

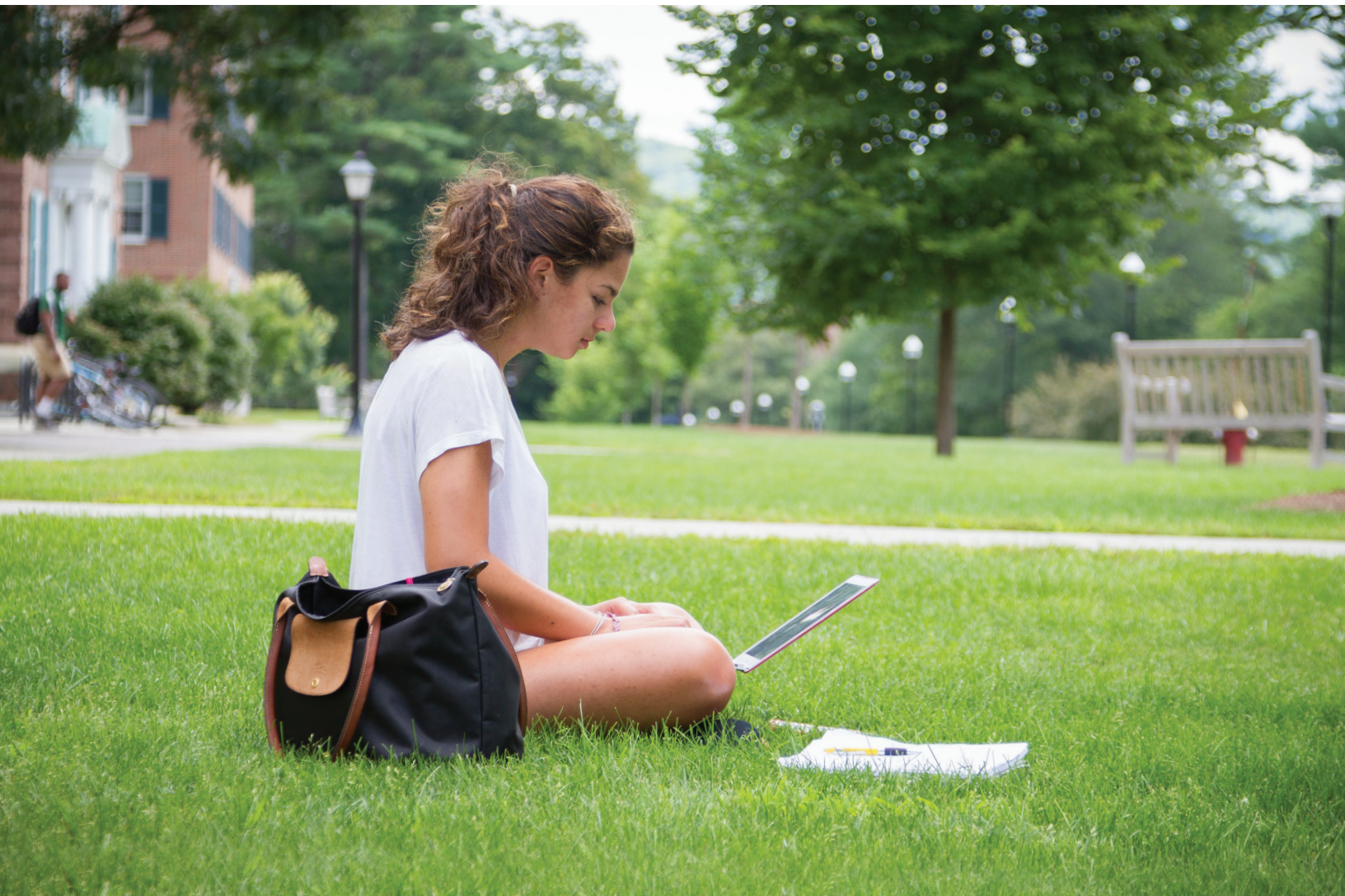


Dartmouth

Endowment Report 2015

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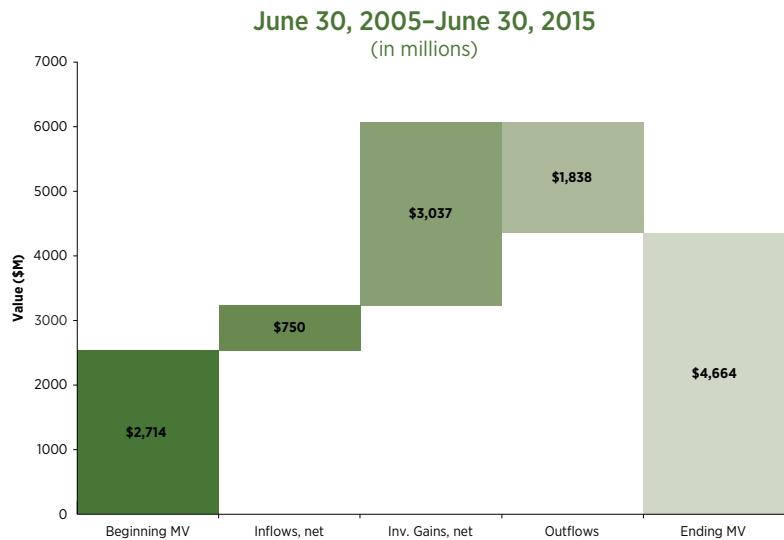


Endowment Summary

We are pleased to report that the Endowment portfolio earned an investment return of 8.3% net of fees for the fiscal year ending June 30, 2015

The total market value of the Endowment rose by \$195 million over the course of the fiscal year and stood at \$4.66 billion as of June 30, 2015. The increase was comprised of gifts and transfers into the Endowment of \$60 million, investment gains of \$350 million, and distributions to operations of \$214 million.

As illustrated in the chart at right, over the last decade the Endowment has delivered investment gains in excess of \$3 billion and distributions to operations of over \$1.8 billion.



The main focus in the management of the Endowment is on the long-term goal of producing inflation-adjusted returns that exceed both the target rate of distribution to operations as well as an appropriate set of peer and market benchmarks. Over the 10-year period ending June 30, 2015, the Endowment produced an annualized investment return of 8.8% net of fees, outperforming the MSCI ACWI global equity index by 2.4%, narrowly exceeding the Endowment's spending rate plus inflation and placing Dartmouth in the top-quartile of the relevant peer universes referenced on page 9.





Purpose of the Endowment

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

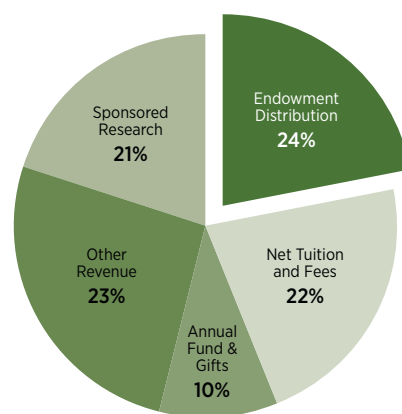
Medicine (founded 1797), Thayer School of Engineering (1867), the Tuck School of Business (1900), and the graduate programs in the Arts and Sciences.

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.

Endowment: In Service to Dartmouth's Mission

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; and, investment strategy is structured to serve that objective. The spending distribution policy serves as a mechanism for providing financial support to the operating budget, while also affording 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 2015, the Endowment distribution represented 24% of revenues to support operating activities.



Fiscal Year 2015 Operating Revenue Source

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





