenditures and to effect savings wherever feasible and consistent with our mission.

Hamilton is blessed to have committed trustees who steward our College's endowment with scrupulousness and diligence. Such stewardship, reflected in the information presented here, demonstrates our investment committee's dedication to ensuring the College's long-term fiscal health while providing the resources necessary to fulfill the principles listed above. In the last decade, endowment earnings have resulted in a doubling of endowment support for the operating budget and – more to the point – have increased the amount of financial aid we offer our students. Moreover, the endowment subsidizes all students, since the tuition charged by the College does not cover the full cost of attending Hamilton. This is where we are fortunate to have endowment earnings along with the support of our alumni, who give generously to the College's operating budget.

I would be pleased to meet with you and your staff in Washington if you wish to discuss Hamilton's policies further. I may also be reached by telephone at 315-859-4105.

Sincerely yours,

Joan Hinde Stewart

Enclosure

1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

Hamilton is an undergraduate institution; its enrollment is as follows:

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Academic Year FTE Enrollment*	1683.0	1721.0	1727.5	1700.0	1790.5	1775.0	1753.0	1806.0	1792.0	1797.5

* Degree-seeking students

2) Please provide the total cost of undergraduate tuition (including all fees) -- both sticker and average, mean and median -- year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Tuition cost per student	\$23,700	\$25,100	\$26,100	\$27,350	\$28,760	\$30,200	\$31,700	\$33,350	\$34,980	\$36,860
Tuition & Fees Income	\$43,337,800	\$45,879,255	\$47,513,965	\$49,605,750	\$54,411,009	\$56,602,080	\$59,133,189	\$64,083,738	\$67,391,251	\$71,133,400
Total scholarships	\$15,010,576	\$14,002,854	\$14,576,339	\$15,367,640	\$16,435,649	\$17,389,237	\$18,166,888	\$20,059,262	\$21,114,203	\$21,723,000
Net tuition cost per student (avg)	\$16,831	\$18,522	\$19,067	\$20,140	\$21,209	\$22,092	\$23,369	\$24,377	\$25,824	\$27,488

	2007/08
% students receiving grant aid	50.5%
Average grant amount	\$25,824

3) Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

Hamilton meets the full demonstrated need of all students who are accepted to the College, through a combination of scholarship, loan and work-study. The average financial aid package exceeds \$29,000 for the 2007-08 academic year, with institutional scholarships representing 90% of the package.

In order to determine eligibility for aid, domestic students must submit the College Scholarship Service Profile and the Free Application for Federal Student Aid when they first apply for financial aid. Enrolled students must submit the Free Application for Federal Student Aid annually. International students must submit the International Financial Aid Application, provided by the College Board.

We communicate our financial aid policies and the opportunities associated with them to prospective and current students through our Web site, printed materials, and in admission presentations conducted on campus, across the country and throughout the world. Most notably, we have a brochure titled Financing Your Education, which is designed to help students and families learn about our financial aid policies and also includes information about ways to finance a Hamilton College education. Additionally, our Web site (www.hamilton.edu) contains several links, including one page devoted to helping families learn about their eligibility for need-based scholarships.

We are committed to socio-economic diversity. Nine percent of our most recent entering freshmen belonged to the first generation in their family to attend college and we recently established an endowed scholarship specifically to assist these students. Low-income students, as defined by those below the median U.S. family income (according to the U.S. Census Bureau), receive smaller loan and work-study expectations as part of their financial aid packages than students with more resources available to them. These commitments, coupled with our admission and diversity outreach efforts as well as partnerships with local, state and federal programs, make Hamilton College a reality for a broad cross-section of students. The College partners with several opportunity programs for disadvantaged students, most notably the Posse Foundation (Boston), LINK Scholars Program (Chicago), and the New York Higher Education Opportunity Program (HEOP). Because of our success with the NYS HEOP Program, Hamilton maintains a coordinate program for non-New York State residents and low-income New York State residents who do not meet the eligibility requirements for HEOP.

4) Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

Increases in tuition, room, board and other fees are determined through an extensive budget process that begins each fall and concludes in the spring. An on-campus Budget Committee also meets bi-weekly throughout the budget cycle to discuss budget issues. A draft budget is presented to the Board of Trustees in March. Following a budget review, modifications and discussion, the Board approves the overall budget – including the tuition and fees – for the following academic year.

The Vice President, Administration and Finance, meets annually with the Student Government Association to discuss the budget process and hear any concerns. Following the approval of the budget by the Board of Trustees, parents receive a letter explaining the College's budget and notifying them of the fees for the following year. Parents are encouraged to write the President of the College with concerns and questions, and letters are answered promptly.

