The Dartmouth College Endowment

June 30, 2008

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Introduction

Since the founding of Dartmouth College in 1769, generous alumni, parents and friends have donated financial resources to assist the College in achieving its long-term mission of providing a superb liberal arts education for undergraduates while maintaining excellent graduate programs and professional schools. Many of these gifts, as well as certain unrestricted funds designated for long-term investment by the Board of Trustees, have been invested in the College's endowment. As a result, the College's total endowment market value, and endowment per student, is among the largest college and university endowments in the United States.

Although there are several variations, in its simplest form, an endowment fund represents donated assets permanently invested to generate an annual return for the support of College operations, both currently, as well as far into the future.

Dartmouth's endowment includes over 5,335 individual funds, each with its own set of instructions regarding the purpose to be supported. Funds may be established for a specific purpose or for unrestricted general support.

There are three types of endowment gifts:

- *True (permanent) endowment:* True endowment funds require the College to retain the original gift in perpetuity, but permit the use of investment return in support of operations.
- *Quasi-endowment:* Quasi-endowment funds differ from true funds in that they allow expenditure of the original principal as well as investment return at the discretion of the Board of Trustees.
- *Term endowment:* Term endowment funds are true endowment funds that become quasi-endowments after a specified time period or a specific event.

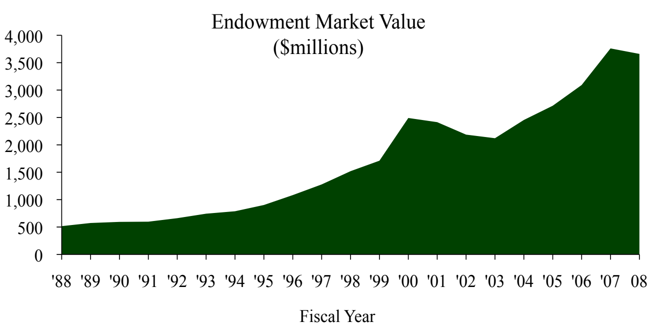


Figure 1

Purposes

A wide variety of instruction, research, social, cultural, athletic and recreational activities are supported by endowment funds at Dartmouth. During the year ended June 30, 2008, $163.1 million of endowment return was distributed to such activities. This amount represented approximately 26% percent of the College's operating expenses before auxiliaries and direct research expenses. Without endowment support many important programs and activities would not exist or would be severely limited. Figure 2 shows the functional areas supported and the percentage of total June 30, 2008 endowment market value represented by each.

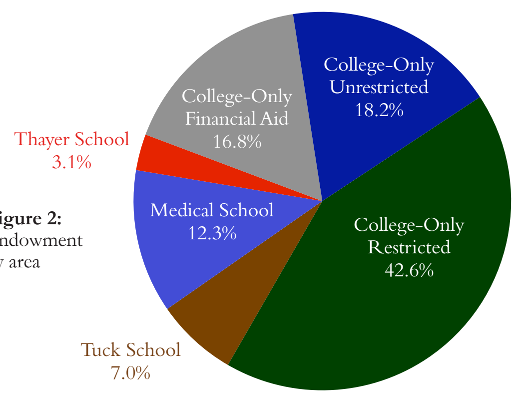


Figure 2: Endowment by area

Endowment Management

Over 99 percent of the College's endowment is invested in the "Total Return Pool" (TRP)[1] and virtually all new gifts are added to this investment Pool. The Pool operates like a mutual fund in that each endowment fund owns shares that represent claims on the Pool's commingled assets. Shares are valued at the end of each month based on the market value of the Pool's assets. New gifts added to the Pool "purchase" shares based on the share value at the end of the preceding month. Income yield is allocated to funds using a formula employing shares and the period of the fiscal year they were owned. Investment appreciation or depreciation is allocated to individual funds based on the number of shares "owned" by each fund.

Annual investment performance is measured based on the concept of total return. Ordinary yield (dividends, interest, rents, royalties, etc.) is combined with realized and unrealized capital gains (or losses) to develop a total return percentage. Investment decisions are made with a view toward maximizing long-term return opportunities while maintaining an acceptable level of investment risk.

