

**FY 2010
Annual Report
on the
Endowment**



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Endowment Overview

	2010	2009	2008	2007	2006
Market Value (in millions)	\$2,998.3	\$2,824.9	\$3,660.2	\$3,760.2	\$3,092.1
Return	10.0%	-19.6%	0.6%	23.7%	14.9%
Endowment Distribution to Operations (in millions)	\$202.4	\$227.2	\$161.4	\$164.1	\$127.5
Endowment Distribution % (of beginning market value)	7.2%	6.3%	4.3%	5.3%	4.7%
Operating Revenues (in millions)*	\$733.2	\$701.0	\$670.8	\$677.4	\$628.3
Endowment Distribution as a % of Operating Revenue	27.6%	32.4%	24.1%	24.2%	20.3%

Total Investable Assets: Allocation

	2010	2009	2008	2007	2006
US Equity	10.7%	11.1%	14.4%	19.2%	21.6%
International Equity	8.8%	10.8%	11.0%	15.8%	15.4%
Emerging Market Equity	3.4%	4.8%	5.8%	5.8%	2.7%
<i>Global Public Equity</i>	22.8%	26.7%	31.2%	40.8%	39.7%
Marketable Alternative Equity	23.0%	24.1%	24.4%	20.6%	22.0%
Private Equity/Venture Capital	28.7%	24.4%	21.2%	15.9%	15.1%
<i>Total Equity</i>	74.6%	75.2%	76.8%	77.3%	76.8%
Real Estate	8.9%	10.9%	10.2%	6.9%	7.6%
Commodities	8.2%	8.2%	6.2%	4.7%	4.7%
<i>Total Real Assets</i>	17.0%	19.1%	16.4%	11.6%	12.3%
Fixed Income	2.2%	5.4%	6.8%	7.6%	7.1%
Cash	6.2%	0.3%	0.0%	3.5%	3.8%
<i>Total Portfolio</i>	100.0%	100.0%	100.0%	100.0%	100.0%

*per audited financial statements



1. Introduction

We are pleased to report that the Endowment portfolio earned an investment return of 10.0% for the fiscal year ended June 30, 2010, compared to the policy portfolio return of 7.9%. The market value of the Endowment increased by \$173 million and as of June 30, 2010 was valued at \$3 billion. The increase in market value includes investment gains as well as gifts and transfers, partially offset by the distribution for spending on College operations.

During the fiscal year ended June 30, 2010, we focused on internal risk management practices as markets remained volatile and uncertain. We worked closely with senior administrators of the College and Investment Committee members developing metrics for monitoring the Endowment's liquidity and underlying exposures, as well as modeling "what if" scenarios.

We increased liquidity in the Endowment in late 2009 as uncertainty around the global economic environment continued. We understood the opportunity cost of holding cash but prioritized the need to meet the Endowment's obligations should the economic situation worsen. The financial markets performed better than expected and our worst-case scenarios did not materialize.

We also focused on improving the composition and sizing of the manager group in the portfolio. We believe investing with fewer managers, in whom we have the greatest confidence, will best position the Endowment to achieve its long-term goals.

The Endowment has a long-term investment horizon, and Dartmouth pursues a strategy with a strong equity bias. Diversification among asset classes with equity return characteristics is the foundation of this strategy, and therefore includes significant exposures to public equity, long/short hedge funds, absolute return hedge funds, distressed securities, private equity, venture capital, real estate and other real assets. Although it was certainly tested during fiscal 2009, we believe this approach remains valid.



Endowments are distinguished by the fact that they are perpetual and focused on long-term results. For the past five, ten, and fifteen years ended June 30, 2010, the average annual return on the Endowment is 4.8%, 5.1%, and 10.9%, respectively. The five and ten year returns are weighed down significantly by the 2008-2009 global financial crisis and will take time to recover. For comparison purposes, the Bank of New York Mellon Endowment and Foundation Universe reports median returns of 3.3% and 3.7% for the past five and ten years, and Cambridge Associates reports median returns for Institutions Greater than \$1 Billion of 4.6%, 5.3%, and 9.2% for the past five, ten and fifteen years ended June 30, 2010.