Hamilton's endowment provides financial assistance to students in several ways. First, it provides direct support for financial aid. In 2007-08, \$8,867,600 of the \$21,723,000 financial aid budget, or 41%, was provided directly through restricted endowments. \$273,000 (1%) of the financial aid budget was provided by federal sources and the remainder, \$12,582,400 (58%) was provided by annual gifts from alumni and friends and the general operating budget of the College. Income earned from the endowment supported \$16,698,300 of teaching salaries, academic programs, student internships, and other student-related programs. These programs would have otherwise been financed by the College's general operating funds. According to a 2006-07 National Association of College and University Business Officers study, the cost of a Hamilton education is \$53,574 per student. Thus, every student is subsidized by the endowment, alumni support, gifts and grants to bring the 2006-07 price down to \$43,890.

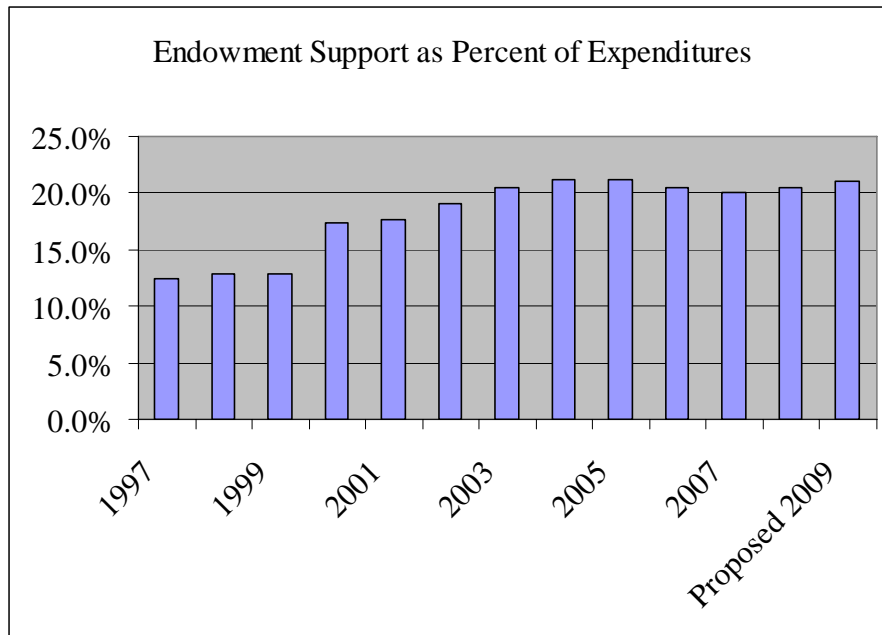
5) Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment policies? What is the mission of your university's endowment? When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?

Hamilton's endowment is managed by a volunteer Investment Committee, overseen by the Board of Trustees and coordinated and supported by the financial administration of the College. The Investment Committee consists of 16 members composed of alumni and trustees with significant expertise in the investment field. It meets eight times a year.

The investment policy for the College states that the financial goals are a total return that at a minimum preserves the real value of the endowment fund in perpetuity as measured by the market value of the endowment's assets adjusted for investment returns, spending and inflation, but exclusive of gifts. The endowment underwrites programs, professorships, facilities, scholarships, and other expenses in order to enhance the education of all Hamilton students now and in perpetuity. The endowment provides financial aid and supports overall college operations, thereby reducing tuition for all students.

The spending policy for the endowment is designed to provide future generations of students with the same support and benefits that today's students receive. The policy also seeks to avoid radical fluctuations in annual budget support and maintain a relatively consistent flow of funds for financial aid and educational programs. If endowment funds increase in any given year, they are used to expand programs and improve the quality of education, and to provide tuition subsidies for all students.

The chart below shows the percentage of the College's budget supported by the endowment. As the endowment has grown, it has supported an increasing share of the budget thereby increasing Hamilton's dependence on endowment support.



For ten years the College has operated under an endowment spending policy equal to 5% of the twelve-quarter moving average of the fair value of endowment assets. The spending policy is subject to a maximum of 108% and minimum of 104%, respectively, of the prior year spending amount. The endowment spending policy is discussed each year in conjunction with the budget process. A formal review took place at the December 2007 meeting of the Board of Trustees. The College is considering an alternative spending formula that could result in more funding during positive financial markets, but would also require spending reductions during negative financial markets. The College is evaluating the impact of increased budget volatility on financial aid and programs prior to making a final decision.

6) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Endowment funds (000s)*†	\$306,222	\$355,726	\$433,893	\$431,037	\$400,374	\$405,890	\$486,477	\$529,708	\$587,582	\$701,670
Investment return %	19.5%	18.4%	22.8%	2.5%	-4.0%	2.9%	23.7%	13.9%	13.4%	21.2%
Investment return \$ (000s)	\$50,776	\$56,345	\$81,106	\$10,847	-\$17,241	\$11,611	\$96,196	\$67,620	\$70,981	\$124,567
Endowment support for operations	\$8,764	\$9,466	\$14,025	\$15,147	\$16,359	\$19,918	\$21,885	\$22,537	\$23,176	\$23,757
Net Growth %	16.1%	15.3%	18.9%	-1.0%	-7.8%	-2.1%	18.3%	9.3%	9.0%	17.2%
Net Growth \$ (000s)	\$42,012	\$46,879	\$67,081	(\$4,300)	(\$33,600)	(\$8,307)	\$74,311	\$45,083	\$47,805	\$100,810
New gifts (000s)	\$4,566	\$6,614	\$9,547	\$8,784	\$5,473	\$5,724	\$4,496	\$7,435	\$4,344	\$11,622
Endowment change (000s)	\$46,578	\$53,493	\$76,628	\$4,484	(\$28,127)	(\$2,583)	\$78,807	\$52,518	\$52,149	\$112,432

* Pooled income funds reported separately † Endowment fund values are net of management fees
Sources: Endowment - Annual NACUBO Endowment Report. New gifts -- CAE's annual VSE survey

Hamilton College Endowment Asset Allocation

Asset Class/Category	Market Value	% of Total Fund
Equities	\$451,503,000	63.1%
Private Equity	\$100,729,000	14.1%
Hedge Funds	\$132,950,000	18.6%
Fixed Income	\$1,300,000	0.2%
Real Estate	\$16,444,000	2.3%
Cash	\$12,300,000	1.7%
Total Endowment (without Planned Giving Assets)	\$715,226,000	100%
Planning Giving Investments	\$66,600,000	
Annuity and Life Income Obligations	(\$27,795,000)	
Net value Total Fund	\$754,005,000	

Source: Investment Office Asset Allocation Report, December 31, 2007

Approximately 15-20% of the fund is invested outside of the United States.

7) Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?

The endowment is the sum total of all funds given in perpetuity; in general, they are given for a specific purpose. It includes all long term investments, with planned gifts (i.e. charitable gift annuities, pooled income funds, etc.) in a separate section. Planned gifts provide income to the donor during his or her lifetime and do not provide income to the College until the donor, and any designated heirs, are deceased.

Hamilton does not have any long-term investments that are not reported as part of the endowment

8) What has been the cost of management of the endowment year-by-year for the last ten years?

This chart lists the total of costs of the investment office (in millions) as well as management and custodial fees. The expenses are charged to the endowment and all returns are reported net of these fees.

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Endowment Value 000's (including Pooled Income)	\$344,613	\$401,643	\$485,273	\$492,913	\$452,589	\$456,052	\$546,534	\$594,493	\$657,773	\$783,925
Fees 000's	\$2,157	\$2,505	\$3,604	\$4,104	\$3,965	\$3,302	\$4,172	\$4,591	\$4,408	\$3,937
Basis Points	63	62	74	83	88	72	76	77	67	50

The cost of the College's Investment Office operating budget and salaries is a relatively small portion of these funds. On average, the total cost of the office has been under \$400,000 per year. The remainder of the fees is paid to managers who invest the money on the College's behalf.

9) What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?

The chart below shows the target and actual payout rates of Hamilton's endowment. The target spending rate is 5% of the lagging 12-quarter average endowment value. Line A shows this 12-quarter average (in millions) and line B shows the corresponding target spending. Line C shows the actual spending and Line D shows whether that spending is above or below the 5% target. This demonstrates that the payout rate falls below 5% when market returns are good and the endowment value is rising, and that spending exceeds the target when markets are poor and the endowment value falls.