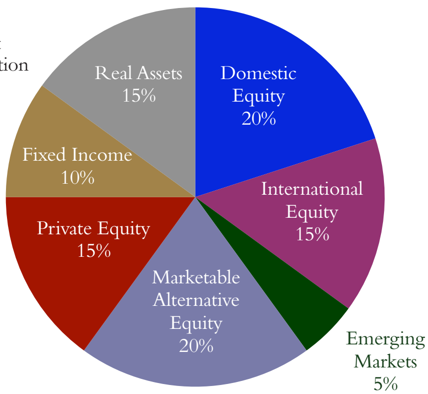
[1] The policy of combining funds for the purpose of investment in order to permit diversification and to facilitate administration was established in 1885-86. At the time of the adoption of the policy, there were only 91 total funds.

Asset Allocation

The Investment Committee of the Board of Trustees has determined that a well-diversified mix of assets offers the best opportunity for maximum return with acceptable risk over time. Figure 3 below reflects the neutral asset allocation policy adopted by the Investment Committee of the Board of Trustees.

port current operating needs while maintaining the long-term purchasing power of the endowment fund. Historical averages indicate that an annual return between 8-10 percent is needed to provide adequate support for operations while protecting against inflation and covering investment management fees over the long term. An additional goal is to generate returns

Figure 3: Endowment assest allocation targets



In order to achieve these targets, the College's Investment Office contracts with professional asset managers whose expertise and demonstrated performance best match Dartmouth's investment goals for a particular asset class. The College's investment philosophy is shared with these external managers and their performance is regularly evaluated.

Investment Performance

The College's overall performance objective is to generate sufficient returns to sup-

which exceed the measure of inflation, achieving "real" growth of the endowment.

Figure 4 illustrates how successful Dartmouth has been in achieving this goal. While Dartmouth's endowment was affected by the economic recessions of the past two decades, prudent management and strict adherence to an overarching investment philosophy have provided long-term stability. Over the twenty-year period ended June 30, 2008, the Total Return Pool generated a 12.3 percent annualized total investment return net of investment management expenses. After the annual distribution to operations, the Pool's adjusted market value per share increased at a compound annual growth rate of 7.3 percent. Since the Consumer Price Index (CPI-U) increased by a compounded average of only 3.1 percent during this same period, Dartmouth's endowment averaged real growth of 4.2 percent annually over these twenty years.

Dartmouth's fiscal 2008 return ranked in the second quartile within a universe of 158 college and university endowments as compiled by Cambridge Associates, an independent consultant. The median fiscal 2008 return in the Cambridge Associates endowment universe was -0.9 percent, while Dartmouth's return was 0.6 percent. As of June 30, 2008, the market value of the endowment stood at $3.660 billion.

Dartmouth's Total Return Pool has also produced solid investment returns over longer time periods. The broadly diversified combination of multiple investment asset classes in the endowment portfolio resulted in an annualized return of 14.3 percent for the five-year period ended June 30, 2008, which compares favorably to the single asset class, U.S. equity, increase of 7.6 percent annually for the S&P 500, demonstrating the advantage of broad diversification. Figure 5 shows the Total Return Pool's five-year performance, in comparison to a diversified benchmark index, referred to as the Policy Portfolio, which has returned 11.8 percent annually. The Policy Portfolio is comprised of the following indexes: 20 percent Russell 3000 (domestic stocks), 15 percent MSCI EAFE (Europe, Austria and Far East), 5 percent MSCI Emerging Markets, 20 percent Merrill Lynch 91-day Treasury Bills plus 4.5 percent (absolute return), 7.5 percent Cambridge Associates U.S. Private Equity index, 7.5 percent Cambridge Associates

Long Term Purchasing Power:
20 Year Indexed Performance

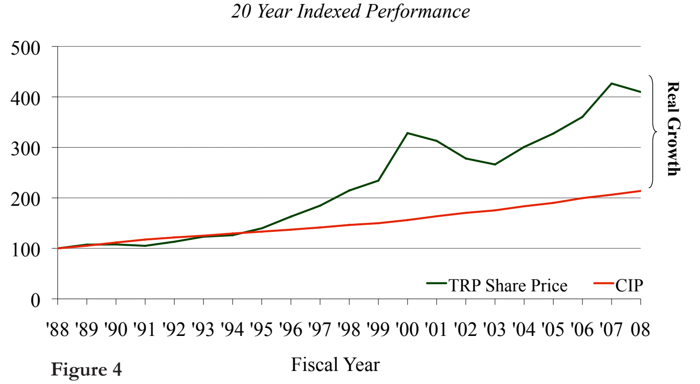


Figure 4

U.S. Venture Capital index, 5 percent Barclay's Capital Aggregate index (domestic bonds), 5 percent Barclay's Capital U.S. TIPS index (Treasury Inflation-Protection Securities), 5% Dow Jones AIG Commodity index, and 10 percent Cambridge Associates Real Estate index.