Investment Performance	Annualized	
	Five Years	Ten Years
<i>as of June 30, 2010</i>		
Endowment	4.80%	5.06%
<i>Policy Portfolio</i>	<i>3.80%</i>	<i>2.00%</i>
U.S. Equity	0.02%	1.50%
<i>Russell 3000 Index</i>	<i>-0.48%</i>	<i>-0.92%</i>
International Equity	4.08%	2.61%
<i>MSCI EAFE Index - Net</i>	<i>0.88%</i>	<i>0.16%</i>
Emerging Market Equity	12.94%	--
<i>MSCI Emerging Markets Index - Net</i>	<i>12.73%</i>	<i>--</i>
Marketable Alt Equity	5.87%	9.21%
<i>MSCI World Composite 75/25</i>	<i>8.33%</i>	<i>4.08%</i>
Private Equity/Venture Capital	10.76%	1.53%
<i>Cambridge US VC/US PE Blend (50/50)</i>	<i>8.55%</i>	<i>0.90%</i>
Real Estate	1.12%	7.31%
<i>Real Estate Blend</i>	<i>-1.75%</i>	<i>4.03%</i>
Commodities	19.51%	24.09%
<i>Dow Jones AIG Commodity Index</i>	<i>-1.32%</i>	<i>4.41%</i>
Fixed Income	4.29%	7.23%
<i>Barclays Capital Aggregate Index</i>	<i>5.54%</i>	<i>6.47%</i>
TIPS	9.53%	10.22%
<i>Barclays Capital US TIPS Index</i>	<i>4.98%</i>	<i>7.46%</i>

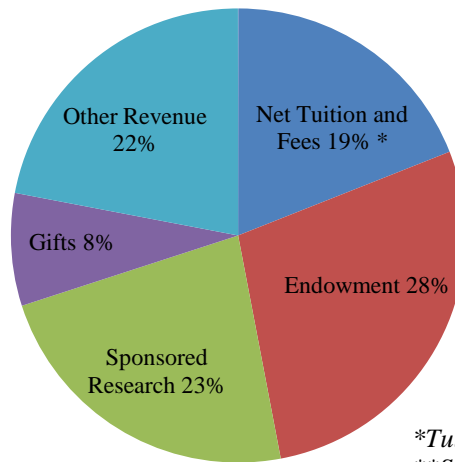
The following pages review the purpose and uses of the Endowment, provide a detailed account of the fiscal year 2010 investment performance and asset allocation, as well as provide an update on the Investment Office and the oversight provided by the Investment Committee.



2. Purpose and Uses of the Endowment

Dartmouth's Endowment plays a critical role in supporting the operations of the College and of the professional schools; the Dartmouth Medical School, the Thayer School of Engineering, and the Tuck School of Business. In fiscal year 2010, 28% of the operating budget was funded by the Endowment distribution.

Operating Revenues- Fiscal Year 2010 **

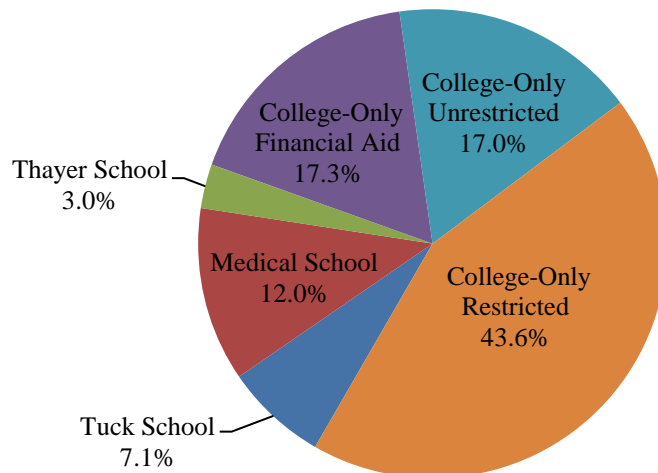


**Tuition and Fees are net of financial aid*

***Source: Annual Audited Financial Statements*

Additionally, of the 5,480 separately endowed funds comprising the Dartmouth Endowment, only 17% of the funds are unrestricted for College-only use, which limits budgetary flexibility.