8.8%

Annualized investment return over 10 years

24%

Proportion of operating revenue accounted for by the Endowment in FY15

\$1.8 billion

Distributions to operations over the past decade from the Endowment



Dartmouth’s Time-Tested Investment Approach

The purpose of the Endowment informs our investment approach and strategy. In keeping with the infinite time horizon of the Endowment, 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, and with a profile that is consistent with the liquidity required to serve near-term portfolio and institutional needs. While we’re mindful of volatility in the Endowment, it is the spending policy primarily which insulates Dartmouth’s operations from the volatility associated with the capital markets and a portfolio positioned for long-term growth.

Dartmouth’s main interests in managing the Endowment are to:

- Find exceptional investment opportunities globally with superior return potential, while still maintaining an 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 to participate in various markets and strategies:

Capital Allocation	Range	Objectives
Global Equity	25-45%	Seek to outperform broad global market indices.
Marketable Alternatives	20-35%	Generate equity-like returns with reduced volatility.
Venture Capital & Private Equity	10-20%	Deliver enhanced 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 equity markets.
Real Estate	0-10%	Provide level of protection during periods of unanticipated inflation. Generate returns that exceed those of 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.

Partnering for Success

Dartmouth's superior investment returns are a direct result of productive 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 a given investment strategy. It also yields an extraordinary spectrum of investment opportunities that could never be replicated via internal management.

Dartmouth is constantly seeking exceptional investment opportunities—and exceptional investment talent. We look

for firms with a great team, a unique investment approach, an attractive opportunity set, and the will to engage in a true spirit of partnership. We have built strong relationships with firms of all shapes and sizes, investing with brand new firms as well as long-established ones.

