

ENDOWMENT REPORT 2016



Dartmouth





Dear Friend of the Dartmouth Investment Office,

I am writing to share our Endowment Report for Fiscal Year 2016 and to thank you for your contributions to the work of the Investment Office during the past year.

For Fiscal Year 2016, the Endowment returned -1.9% and stood at \$4.5 billion on June 30, 2016. The market environment during this period was volatile and challenging for many investment strategies; but it is in these types of tumultuous investing environments that many of our managers are able to sow the seeds of exceptional investments that will be harvested in future years and that drive strong long-term investment results. So, though we'd prefer to generate strong absolute returns every year, we not only accept, but embrace, this volatility as a necessary precondition for success in our investment strategy. Over longer periods of time, the Endowment's performance remains strong with 5-, 10-, and 20-year returns of 8.8%, 7.2%, and 10.3% respectively, as of June 30, 2016.

In investing the Endowment, Dartmouth has a number of strengths relative to most market participants. First, it has a single, clear objective, which is to deliver superior returns that maximize the support the Endowment can deliver to Dartmouth's mission. Second, it has a very long-term time horizon that allows it to weather volatility and to capitalize on dislocations caused by the shorter-term orientation of many market participants. Third, it has a long history of investing with clarity, discipline, patience, and trust in its partnerships, which provides a great foundation for continuing to find top investment talent across the globe. Given the small size and big ambitions of the team in the Investment Office and on the Investment Committee, we rely on these strengths, as well as the resources within the Dartmouth community, to help us achieve the global reach we desire. Many thanks for helping us in this important endeavor, which has significant impact on Dartmouth.

The following pages of the Endowment Report highlight the Endowment's goals, investment approach, performance, and asset allocation. Additionally, this year's report emphasizes Dartmouth's commitment to educating future leaders who will create meaningful, positive change in the world. One of the most powerful manifestations of Dartmouth's commitment to doing global good is the establishment of 10 "academic clusters" focused on significant world problems. These clusters will bring 30 new faculty to our campus, facilitate new levels of interdisciplinary collaboration, and provide our students with unprecedented innovative classroom and experiential learning opportunities. Several pages in the report share insights into three of these clusters.

All of us in the Investment Office are extremely grateful for your efforts on behalf of Dartmouth.

Many thanks again for your support,

Pamela Peedin '89 TU'98
Chief Investment Officer

CONTENTS

Purpose of the Endowment 3

Investment Strategy: Long-Term Orientation 4

Extraordinary Partnerships 5

Global Investments/Global Impact 9

Endowment Performance: Fiscal Year 2016 and Long-Term 14

Asset Allocation and Asset Class Performance 15

Importance of Philanthropy to the Endowment 16



PURPOSE OF THE ENDOWMENT: IN SERVICE TO DARTMOUTH'S MISSION

Dartmouth's Mission

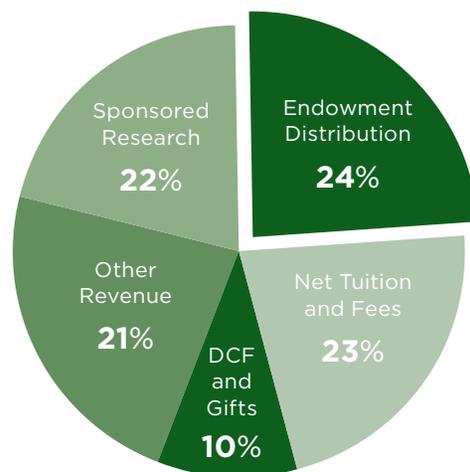
Since its founding in 1769, Dartmouth has provided an intimate and inspirational setting where talented faculty, students, and staff—diverse in background but united in purpose—contribute to the strength of an exciting academic community that cuts easily across disciplines.

A member of the Ivy League and consistently ranked among the world's greatest academic institutions, Dartmouth is committed to providing the best undergraduate liberal arts experience and to providing outstanding graduate programs in the Geisel School of Medicine (founded in 1797), Thayer School of Engineering (1867), the Tuck School of Business (1900), and the School of Graduate and Advanced Studies (2016). A Dartmouth education is unlike any other. Through person-to-person teaching and opportunities to create and apply knowledge on campus and across the globe, Dartmouth instills a love of learning among its students and empowers them for a lifetime of leadership.