Endowment Fund Allocation- Fiscal Year 2010***

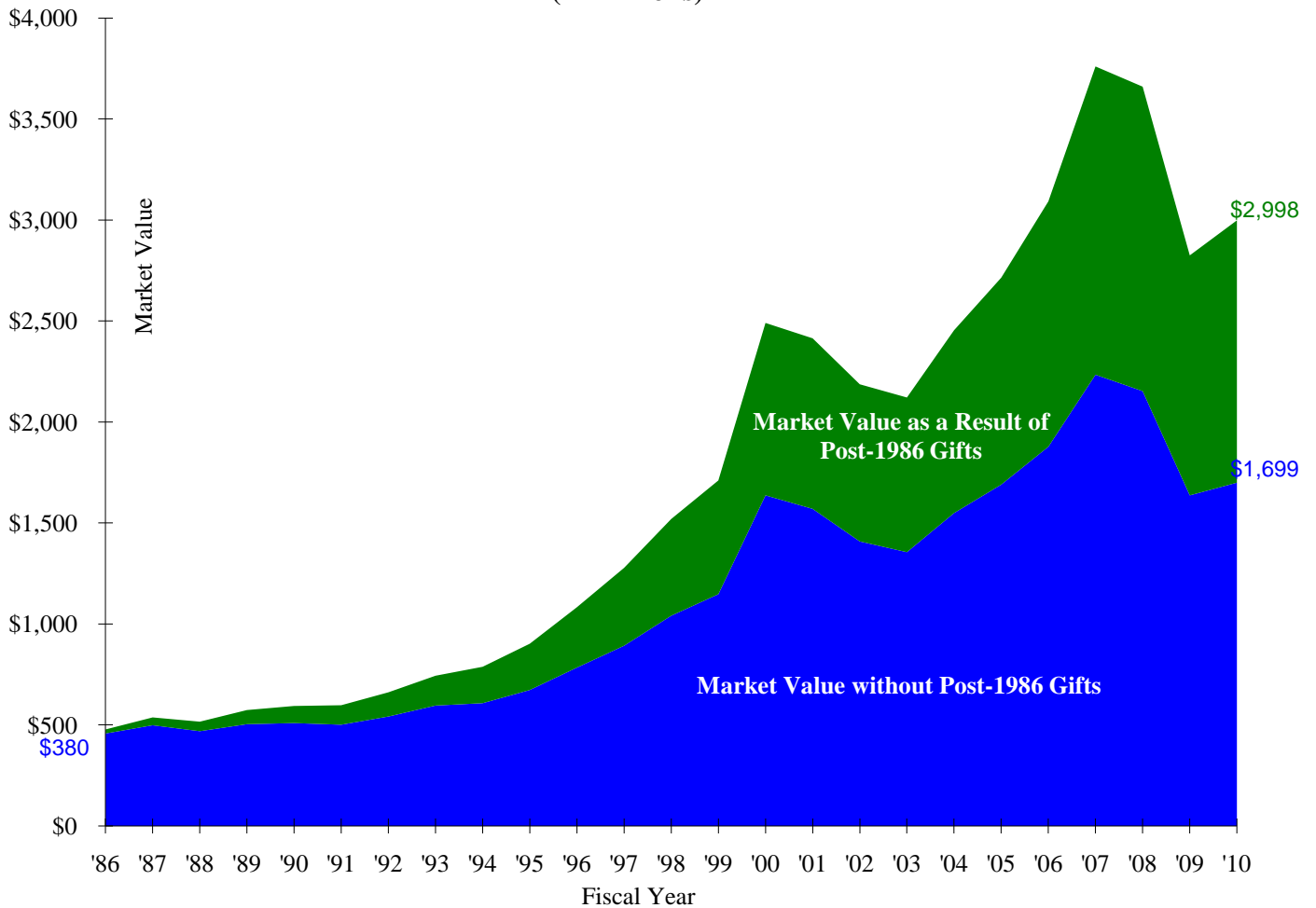


****Source: Dartmouth Endowment Fund System*



Donor support has been critical in fulfilling Dartmouth's broad mandate of teaching and research excellence. In fiscal year 2010, there were \$67 million in gifts to the Endowment from alumni, parents and friends. The value of the Dartmouth Endowment on June 30, 2010 was \$3 billion. Without the continued support of generous donors over the past 25 years, the value on June 30, 2010 would have been only \$1.7 billion.

