

Endowment Report 2014

Dartmouth



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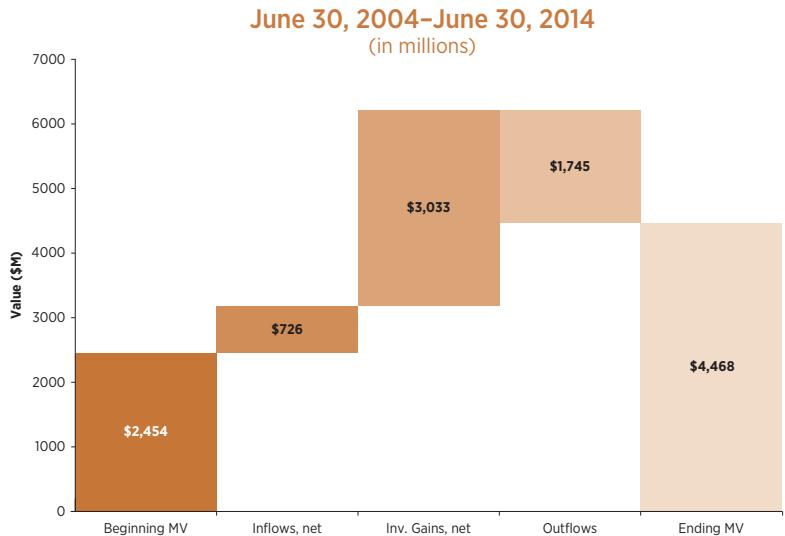
Endowment Summary

We are pleased to report that the Endowment portfolio earned an investment return of 19.2% for the fiscal year ending June 30, 2014¹

Over the 10-year period ending June 30, 2014, the Endowment produced an annualized investment return of 9.4% net of fees, outperforming the MSCI ACWI global equity index by 2 percentage points with less than half of the volatility, as measured by standard deviation. This long-term return also places Dartmouth in the top quartile of the relevant peer universe. The chart to the right shows a 10-year risk/return chart for the Dartmouth Endowment relative to other metrics.



The total market value of the Endowment rose by \$735 million over the course of the fiscal year and stood at \$4.47 billion as of June 30, 2014. The increase comprised investment gains of \$778 million, distribution to operations of \$189 million, and gifts and transfers into the Endowment of \$146 million, including a record-setting \$100 million gift.



For the 10-year period ending June 30, 2014, the Endowment generated over \$3 billion in investment gains and over \$1.7 billion in operational support for Dartmouth.

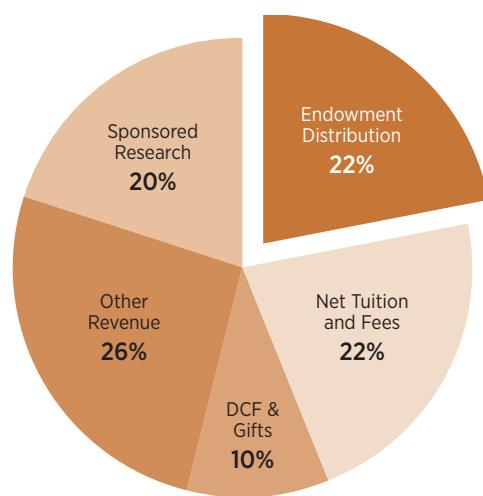
¹Commencing in Fiscal Year 2014, Dartmouth extended its accounting close deadline in response to industry-wide improvements in the timeliness of receipt of valuations from private investment managers. This change allows Dartmouth to improve the accuracy of reporting estimated values at fiscal year-end. During this year of transition, a one-time previously unreported gain of \$60 million from June 30, 2013, is included in the \$778 million of net investment gain. The 19.2% investment return excludes the \$60 million in order to best reflect performance attributable to the July 1, 2013–June 30, 2014, time period. Including the \$60 million gain, Dartmouth's actual investment return for Fiscal Year 2014 was 21.0%, reflecting the growth of the Endowment value since last reported on June 30, 2013; 21.0% is the official FY14 return included in long-term Endowment return averages.

Purpose and Use of the Endowment

The purpose of the Endowment is to provide sustainable operating support to Dartmouth over the long term. To serve this purpose, the investment objective of the Endowment is to generate inflation-adjusted investment returns in excess of distributions to the institution. Doing so creates intergenerational equity, balancing the needs of current and future generations of Dartmouth students. Dartmouth pursues an investment strategy with a strong equity bias for long-term growth, with diversification within and across asset classes to dampen volatility, and with an awareness of the liquidity needed to serve near-term portfolio and institutional needs.