The purpose of the Endowment is to provide maximum sustainable financial support to Dartmouth to serve its mission in perpetuity. Core to the Endowment's purpose is balancing the interests of current and future generations of Dartmouth students. Maintaining the inflation-adjusted value of the Endowment underpins this concept of intergenerational equity. To serve this purpose, the primary investment objective of the Endowment is to generate, on average, over time, inflation-adjusted gains from investment returns that at least match distributions to the institution; the investment strategy is structured to serve this objective. The spending distribution policy provides a mechanism for delivering financial support to the operating budget, while also ensuring some level of protection from the volatility of the capital markets.

Dartmouth's Endowment has played a critical role in supporting the operations of the institution, including the professional schools. In Fiscal Year 2016, the Endowment distribution represented 24% of revenues to support operating activities, or \$209 million.

FISCAL YEAR 2016
OPERATING REVENUE SOURCES



*Based on US GAAP financial reporting.
Tuition and fees are net of financial aid.*



INVESTMENT STRATEGY: LONG-TERM ORIENTATION

The purpose of the Endowment informs our investment approach and strategy. In keeping with the Endowment's infinite time horizon, Dartmouth takes a long-term orientation in its capital allocation and portfolio management decisions. The portfolio has a strong equity bias for long-term growth, with significant participation across strategies, regions, and assets, which offers diversification benefits. Its profile is consistent with the liquidity needed to serve near-term portfolio and institutional requirements.

In managing the Endowment, Dartmouth's main interests are to:

- Find exceptional investment opportunities globally, with superior return potential, while still maintaining awareness of the types of exposures and risks that result from this bottom-up orientation
- Provide capital when and where it's scarce, capitalizing on dislocations caused by the short-term focus of many market participants
- Concentrate investments where conviction is high

The broad asset class ranges we set reflect our flexible approach and our interest in participating in various markets and strategies:

| CAPITAL ALLOCATION | RANGE | OBJECTIVES |
|------------------------------------|---------|---|
| Global Equity | 25-45% | Seek to outperform broad global equity market indices. |
| Marketable Alternatives | 20-35% | Generate equity-like returns with reduced volatility. |
| Venture Capital and Private Equity | 10-20% | Generate excess return relative to public markets through investments in private companies. |
| Natural Resources | 5-15% | Provide level of protection during periods of unanticipated inflation. Generate returns that exceed those of public equity markets. |
| Real Estate | 0-10% | Provide level of protection during periods of unanticipated inflation. Generate returns that exceed those of public equity markets. |
| Fixed Income & Cash | 3-12.5% | Provide liquid, reliable, and transparent source of capital for investment needs, distribution to operations, and rebalancing during times of equity market stress. |

EXTRAORDINARY PARTNERSHIPS

Dartmouth's superior investment returns are a direct result of partnerships with world-class investment management firms, which bring breadth and depth to the portfolio and ensure best-in-class performance in service of Dartmouth's mission. Partnering with external investment managers allows us to benefit from deep expertise in investment strategies. It also yields an extraordinary spectrum of investment opportunities that could not be replicated via internal management.

Dartmouth is constantly seeking exceptional investment opportunities—and outstanding investment talent. We look for firms with a great team, a unique investment approach, an attractive opportunity set, and the willingness to engage in a true spirit of partnership. We have built strong relationships with firms of all shapes and sizes—both brand-new firms and long-established ones.

We conduct careful due diligence up front to verify the integrity and quality of prospective partners before we invest. Our work allows us to build solid relationships with new partners based on confidence and trust. Some of our partnerships have lasted several decades.

