

October 27, 2008

Dear Carnegie Colleagues:

Over the last few weeks we have all observed and felt the impact of unprecedented, international financial turmoil. As a result, the state of the economy is a continuing topic of great concern. I am taking this opportunity to communicate how the Carnegie Institution is affected by these events and how, with your continued support, the Institution will confront this challenging financial period.

Carnegie has had the benefit of starting this period of turmoil with considerable strength. Perhaps most important, the productivity of our scientists over the last several years has been unparalleled and is recognized as such by our peers. I need not recite the scientific discoveries, the awards and recognition, and the widespread support for, and interest in, the work of our Institution. Our demonstrated capacity to produce outstanding science enables us to anticipate even greater accomplishments in the future.

At the same time, we have benefited from a disciplined approach in the management of our resources. At the end of fiscal year 2008, our endowment had reached more than \$850 million, an increase of almost 50% in the last four years. Our ratio of outstanding debt to assets is the envy of many of our peers. And the outstanding work of our scientists has attracted increased federal and private support, with an unspent balance of grants totaling more than \$50 million at the end of June. Our overall administrative efficiency is demonstrated by the fact that Charity Navigator, America's largest evaluator of non-profits and charities, has awarded Carnegie its highest rating, four stars, for sound fiscal management for seven years running; we are one of only twelve organizations that have achieved this status out of some 5,300 entities that are monitored.

Our past discipline in spending will now benefit us. Our spending rule for endowment funds reflects the practice of "smoothing" spending over time, so that when our endowment returns soared over the period 2004-2007, our spending did not increase proportionately. We will benefit from that strategy now; the anticipated decline in endowment returns in the current year will not result in a proportionate reduction in available spending for 2009-10.

Nonetheless, our spending must reflect the decline in the value of the endowment to some extent, as well as the increased cost of debt and the possible emergence of inflationary pressures. At the same time, we should anticipate that federal and private support may be somewhat less available in future years until the overall economy recovers. We confront a real need to manage resources carefully during this period, and our budget will need to be constrained. I have asked Carnegie's Department Directors to plan for this reality, and I ask your assistance in providing them with the necessary support.

The experts anticipate that resolving the current difficulties in the financial markets will take some time. But, as we look to the future, we will continue to benefit from the expertise and engagement of our Board of Trustees. We will maintain and benefit in the long term from a highly diversified portfolio. And, with care in husbanding our funds, I am confident that we will weather the storm. As a result, with your support and hard work, Carnegie will continue to do outstanding science and will emerge from this period even stronger than it is today.

As this situation develops, I will keep you informed as necessary. If there are specific concerns or questions that I can answer, please do not hesitate to contact me.

Very truly yours,



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