We conduct deep due diligence up front to understand the integrity and quality of prospective partners before we invest. This work allows for a foundation of confidence and trust on which to build the relationship over time. Some of these partnerships have lasted several decades.



Here are some of the qualities we look for in our 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 pre-condition for investing; this tends to lead us toward fundamental rather than quantitative strategies.
- **Great capital allocation skill.** We value investors that 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's Endowment: Funding Areas of Distinction

Academic Clusters in Globalization and Health Care Announced

In June, Dartmouth announced two landmark gifts to the Endowment that will engage faculty and students in tackling some of the world's greatest challenges and ultimately aim to improve the lives of people across the globe.

Richard "Dick" Levy '60 has committed \$10 million to support a faculty team in health care delivery science—part of Dartmouth's effort to transform health care in the U.S. by developing strategies to curb costs while ensuring high-quality care and access.

A second \$10 million gift, from an anonymous alumnus, will establish a faculty team focused on globalization and human well-being in societies around the world.

These "academic clusters" are central to President Phil Hanlon's institution-wide initiative to build on Dartmouth's areas of distinction. The cluster initiative recruits leading scholars to Dartmouth to conduct research and to teach as part of interdisciplinary teams focused on major global challenges. In partnership with peers and students across the campus and beyond, the new faculty will address global challenges in an interdisciplinary framework, enriching the experience of

Dartmouth students, and further attracting top faculty and students to Dartmouth.

In early 2014, the College received a \$100 million gift from an anonymous donor, and half of that gift is being used as a match toward the creation of academic clusters. Consequently, the two \$10 million gifts announced in June will be matched with a further investment of \$5 million.

“Through the generosity and visionary leadership of two alumni donors, these academic clusters will help position Dartmouth as a worldwide leader in addressing two of the most important challenges of our time,” says President Hanlon.

“Globalization is one of the great forces of this century, and we need to understand how it can drive positive change. And in the area of health care, we need leading thinkers to explore how we can control costs while ensuring delivery of outstanding care. Dartmouth can have a significant impact addressing both of these issues.”

Levy’s gift will support three faculty with expertise in health care implementation science—part of Dartmouth’s larger strategy to lead a national transformation of health care. These faculty will marshal forces from across the College—including The Dartmouth Institute for Health Policy and Clinical Practice (TDI), the Geisel School of Medicine, and Thayer School of Engineering—to develop better strategies for understanding and improving health care delivery. Their research will develop and spread new models of care that control costs, empower patients, and deliver quality and value to both patients and providers.

Dartmouth faculty are already leaders in this field. Examples include developing the In SHAPE health-coaching model and leading work nationally that led to the implementation of the Accountable Care Organization (ACO), an innovative payment and delivery model. More than 700 ACOs have been established across the U.S., with strong public and private sector support.

“Dartmouth has long exhibited unique capabilities to conceptualize and demonstrate transformative improvements in the U.S. health system,” says Levy. “The cluster system will harness additional intellectual resources to accelerate the transformation process and lead the country forward. I enthusiastically support Dartmouth’s vision and strategy to fix our health system.”

Levy has served as CEO and chairman of Varian Medical Systems and chairman of Sutter Health. He is also a founding member of Dartmouth’s TDI Advisory Board.

“Dick and Sue Levy’s gift will help us achieve our goal of making Dartmouth the preeminent academic institution leading the transformation of health care in the United States,” says Elliott Fisher, director of TDI. “This is a major step forward that will have great impact across the institution, the nation, and the globe.”

The anonymous gift to support the globalization cluster will establish professorships in economics and government and at the Tuck School of Business. The faculty recruited to this team will develop data, research, and analysis to help inform elected leaders, nongovernmental organizations, and others seeking innovative policies in areas such as rule of law and human rights.

“Globalization is one of the great forces of this century, and we need to understand how it can drive positive change. And in the area of health care, we need leading thinkers to explore how we can control costs while ensuring delivery of outstanding care. Dartmouth can have a significant impact addressing both of these issues.”

—President Phil Hanlon

“Dartmouth possesses internationally recognized expertise in the fields of economics, business, and government,” says Provost Carolyn Dever. “With this bold gift, we can build on these strengths, and focus on providing nations with the information and tools that will leverage globalization to strengthen their societies and make them more democratic.”

With these two gifts, Dartmouth has received funding for four of the 10 academic clusters it plans to endow by the end of 2015. The other endowed clusters are the William H. Neukom Academic Cluster in Computational Science, supported with a gift from William H. Neukom ’64, and the Jack Byrne Academic Cluster in Decision Science at Dartmouth, funded with a gift from Dorothy Byrne in memory of her late husband.