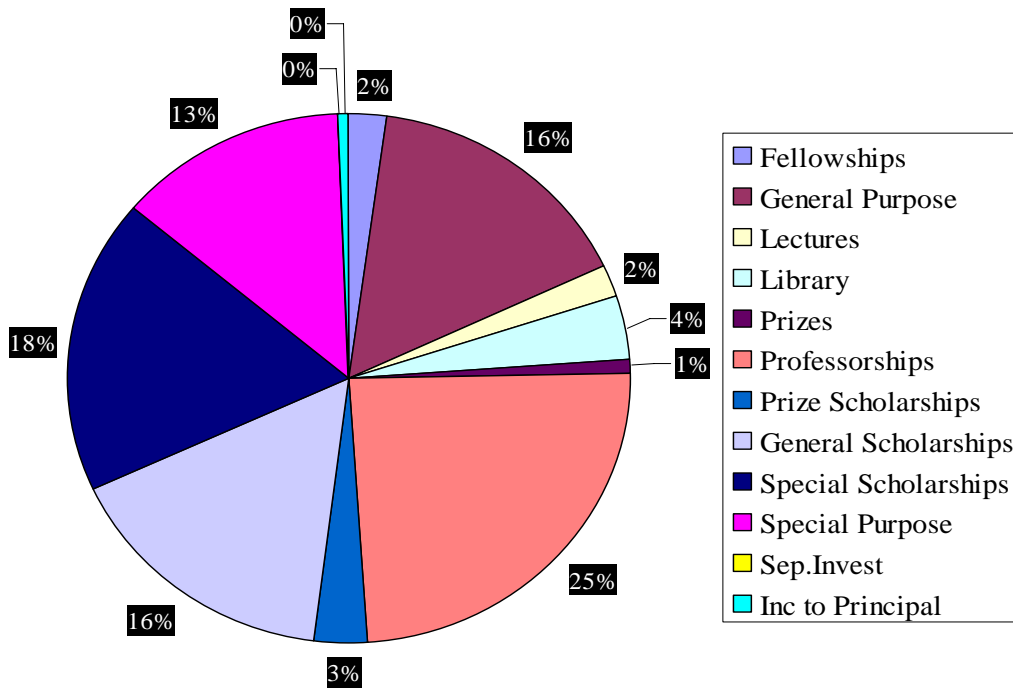
Our students benefit from our spending formula because the College is not forced to expand and contract programs according to the market changes. A “constant growth formula” provides additional endowment income each year, thereby allowing the College to create and sustain programs and preventing annual retrenchment during market downturns. In years of spending below 5%, funding capacity is preserved for years when we spend above 5%. This strategy allows consistent and robust programs for our current students and allows the endowment to sustain returns for future generations of students.

		1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09 Proposed
A.	12-quarter average Endowment value (000's)	NA	\$248,680	\$282,940	\$337,160	\$382,420	\$414,620	\$412,980	\$403,000	\$429,940	\$475,920	\$544,920	\$577,768
B.	TARGET:5% of prior 12 qtrs (000's)	NA	\$12,434	\$14,147	\$16,858	\$19,121	\$20,731	\$20,649	\$20,150	\$21,497	\$23,796	\$27,426	\$28,888
C.	ACTUAL: Endowment Payout 000's	\$8,764	\$9,465	\$14,025	\$15,147	\$16,359	\$19,918	\$21,855	\$22,537	\$23,176	\$24,365	\$25,566	\$27,395
D.	ACTUAL: Spending as percent of 12-quarter average	NA	3.8%	5.0%	4.5%	4.3%	4.8%	5.3%	5.6%	5.4%	5.2%	4.7%	4.7%

The pie chart in question #10 shows the breakdown of major expenditures from the endowment. The largest shares of the funds drawn from the endowment are for student financial aid (35%), faculty compensation and benefits (25%), and general support of the operating budget (16%). Some endowments (13%) support special programs such as chorus, summer internships, community service and the like. Smaller percentages are restricted to support the library (4%), fellowships (2%), and annual academic prizes (1%).

10) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.

Hamilton College has over 750 individual funds in its endowment. 84% of the endowment funds are restricted, and 34% are restricted for financial aid, all of which are used for need-based aid. The chart below shows the distribution of restrictions.



In 2007-2008, Hamilton is drawing \$25,565,900 from the endowment to make up for educational costs that cannot be covered by tuition, room and board.

11) Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president

and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

Fees paid to external managers are based on industry standards. The Investment Committee reviews and approves the fee structure for each manager upon hiring. Fees vary depending on the manager and type of investment and, on average, are generally less than 1%. All management costs, including external managers and the cost of the College's Investment Office and its staff are born by the endowment.

There is no relationship between endowment size or performance and the salaries of the President or any other Hamilton employee. Salaries for all Hamilton employees are based on market standards.