Dartmouth's Endowment Fund: The 25 Year Impact of Gifts Since 1986
(in millions)





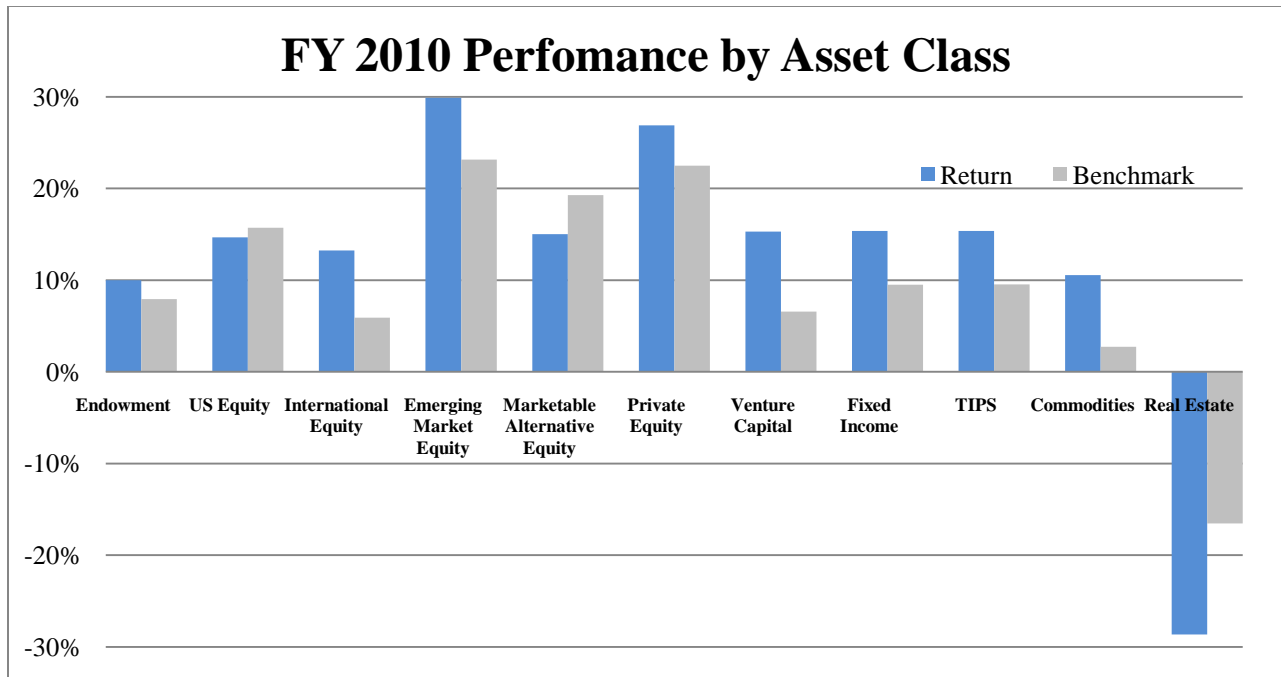
3. Fiscal Year 2010 Asset Allocation & Investment Performance

Portfolio Allocations <i>as of June 30, 2010</i>	Policy			Actual
	Lower Bound %	Upper Bound %	Neutral %	%
<i>Global Public Equity</i>	30%	50%	40%	22.8%
U.S. Equity	15%	25%	20%	10.7%
International Equity	10%	20%	15%	8.8%
Emerging Market Equity	5%	10%	5%	3.3%
<i>Alternatives</i>	25%	50%	35%	51.7%
Marketable Alternative Equity	15%	30%	20%	23.0%
Private Equity/Venture Capital	10%	20%	15%	28.7%
<i>Real Assets</i>				
Real Estate	5%	15%	10%	8.9%
Commodities	0%	10%	5%	8.2%
<i>Fixed Income</i>	-5%	15%	10%	2.2%
US Fixed Income	-5%	10%	5%	1.5%
US TIPS	0%	10%	5%	0.7%
<i>Cash</i>	0%	10%	0%	6.2%
Total			100%	100.0%

During the fall of 2009, we raised cash to bolster the Endowment’s liquidity profile. As of June 30, 2010, 6% of the portfolio was in cash, intentionally in excess of the target allocation of 0%. Relative to the target asset allocation, the Endowment remains overweight to private equity and venture capital and underweight in global public equities. For this reason, new commitments to private equity and venture capital managers have been minimal. As the markets improve and Dartmouth’s managers sell assets in the private equity and venture capital partnerships, we will rebalance the Endowment portfolio to the target ranges over time.