Endowment Performance: Fiscal Year 2015 and Long-Term

Slow global economic growth resulted in weak performance and high volatility in most equity markets during Fiscal Year 2015, as evidenced by the 0.7% return for the MSCI All-Country World Index for the period. The precipitous drop in oil price weighed on natural resources equities and the strong US dollar caused headwinds for US investors in most foreign equity markets, including Brazil and Russia, which were down -28% and -27%, respectively, in US dollar terms for the 12 months ended June 30, 2015. China outperformed almost all other regions in US dollar terms, generating 24.6%. Other bright spots in the markets included US Equity in general and growth sectors such as biotech and information technology in particular, with both public and private investments yielding strong performance from these areas of the market.

In Fiscal Year 2015, the Endowment returned 8.3%, outperforming a simple equity/fixed income benchmark, the Endowment policy

portfolio benchmark, and the median institution in both the TUCS Foundations and Endowments universe and the Cambridge Associates (CA) College & University universe.

The Investment Committee and Investment Office staff is focused on sustained outperformance over long periods of time given the perpetual nature of the Endowment. For the 10- and 20-year periods ended June 30, 2015, the annual compound rates of return were 8.8% and 11.3%, respectively, comparing favorably to the benchmarks below. Dartmouth's Endowment has ranked in the top quartile of the CA and TUCS universes 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 6/30/2015)

	1 Yr.	3 Yr.	5 Yr.	10 Yr.	20 Yr.
Dartmouth College	8.3%	13.7%	12.9%	8.8%	11.3%
60% MSCI ACWI/40% Barclays Aggregate	1.3%	8.5%	8.7%	6.0%	6.6%
Policy Benchmark	2.6%	10.1%	11.4%	7.7%	--
CA Colleges & Universities Median	1.6%	9.9%	9.6%	6.6%	8.3%
TUCS Foundations & Endowments Median	2.7%	9.8%	9.9%	6.5%	8.4%

As indicated in the chart below, the market value of the Endowment has recovered from losses sustained in 2008-2009 and at June 30, 2015, stood at an all-time high of \$4.66 billion.

Endowment Overview	2015	2014	2013	2012	2011	2010	2009	2008
Market Value (\$M)	\$4,663.5	\$4,468.2	\$3,733.6	\$3,486.4	\$3,413.4	\$2,998.3	\$2,824.9	\$3,660.2
Investment Return	8.3%	19.2%	12.1%	5.8%	18.4%	10.0%	-19.6%	0.6%
Endowment Distribution (\$M)	\$214.2	\$188.5	\$185.5	\$182.9	\$174.9	\$204.5	\$229.6	\$163.1
Endowment Distribution (% of Beg MV)	4.8%	5.0%	5.3%	5.4%	5.8%	7.2%	6.3%	4.3%

Asset Allocation and Asset Class Performance

Over the past year, the Endowment once again received significant distributions from Private Equity, Venture Capital, Private Natural Resources and Private Real Estate investments, resulting in a decline in the allocation to these illiquid asset classes of just under 5% at June 30 relative to the prior year.

- Venture Capital was the largest contributor to overall performance, earning 38.4% in Fiscal Year 2015, while Real Estate also posted a very strong +21.8% result.
- The Global Equity portfolio return of 10.5% exceeded the 0.7% return of the MSCI ACWI Index by 980 basis points due to higher exposure to U.S. markets, particularly growth-oriented sectors, and very strong execution by managers in that part of the portfolio.
- On the negative side, Natural Resources detracted from overall performance due to the price decline in oil and natural gas, though Dartmouth's lower exposure to the asset class helped mitigate the impact.

- The Marketable Alternative portfolio was up marginally at 1.8%, trailing its index by 50 basis points, but exceeding the MSCI ACWI Index by 110 basis points.

Asset Allocation

	Capital Allocation Ranges	6/30/15 Allocation	6/30/14 Allocation	FY15 Return
Global Equity	25%-45%	32.4%	31.3%	10.5%
Marketable Alternatives	20-35%	24.7%	24.0%	1.8%
Venture Capital & Private Equity	10-20%	20.9%	22.3%	22.6%
Natural Resources	5-15%	4.1%	5.8%	-18.6%
Real Estate	0-10%	6.8%	8.3%	21.8%
Fixed Income & Cash	3-12.5%	11.1%	8.3%	-1.2%