Dartmouth's Endowment has played a critical role in supporting the operations of the institution, including the professional schools. In Fiscal Year 2014, the Endowment distribution represented 22% of revenues to support operating activities.

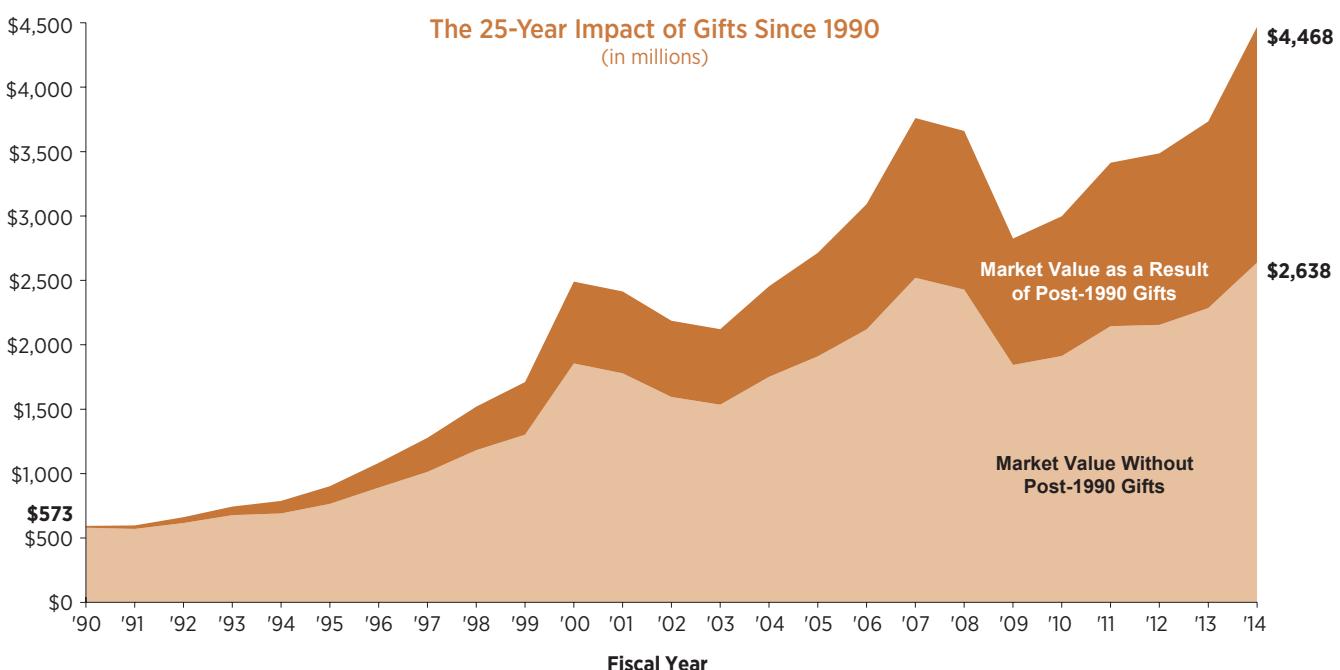
Fiscal Year 2014 Operating Revenue Sources



Based on US GAAP financial reporting.
Tuition and Fees are net of Financial Aid.

Donor support has been—and continues to be—crucial in fulfilling Dartmouth's broad mandate of teaching and research excellence. In Fiscal Year 2014, gifts to the Endowment from alumni, parents, and friends totaled \$146 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.



A \$100 Million Investment in Dartmouth's Future

In April, Dartmouth announced an unprecedented investment in the College's academic enterprise. President Phil Hanlon '77 accepted an anonymous gift of \$100 million, the largest single outright donation in the College's 244-year history. The gift included a 2-to-1 challenge to double the investment's size to \$200 million.

The gift is offered as an unqualified endorsement of President Hanlon's sweeping vision for Dartmouth, where interdisciplinary faculty teams collaborate at the leading edge of discovery and students are given uncommon access to new ideas around the globe through course work and research opportunities.

"I am deeply honored and grateful for this extraordinary act of generosity," says Hanlon. "This historic gift is an exceptional vote of confidence as we embark on an exciting journey to ensure Dartmouth remains the preeminent undergraduate institution in the nation; a magnet for human talent; and a college that cultivates a culture of ideas, discovery, and solutions to problems that will make the world a better place."