Utilization Policy

Dartmouth's endowment utilization policy balances support of the current generation of students and faculty with the need to preserve the College's endowment for future generations. While peer institutions have various endowment management policies, Dartmouth's is a common one, and all such policies embody the same goal of balancing current use with long-term preservation. The College's utilization policy provides that an annual amount of current and accumulated endowment investment return will be distributed from each individual endowment fund which can be utilized by the College for operations. In fiscal year 2008, the total distribution was $163.1 million and the amount utilized was $157.4 million. The amount of endowment return actually utilized for operations in any given fiscal year must be spent in accordance with donor restrictions, if applicable, or with Board approved directives.

To fund the annual distribution as approved by the Board and computed by the distribution formula, current yield and investment appreciation may be expended; surplus appreciation is retained in the endowment. In the event a fund has insufficient appreciation to reach the formula amount in a given year, distribution is capped at current yield plus available appreciation. While such a limitation exists in the near-term with newly established funds, it is expected that over the long-term, positive investment performance should allow the fund to experience real growth.

Outperforming the Benchmark:
5 Year Indexed Investment Performance

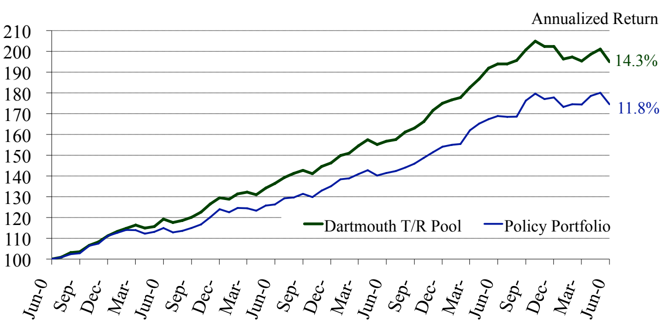


Figure 5

In fiscal year 2004, the College's annual distribution from endowment approved by the Board of Trustees fluctuated between a lower boundary of 4.25 percent and an upper boundary of 6.5 percent of a moving three-year average endowment market value. Beginning with the endowment distribution effective in fiscal year 2005, the Board of Trustees approved a revised distribution formula, consistent with the College's overall endowment distribution philosophy to preserve intergenerational equity and to provide a stable distribution in support of the operating budget. This distribution formula is designed to moderate the potential volatility of endowment distributions during periods of large positive or negative investment returns. The distribution formula requires that the distribution be calculated with 70 percent based on the prior fiscal year's distribution, adjusted by an inflation factor [2], and 30 percent based on a pre-determined percentage of the prior fiscal year's four-quarter trailing average market value of the endowment.

Endowments are expected to contribute to, if not underwrite entirely, the total costs of the programs such funds support. Most of the amount utilized annually from endowment offsets direct program costs incurred. The balance (12 to 18 percent) of the amount utilized from endowment is reserved to defray associated program costs (such as space, support and oversight) which make up a significant portion of a program's total cost and represent the many dimensions of underlying support essential for any program to succeed. Since the total distribution from the endowment each year is expected to be approximately 4 - 6 percent of average endowment market value, the amount allocated to associated program costs is expected to remain between 0.5 and 1.1 percent of average endowment market value.

[2] In fiscal 2007, the Board of Trustees approved replacing the CPI inflation factor with the Higher Education Price Index (HEPI). HEPI is an inflation index designed specifically for use by institutions of higher education, and is a more accurate indicator of cost changes experienced by the College. HEPI is complied and maintained by the Commonfund Institute.