Here are some qualities we look for in partner firms:

- **Focus, differentiation, and a clear investment edge.** We seek investors with a clearly defined circle of competence and unique capabilities to pursue a given strategy, whether through a differentiated research process, knowledge base, or time horizon.
- **Keen insights to capitalize on unique opportunities** where either capital or competitive advantage in investing is scarce.
- **A comprehensible strategy with a clear source of return.** Understanding the investment thesis and execution is a precondition for investing; this tends to lead us toward fundamental rather than quantitative strategies.
- **Great capital allocation skill.** We value investors who show discipline in pursuing their opportunity set, letting fundamentals guide the decision-making process around deploying and harvesting capital.
- **A sustainable and distinctive organization.** The best firms are headed by the best leaders, those who can recruit and retain stellar investment talent while deliberately and thoughtfully building the firm's culture.
- **Alignment of interest.** We look for firms to be right-sized for the strategy they pursue and for principals to invest their own capital alongside Dartmouth's.





DARTMOUTH ENDOWMENT AT A GLANCE

\$4.5 billion

Dartmouth Endowment value as of
June 30, 2016

10.3%

Annualized investment return
over 20 years

24%

Proportion of operating revenue
provided by the Endowment
in FY16

\$1.9 billion

Distributions to operations over the
past decade from the Endowment



The twin forces of ideological change and technology revolution are making globalization one of the most important issues facing companies today. The make-over from state-dominated, isolated economies to market-driven, globally-integrated economies is proceeding relentlessly in all corners of the world. . . . Accelerating developments in the information and transportation technologies are making real-time coordination of far-flung activities not only more feasible, but also more reliable and efficient.

Vijay Govindarajan, Coxe Distinguished Professor of Management at Tuck School of Business; author of *The Quest for Global Dominance*



GLOBAL INVESTMENTS/GLOBAL IMPACT

Dartmouth is a global institution, both in its investing activity within the Endowment and in its strategic motivations and impact. It has to be, given the profound changes in the business and technological landscape.

In investing the Endowment, we don't espouse an "international strategy." Rather, we simply acknowledge that exceptional investors and investment opportunities are not limited to the confines of the United States, and that strict geographic classification of investments is no longer meaningful at a time when a company's domicile says little about where the drivers of its profitability and its risks reside. While we appreciate that the information edge we have in our home market is real and considerable, our primary interest is to find exceptional investments and investment talent globally. In international markets, for example, local language skills, relationships, and cultural understandings can drive significant investment value.

Likewise, at the heart of its mission, Dartmouth is focused on enlisting global talent—through the education of future leaders and the recruitment of faculty—to address the world's most formidable issues. In an effort supported by the Endowment, Dartmouth is in the midst of creating 10 academic clusters, each focused on a great global challenge. Each cluster will recruit three faculty and build on an existing strength at Dartmouth. We anticipate clusters will yield immediate benefits through their collective research, and they will prepare the next generation of leaders with the knowledge and skills to address complex global problems. As exemplified by the three clusters featured here, the potential outcomes are immense.

Globalization: Economics and Societies

Two academic clusters will explore the intersection of economic forces and social well-being within different contexts. One will focus on global-level poverty at a time when, despite enormous improvements in living standards worldwide, half of the world's population still lives on less than \$2 per day. This cluster will delve deeply into the need for better data as a critical element to develop national or transnational solutions to poverty.

Developed nations are awash in data collected in nearly every facet of life. This information helps cities adjust traffic patterns based on drivers' behavior; informs epidemiologists on how best to reduce the spread of infectious diseases; and allows companies to email bespoke sales offers to millions of consumers. In other parts of the world, however, data simply do not exist for many types of basic information. One example: governments record fewer than half of all births in Africa.

Dartmouth Environmental Studies Foreign Study Program (FSP), Zambia and southern Africa, fall 2015





Dartmouth FSP, Mycenae, Greece

The power of more accurate data? Health agencies can make better decisions regarding sanitation if they have information showing how people respond to different public health messages. Armed with rigorous analysis, education officials can offer incentives that will encourage parents to keep their daughters in school.

A second academic cluster will focus on globalization, one of the most powerful forces shaping the 21st century. Globalization is lifting incomes and expanding opportunities for billions of people, but also disrupting societies and fueling discontent.

The three faculty in this cluster will spearhead research into the challenges and opportunities of globalization, with an emphasis on advancing factors that benefit individuals through improved rule of law and human rights, democratic governance, and capitalism. Among the topics to consider are the causes and possible responses to wealth inequality. In many nations recently, income inequality has risen sharply, accompanied by flat to falling real incomes for many workers. Faculty research will seek solutions to this growing disparity.