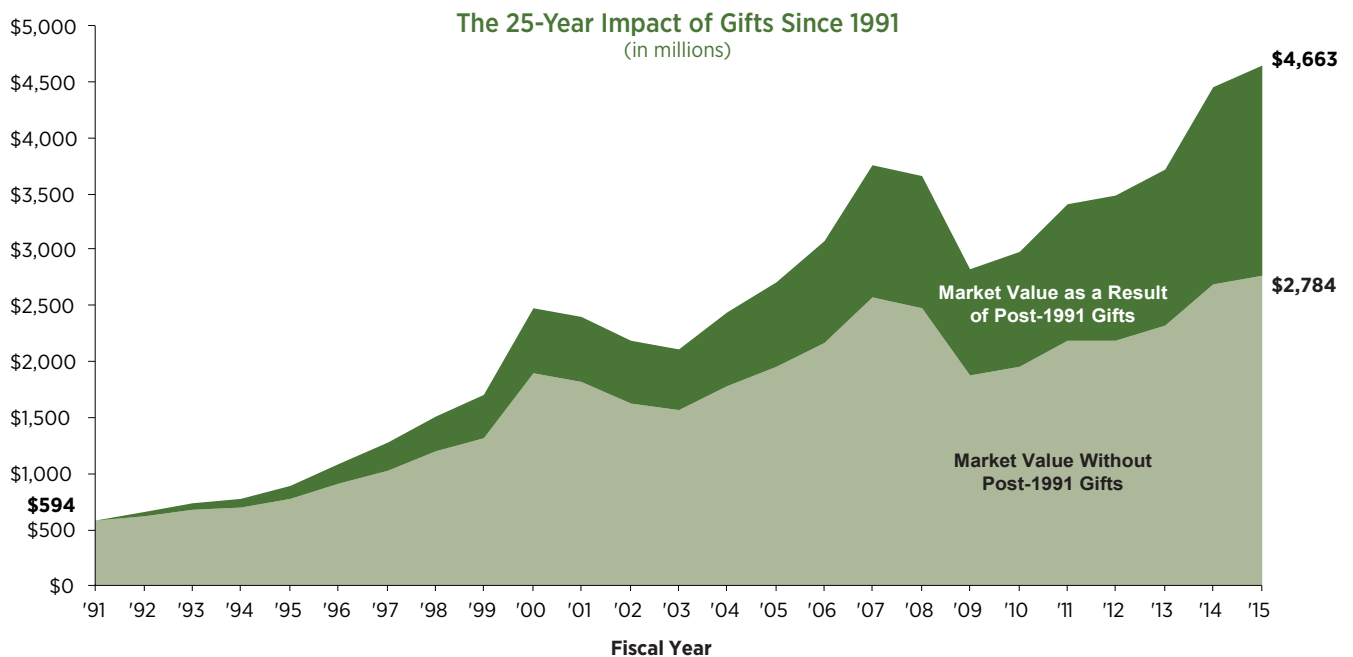




Importance of Philanthropy in the Endowment

Donor support has been, and continues to be, crucial in fulfilling Dartmouth’s broad mandate of teaching and research excellence. In Fiscal Year 2015, gifts to the Endowment from alumni, parents, and friends totaled \$60 million. Over time the Endowment has

benefitted 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.



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 investment portfolios of Dartmouth. The Endowment provides financial support to all of Dartmouth, including Arts and Sciences, the Geisel School of Medicine, the 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 and administers 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, at a minimum, quarterly to discuss and review asset allocation policies, investment performance, and current strategies proposed by the Investment Office Staff.

Investment Committee 2015-2016

Richard H. Kimball '78, *Chair*
Steven R. Berger TU '87
Elizabeth Cogan Fascitelli '80
Alan S. Forman '87
Brian Laibow '00
Philip J. Hanlon '77, *ex officio*
William W. Helman IV '80, *ex officio*
David C. Hodgson '78
Stephen F. Mandel, Jr. '78
Susan B. Meaney TU '86
Alice Ruth '83

The Investment Office is made up of 14 dedicated investment, operations and administration professionals. Together we have well over 150 years of industry experience and 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 continuous basis.

Investment Office Staff

Pamela L. Peedin '89, TU '98
Chief Investment Officer

Joseph R. Celli '11
Investment Analyst

Anand Desai
Managing Director–Hedged & Marketable Strategies

Kerri A. Gandin
Operations Associate

Megan R. Hammond '90
Managing Director–Real Assets

Heather W. Huff
Director of Investment Operations

Barbara L. Ibey
Senior Investment Operations Manager

Linda Liang
Portfolio Analyst

E. Amory Loring '04, TU '11
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Kelsey M. Morgan '02, TU '08
Managing Director–Hedged & Marketable Strategies

Michal Pramik
Investment Analyst

Maria Rublev
Office Manager/Executive Assistant

Shara Singh
Investment Analyst

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

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Endowment Report 2015

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