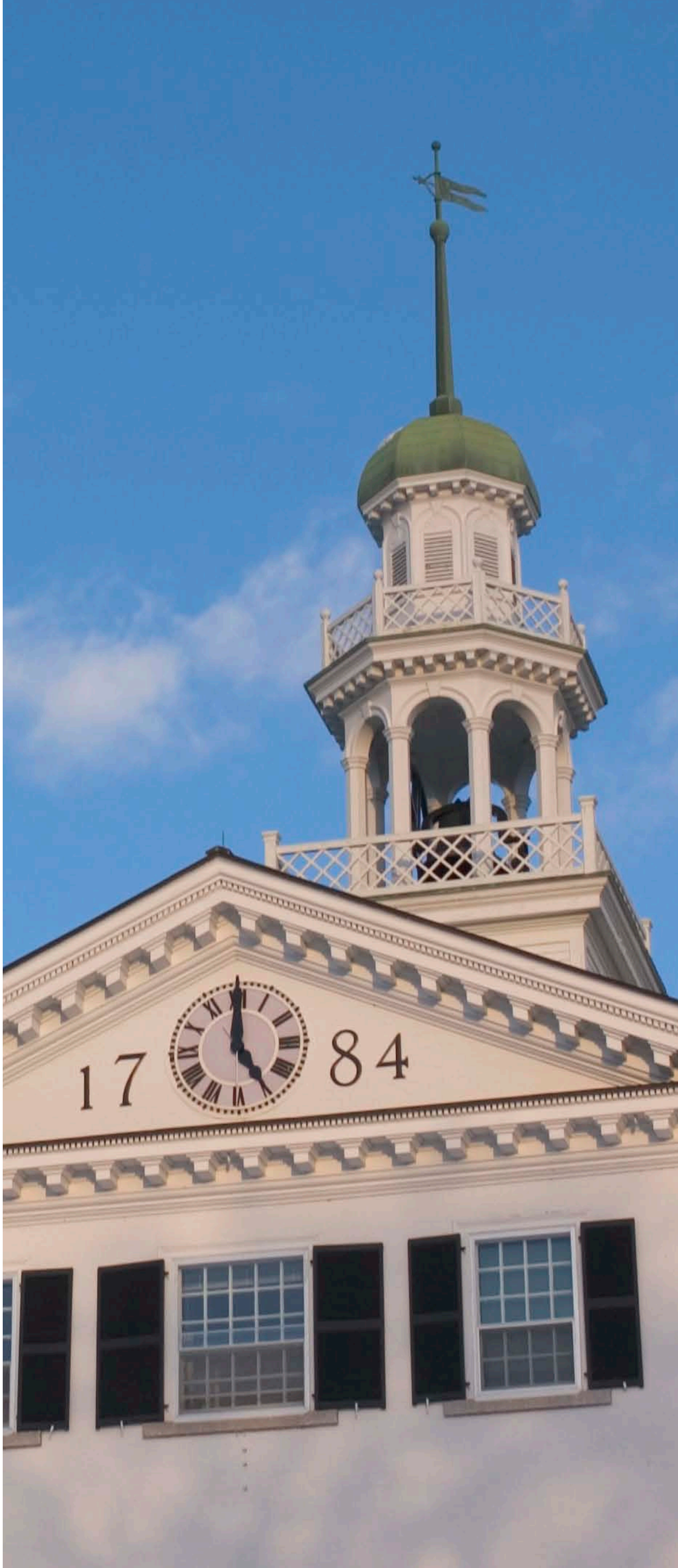
Conclusion

Dartmouth's endowment, made up of over 5,335 individual funds, is testimony to the exceptional support the College has received over the years from donors committed to maintaining the enduring quality and value of a Dartmouth education. Continuing additions to the endowment from alumni and other friends of the College - combined with prudent oversight and investment of these funds by Dartmouth's Board of Trustees through the policies summarized in this pamphlet – help sustain an education of the highest quality for present and future generations of young women and men.

Endowment Facts and Figures

A gift given 20 years ago: A gift creating an endowment fund of $100,000, at the beginning of fiscal 1988, would have distributed over $214,000 and would be worth over $409,000 at the end of fiscal 2008.

The Dartmouth College endowment has funds dating back to the seventeen hundreds. The College's oldest fund is the Phillips Professorship of Theology. This fund was established with an initial gift of thirty-seven pounds, ten shillings in 1789. The original donor, the Honorable John Phillips, L.L. D., also gave an additional gift of 285 bushels of wheat to help fund the professorship.



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