Coming in the first year of Hanlon's presidency, this powerful endorsement launched a broad vision to advance Dartmouth's teaching mission at the forefront of scholarship in a rapidly changing higher education landscape. Dartmouth is moving to strengthen its faculty, nurture a new generation of emerging scholars, and fortify an innovative interdisciplinary approach to teaching and research.

"The investment arrives at a pivotal moment in Dartmouth's history," says Steve Mandel '78, former chair of the Board of Trustees. "It marks the start of a remarkable era propelled by President Hanlon's vision for Dartmouth, a vision that has as its foundation the unparalleled academic excellence of a most distinct liberal arts college."

This first step to secure the future of Dartmouth's academic enterprise will be put to use in support of Hanlon's Cluster Initiative, which will bring together interdisciplinary teams of researchers and create approximately 30 to 40 endowed faculty positions over the next decade through this measure alone. More than two dozen cluster proposals have been submitted to the Office of the Provost, and the first cluster—the William H. Neukom Academic Cluster in Computational Science—has already been announced.

In addition to expanding the impact of Dartmouth's faculty, Hanlon has advanced a host of programs and ideas to enrich Dartmouth's intellectual and scholarly life, including increasing the flow of young scholars to Dartmouth, expanding Thayer School of Engineering, building on Dartmouth's commitment to experiential learning, and embracing learning technologies that will extend Dartmouth's expertise and commitment to teaching across the globe.

All of Hanlon's academic initiatives are meant to position Dartmouth as a major force contributing to the understanding of emerging global issues and advancing solutions to tomorrow's most vexing challenges. Strategic hiring of new faculty over the next decade in areas such as health care, education, the world economy, creativity and the brain, and energy and the environment will enhance Dartmouth's impact in the world.

"President Hanlon's pursuit of interdisciplinary excellence will bring Dartmouth's already outstanding academic programs to a new level of distinction," says Provost Carolyn Dever. "An infusion of new faculty and ideas, combined with the incredible achievements in teaching and discovery already occurring on the campus each day, will be instrumental to creating the Dartmouth of the future."

The gift will also be used to match each new gift for hiring faculty clusters, eventually helping to raise another \$100 million over the course of this challenge, which runs through December 31, 2015.

"Dartmouth faculty and alumni have played a leadership role in global issues throughout the College's history," says Bob Lasher '88, senior vice president for advancement. "This momentous gift inspires us to do more and come together as a community to make a difference in the world. I have no doubt that other donors will show support for the ambition President Hanlon has brought to Dartmouth."

Fiscal Year 2014 and Long-Term Performance

Global developed equity markets continued to climb in Fiscal Year 2014, with equities in many developed-market countries reaching new highs and volatility dropping to pre-crisis levels. The S&P 500 returned 24.6% for the fiscal year, while emerging markets lagged with the MSCI Emerging Markets Index-Net returning 14.3% for the same time period. Bonds trailed equity markets, with U.S. Investment Grade Bonds generating 4.4% for the 12 months ending June 30, 2014.

In Fiscal Year 2014, the Endowment returned 19.2%¹, outperforming a simple equity/fixed income benchmark and the median

institution in both the TUCS Foundations and Endowments Universe and the Cambridge Associates (CA) College & University universe. Given the perpetual time horizon of the Endowment, the Investment Office is focused on sustained outperformance over long periods of time. For the 10- and 15-year periods ending June 30, 2014, the annual compound rates of return were 9.4% and 9.8%, respectively, comparing favorably to the benchmarks below. Over the long term, the Endowment has succeeded in its primary objective of generating inflation-adjusted investment returns in excess of the distribution rate.

Fiscal Year Annualized Return (as of 6/30/2014)

	1 Yr.	3 Yr.	5 Yr.	10 Yr.	15 Yr.
Dartmouth College	19.2%	12.7%	13.3%	9.4%	9.8%
60% MSCI ACWI/40% Barclays Aggregate	15.3%	7.9%	10.7%	6.8%	5.3%
CA Colleges & Universities Median	16.1%	8.9%	11.8%	7.5%	6.6%
TUCS Foundations & Endowments Median	15.8%	9.1%	11.7%	7.2%	6.4%

As indicated in the chart below, the market value of the Endowment has recovered from losses sustained in 2008–2009 and as of June 30, 2014, stood at an all-time high of \$4.47 billion.