Cybersecurity

Cyber attacks are growing in volume and sophistication, affecting every corner of the economy. The banking and financial services sector has been the top target for cyber criminals during the past five years, and the cost of repelling those attacks is staggering. JPMorgan Chase, for example, expects to spend approximately \$500 million on cybersecurity this year, double what it spent in 2014. Highlighting this growing threat, the Securities and Exchange Commission listed cybersecurity as a top concern in its *Examination Priorities for 2016* notice.

Further complicating the challenge of digital security is the rapidly evolving “Internet of Things.” Every year, hundreds of millions of objects with computing capabilities—items such as automobiles and appliances—are linked to the Internet. These interconnected devices often lack adequate security to protect themselves from hackers, and as such, can create vulnerabilities within a company’s IT network or a personal home network.

Dartmouth is now establishing an academic cluster that will research privacy and security topics from three perspectives: technology; policy and economics; and cognitive and social approaches. Dartmouth will broaden its multidisciplinary research and teaching in this field and become known as the place for scholars who want to engage with security technology as it relates to humans and society. The result will be a community of scholars and learners that works to create a more secure Internet for global benefit.

Dartmouth GenCyber 2016
Technology & Society Summer Program





Dartmouth polar scientists at Point 660, an access point to the Greenland Ice Sheet near Kangerlussuaq

The link between the Endowment, student learning, and stronger, healthier societies is clear: An investment in Dartmouth faculty and students—and their leading-edge scholarship—is an investment in improving lives across the globe.

ENDOWMENT PERFORMANCE: FISCAL YEAR 2016 AND LONG-TERM

Concerns regarding global economic growth and a path out of an unprecedentedly low interest rate environment resulted in weak performance and high volatility in most equity markets during Fiscal Year 2016. For the period from July 1, 2015–June 30, 2016, the MSCI All Country World index fell by -3.7%. International developed equity markets (MSCI EAFE -10.2%) and emerging markets (MSCI Emerging Markets -12.1%) both ended the year in negative territory while the U.S. (S&P 500 +4.0%) generated positive results—further supporting the view that the U.S. continues to be a safe haven for investors. Certain sectors, including energy and biotech, added to the market volatility and negative returns for the 12-month period ending June 30, 2016. There were bright spots within the global market landscape, including notably REITs (FTSE NAREIT Index +22.7%) and U.S. bonds (Barclays Aggregate Bond Index +6.0%)—both of which benefited from low and/or declining interest rate environments.

In Fiscal Year 2016, the Endowment returned -1.9%, outperforming the MSCI All Country World Index

return of -3.7% and the median institution in the Cambridge Associates (CA) College & University universe, but falling short of a general 60% equity/40% bond benchmark return.

Over longer periods of time, Dartmouth's endowment has generated a 10-year average annualized return of 7.2%, outperforming the 4.3% average annualized return for the MSCI All Country World Index and the 5.0% return of a general 60% equity/40% bond benchmark return over the same period, and resulting in net investment gains of \$2.5 billion. Over 20 years, Dartmouth's endowment has generated an average annualized return of 10.3%, exceeding its 8.0% return objective.

Dartmouth's endowment has ranked in the top quartile of Colleges and Universities as reported by Cambridge Associates over the trailing 1-, 3-, 5-, 10-, and 20-year time periods. Over the long term, the Endowment has succeeded in meeting its primary objective of generating inflation-adjusted investment returns in excess of the distribution rate.

FISCAL YEAR ANNUALIZED RETURN (AS OF 6/30/2016)

| | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR | 20 YEAR |
|--------------------------------------|--------|--------|--------|---------|---------|
| Dartmouth College | -1.9% | 8.7% | 8.8% | 7.2% | 10.3% |
| 60% MSCI ACWI/40% Barclays Aggregate | 0.3% | 5.4% | 5.0% | 5.0% | 6.0% |
| CA Colleges & Universities Median | -2.9% | 5.0% | 5.0% | 5.1% | 7.3% |

The endowment was valued at \$4.5 billion as of June 30, 2016. The decrease in value from one year ago comprises net investment losses of \$100 million and distributions to operations of \$209 million, partially offset by new gifts and transfers of \$119 million.