Dartmouth’s Endowment generated a return of 10.0% for the fiscal year ended June 30, 2010, exceeding the policy portfolio return of 7.9%. Strong performance came from emerging market equities, private equity and the private oil and gas portfolios, while the private real estate portfolio underperformed. For broad market comparison purposes, the S&P 500 returned 14.4%, emerging markets earned 23.2%, and fixed income returned 9.5%.



The US equity portfolio returned 14.7%, slightly underperforming the Russell 3000 Index at 15.7%, while slightly outperforming the S&P 500 at 14.4%. The emerging market portfolio did very well, generating a return of 29.9% compared to its benchmark of 23.2%, as did the international equity portfolio (which includes developed market equities) earning 13.2% compared to its benchmark of 5.9%. The fixed income portfolio, although only 2% of the overall portfolio, returned 14.4% compared to its benchmark of 9.5%.

The marketable alternative strategies portfolio (largely equity long-short hedge funds) contributed positively to overall Endowment performance by returning 15.0%. Even though this strategy fell short of the high-bar set by the 75/25 MSCI World benchmark of 19.3%, it outperformed T-Bills + 450 basis points (another common benchmark for this asset class) by over 10%.



In the private portfolio, the commodities managers returned 10.5%. The level of incoming cash distributions received from this portfolio during a period of continued volatility was notable. The portfolio's private equity and venture capital managers rebounded nicely from fiscal year 2009 with returns of 26.9% and 15.5%, respectively for FY 2010 however the real estate portfolio detracted significantly from overall performance with a return of (28.6%) for the second year in a row. We believe that the real estate portfolio has "bottomed" and is beginning to rebound. That said, we are revisiting our real estate investment strategy to make sure it is serving its intended purpose in the Endowment.

In reflecting on fiscal year 2010 and the above results, the question is often raised whether the endowment model for asset allocation should be revisited. Despite the events of fiscal 2009, the diversified portfolio of marketable and non-marketable assets is what has driven the Endowment's long-term success. We are exploring new avenues for liquidity and risk management and continue to think about new and evolving strategies to continue to deliver strong long-term performance for Dartmouth.

4. Organizational Updates and Oversight

We are pleased to announce that Pamela Peedin will be the new Chief Investment Officer (CIO), effective February 1, 2011. Pam is a 1989 graduate of the College and a 1998 graduate of the Tuck School of Business. Pam has served as the Chief Investment Officer for Boston University since 2007 and prior to that spent nine years at Cambridge Associates.

The Investment Office manages the Endowment as well as other College financial assets, and reports to the Board of Trustees' Investment Committee. The Committee is composed of Trustees and non-Trustees with significant experience in the investment industry. The Committee consists of 14 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. The Investment Committee, chaired by William Helman '80, continues to work closely with the Staff in each asset class during this interim period to assure proper oversight.



Investment Committee

William W. Helman '80, Chair

Peter M. Fahey '68, TH'69, Vice Chair

Steven R. Berger TU'87*

Leon D. Black '73

Collette K. Chilton TU'86

Robert A. Danziger '56

R. Bradford Evans '64

Alan S. Forman '87

Charles E. Haldeman, Jr. '70

Richard H. Kimball '78

Stephen F. Mandel, Jr. '78

P. Andrews McLane '69, TU'73

Susan B. Meaney TU'86

Steven Roth '62, TU'63

**Beginning July 2010*

Investment Office Staff

Samuel E. Belk '77
Managing Director--Marketable
Alternative Securities

Kristie L. Mongeon
Senior Administrative Assistant

Megan R. Hammond '90
Managing Director--Non-Marketable
Securities

Eamonn P. Smith
Senior Investment Analyst

Heather W. Huff
Director of Investment Operations

Amy B. Walls
Managing Director--Marketable Securities

Barbara L. Ibey
Senior Investment Operations Manager