Endowment Overview	2014	2013	2012	2011	2010	2009	2008
Market Value (\$M)	\$4,468.2	\$3,733.6	\$3,486.4	\$3,413.4	\$2,998.3	\$2,824.9	\$3,660.2
Investment Return	19.2%	12.1%	5.8%	18.4%	10.0%	-19.6%	0.6%
Endowment Distribution (\$M)	\$188.5	\$185.5	\$182.9	\$174.9	\$204.5	\$229.6	\$163.1
Endowment Distribution (% of Beg MV)	5.0%	5.3%	5.4%	5.8%	7.2%	6.3%	4.3%

¹See footnote on page 1.

Asset Allocation and Asset Class Performance

The Endowment takes a flexible, globally oriented approach, one that encourages thoughtful risk-taking in compelling long-term strategies. Dartmouth's portfolio reflects a commitment to bottom-up manager selection and maintains an awareness of risk and return characteristics at the portfolio level. The College seeks firms with a great team, unique investment approaches, an attractive opportunity set, and the will to engage in a true spirit of partnership.

The portfolio is diversified across asset classes with the goal of generating superior long-term investment returns, while avoiding undue risk from concentration in any single asset class or investment style. The table below provides additional details about asset allocation ranges and asset class returns and objectives.

	Capital Allocation Ranges	6/30/14 Allocation	6/30/13 Allocation	FY14 Return	Asset Class Objective
Global Equity	25%-45%	31.3%	28.0%	22.1%	Seek to outperform broad global market indices.
	20-35%	24.0%	22.5%	11.2%	Generate equity-like returns with reduced volatility.
Venture Capital & Private Equity	10-20%	22.4%	23.1%	26.1%	Enhanced return relative to public markets through investments in private companies.
Natural Resources	5-15%	5.8%	6.2%	37.5%	Generate returns that exceed equity markets. Provide level of protection during periods of unanticipated inflation.
	0-10%	8.3%	10.2%	24.5%	Generate returns that exceed equity markets. Provide level of protection during periods of unanticipated inflation.
Real Estate	3-12.5%	8.2%	10.0%	1.6%	Provide liquid, reliable, and transparent source of capital for investment needs, distribution to operations, and rebalancing during times of equity market stress in general and economic contraction in particular.
Fixed Income & Cash/Hedging Assets					

Over the past year, the Endowment saw significant distributions from private partnerships in Private Equity, Venture Capital, Real Estate, and Natural Resources, which led to a collective decrease in allocation to these illiquid asset classes of 3%. Nevertheless, the allocation to Private Equity and Venture Capital remains above the top end of the capital allocation range set for the asset class; we expect this allocation to continue to decrease as it has since it reached its peak of 29% in 2010. The net distributions from these areas of the portfolio in Fiscal Year 2014 were redeployed across other asset classes including Global Equity, Marketable Alternative, and Cash.

Natural Resources and Venture Capital and Private Equity generated the strongest absolute performance in the portfolio for the fiscal year, while Fixed Income and Cash/Hedging Assets generated a very modest return, as expected from the large allocation to cash within the asset class. Marketable Alternative performance was in line with long-term expectations.

About the Dartmouth College Investment 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 investment portfolios of Dartmouth. The Endowment provides financial support to all of Dartmouth, including Arts and Sciences, the Geisel School of Medicine, Thayer School of Engineering, and the Tuck School of Business.

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 11 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

Richard H. Kimball '78, *Chair*
Steven R. Berger TU '87
Collette K. Chilton TU '86
Alan S. Forman '87
Philip J. Hanlon '77, *ex officio*
William W. Helman IV '80
David C. Hodgson '78
Stephen F. Mandel, Jr. '78, *ex officio*
Susan B. Meaney TU '86
Steven Roth '62, TU '63
Alice Ruth '83

Investment Office Staff

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Kelsey M. Morgan '02, TU '08
Managing Director-Hedged & Marketable Strategies
Heather W. Huff
Director of Investment Operations
George M. Raad
Investment Analyst
Shara Singh
Investment Analyst
Maria Rublev
Office Manager/Executive Assistant

Megan R. Hammond '90
Managing Director-Real Assets

Michael P. Sullivan '91, TU '97
Managing Director-Private Equity/Venture Capital

E. Amory Loring '04, TU '11
Investment Associate

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Investment Analyst

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