ENDOWMENT OVERVIEW

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Market Value (\$M) | \$4,474.4 | \$4,663.5 | \$4,468.2 | \$3,733.6 | \$3,486.4 | \$3,413.4 | \$2,998.3 | \$2,824.9 |
| Endowment Distribution (\$M) | \$208.6 | \$214.2 | \$188.5 | \$185.5 | \$182.9 | \$174.9 | \$204.5 | \$229.6 |
| Endowment Distribution (% of Beg MV) | 4.5% | 4.8% | 5.0% | 5.3% | 5.4% | 5.8% | 7.2% | 6.3% |



ASSET ALLOCATION AND ASSET CLASS PERFORMANCE

- Real Estate was the largest contributor to overall performance, earning 12.5% in Fiscal Year 2016, where a moderate overweight relative to the policy portfolio proved beneficial.
- Natural Resources detracted from overall performance, though Dartmouth's lower exposure going into the downturn helped mitigate the overall impact to the portfolio from existing investments; and, newer investments in 2016 contributed positively through June 30, 2016.
- The Global Equity portfolio return of -7.4% trailed the -3.7% return of the MSCI ACWI Index, partially due to higher exposure to underperforming sectors, including biotech, financials, and energy.
- The Marketable Alternative portfolio was down -1.5% for the fiscal year, but contributed 220 basis points over MSCI ACWI. Major drivers of performance were idiosyncratic, but exposure to health care, energy, and distressed opportunities were key themes during fiscal year 2016.
- Private Equity and Venture Capital investments turned in a positive performance for the year, while the allocation came down slightly as distributions exceeded calls. Over the past 10 years, this asset class has delivered an annualized return of 13.3% compared to the 4.3% return of MSCI ACWI over the same time period.

| | RETURNS* | | ASSET ALLOCATION | | |
|------------------------------------|----------|---------|------------------|---------|---------------------------|
| | 1 Year | 10 Year | 6/30/16 | 6/30/15 | Capital Allocation Ranges |
| Global Equity | -7.4% | 6.9% | 32.8% | 32.4% | 25-45% |
| Marketable Alternatives | -1.5% | 6.1% | 27.7% | 24.7% | 20-35% |
| Venture Capital and Private Equity | 0.7% | 13.3% | 19.0% | 20.9% | 10-20% |
| Natural Resources | -8.9% | 11.5% | 7.0% | 4.1% | 5-15% |
| Real Estate | 12.5% | 7.0% | 5.8% | 6.8% | 0-10% |
| Fixed Income and Cash | 0.7% | 0.8% | 7.7% | 11.1% | 3-12.5% |

*Annualized return through June 30, 2016

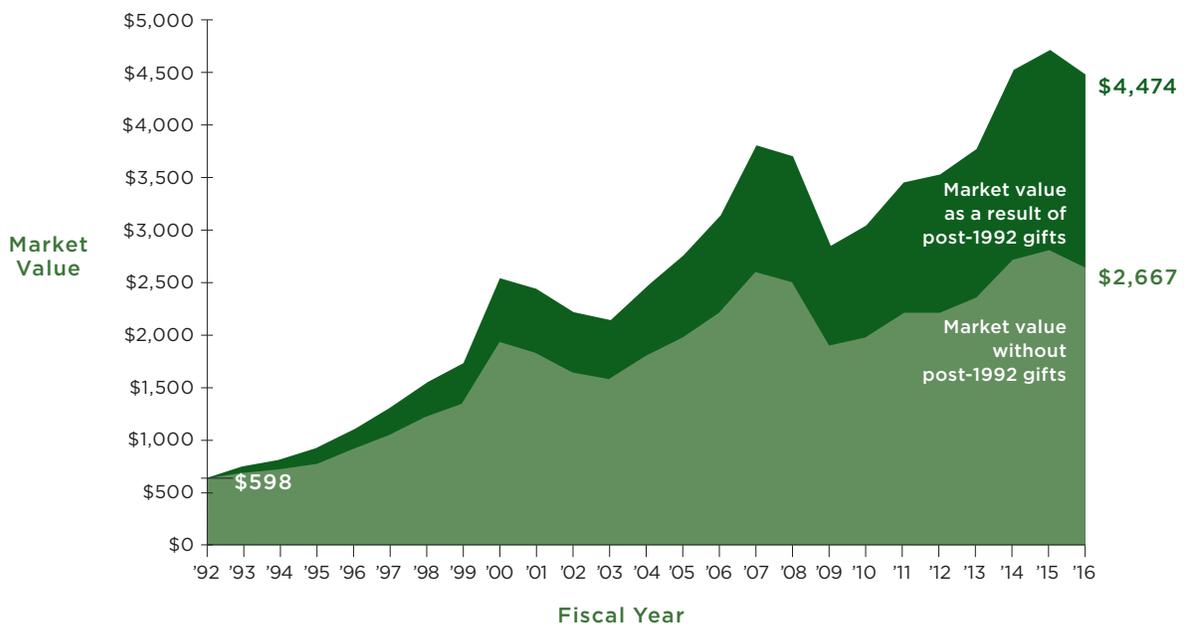


IMPORTANCE OF PHILANTHROPY IN THE ENDOWMENT

Donor support has been, and continues to be, crucial in fulfilling Dartmouth's broad mandate of teaching and research excellence. In Fiscal Year 2016, gifts to the Endowment from alumni, parents, and friends totaled \$109 million plus additional transfers of \$10 million. Over time, the Endowment has benefited

substantially from the continued support of generous donors and the power of investment compounding of those Endowment gifts, without which the Endowment's market value and impact would be significantly lower.

DARTMOUTH'S ENDOWMENT FUND: THE 25-YEAR IMPACT OF GIFTS SINCE 1992 (in millions)



ABOUT THE DARTMOUTH COLLEGE INVESTMENT COMMITTEE AND OFFICE

The Dartmouth College Investment Office, under the direction of the Board of Trustees Investment Committee, manages the Endowment as well as other non-Endowment Dartmouth investment portfolios.

The Investment Office makes recommendations to the Investment Committee on investment policies, strategies, and investments, and monitors the portfolio and its external managers day-to-day.

The Investment Committee is chaired by Richard Kimball '78, and is composed of trustees and non-trustees with significant experience in the investment industry. The Committee consists of nine individuals and meets quarterly, at a minimum, to discuss and review asset allocation policies, investment performance, and current strategies proposed by the Investment Office Staff.

Investment Committee, 2016-2017

Richard H. Kimball '78, Chair
Elizabeth Cogan Fascitelli '80
Philip J. Hanlon '77, ex officio
William W. Helman IV '80, ex officio
David C. Hodgson '78
Brian K. Laibow '00
Christopher H. Lord '86
Alice A. Ruth '83
William C. Vrattos '91

The Investment Office is made up of fourteen dedicated investment, operations, and administration professionals, and we love what we do. Together, we work every day to cultivate a spirit of collegiality and collaboration in our team and with our external managers. We pride ourselves on our rigorous, creative, and honest approach to due diligence of investment ideas, and we are committed to learning and improving our process on a continual basis. The members of our team are:

Investment Office Staff

Pamela L. Peedin '89 T'98
Chief Investment Officer

Joseph R. Celli '11
Senior Investment Analyst

Anand R. Desai
*Managing Director
Hedged and Marketable Strategies*

Kerri A. Gandin
Operations Analyst

Danny Guo
Investment Analyst

Megan Hammond '90
*Managing Director
Real Assets*

Heather W. Huff
Chief Operating Officer

Barbara L. Ibey
Senior Investment Operations Manager

Linda Liang
Portfolio Analyst

Kelsey M. Morgan '02 T'08
*Managing Director
Hedged and Marketable Strategies*

Michal Pramik
Investment Analyst

Maria Rublev
Office Manager/Executive Assistant

Shara Singh
Senior Investment Analyst

Michael P. Sullivan '91 T'97
*Managing Director
Private Equity/Venture Capital*

Dartmouth
ENDOWMENT REPORT 2016

Main Investment Office:

222 Berkeley Street, 10th Floor
Boston, MA 02116
P: 617-778-2720
F: 617-236-0652

Investment Operations Office:

12 South Street, Suite 1
Hanover, NH 03755
P: 603-646-2445
F: 603-646-3275