

Endowment Report 2017



DARTMOUTH

THE ENDOWMENT AT A GLANCE

14.6%

FY17 return

10.6%

5-year annualized return

\$630 Million

FY17 net investment gains

25%

percentage of total net operating revenue for FY17

\$4.96 Billion

endowment value as of 6/30/17

\$225 Million

FY17 spending distribution

DARTMOUTH AT A GLANCE

4,410

undergraduates arriving from all 50 states and 71 countries and speaking 73 languages

79,000

alumni around the world

7:1

student-to-faculty ratio

\$47,833

average annual scholarship

4

graduate schools

Dear Friend of the Dartmouth Investment Office,

I am pleased to share our Endowment Report for fiscal year 2017, to thank you for your contributions during the past year, and to share my excitement about the future of Dartmouth and the strength of its endowment.

I was honored to take on the role of chief investment officer this past spring. I graduated from Dartmouth in 1983, and my time here as a student was transformative, providing the foundation for a fulfilling life and career. It was, therefore, a great privilege to return to the College to help foster similar experiences for future generations of students.

Dartmouth is unlike any other academic institution I know. Embedded in its DNA is an abiding belief in the power of the liberal arts to broaden one's thinking and produce new knowledge. There is an unyielding commitment here to rigorous academic study and critical thinking. Alongside this is the capacity to nurture students' spirit of adventure, inspired by an extraordinary natural setting, and to cultivate a passion for lifelong learning. I am proud to help advance this mission. It is for this reason that I am particularly pleased to share the results for fiscal year 2017.

As of June 30, 2017—the end of the fiscal year—Dartmouth's endowment was valued at \$4.96 billion. The increase in value was driven by an investment return of 14.6%, and is net of \$225 million in distributions to the College. This exceptional result would not be possible without our partnerships with world-class investment managers, who bring breadth and depth to Dartmouth's portfolio in service of Dartmouth's mission. Although one year of positive returns is important, ultimately, we judge ourselves over a much longer time horizon. Through that lens, Dartmouth's endowment performance is strong, with 5-, 10-, and 20-year returns of 10.6%, 6.4%, and 10.2%, respectively. These returns rank Dartmouth near the top of colleges and universities as reported by Cambridge Associates for these time periods and have made it possible to distribute almost \$2 billion to support the institution over the past decade.

In the Investment Office, we have an energy and passion for investing. We are conducting proprietary research on existing and prospective investments, exploring new opportunities, and engaging with emerging investment talent. We seek both to understand the opportunities and challenges that exist today and to keep a keen eye on positioning Dartmouth well for the future. We are grateful to our skilled investment managers, who work tirelessly and thoughtfully to deliver strong results for our portfolio; to our faculty for lending their time and perspectives to our research efforts; and to Dartmouth alumni, who make introductions to new investment talent, who give their time to serve as referrals in our due diligence work or on our investment committee, and who provide millions of dollars in donations to the Endowment. Their contributions are critical to increasing the purchasing power of the portfolio and, in turn, increasing distributions back to the institution. We in the Investment Office are honored to benefit from, cultivate, and carry forward these crucial relationships.

On behalf of the entire team, many thanks again for your support.

Alice A. Ruth '83

Chief Investment Officer (CIO)

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The Endowment: In Service to 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).

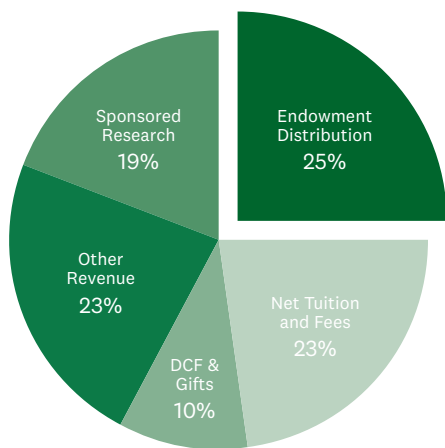
A Dartmouth education is unlike any other. Through person-to-person teaching and opportunities to create and apply knowledge on campus and across the globe, Dartmouth instills a love of learning among its students and empowers them for a lifetime of leadership.

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 2017, the Endowment distribution represented 25% of revenues to support operating activities, or \$225 million.

Fiscal Year 2017 Operating Revenue Source

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



\$95 million: the amount of scholarship aid provided by Dartmouth to undergraduates in fiscal year 2017





A Moosilauke Ravine Lodge for Future Generations

Moosilauke Ravine Lodge has been a part of venerable Dartmouth traditions for decades. But more than 70 years of wear and tear had left their mark on the old lodge, necessitating the construction of a new building. Over the past year, the new lodge has taken shape, retaining features from the old lodge while being updated to meet energy efficiency and accessibility standards. Now reopen, the lodge offers students a place to celebrate past traditions and create new ones.



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 it can generate an equity return. This is often when capital is scarce, and when Dartmouth can capitalize on dislocations caused by the short-term focus of many market participants.
- Concentrate investments where conviction is high.





Partnering for Success

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 through 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 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 precondition for investing.
- **Superior capital allocation skill.** We value investors who demonstrate discipline in pursuing their opportunity set, letting fundamentals guide the decision-making process on 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.

Endowment Performance: Fiscal Year 2017 and Long Term

Global public equity markets continued to rise, in some cases to all-time highs, throughout fiscal year 2017. For the period from July 1, 2016, to June 30, 2017, the MSCI All Country World Index appreciated by over 19%, with emerging markets (MSCI Emerging Markets +23.7%) leading both the U.S. (S&P 500 +17.9%) and internationally developed markets (MSCI EAFE +20.3%), primarily on strength out of China. In addition, certain sectors, including infotech (+36%) and financials (+34%), were leading contributors to global public market gains, whereas U.S. energy was the one notable detractor (-4.1%), stemming from oil price declines in the second half of the fiscal year.

From a portfolio perspective, while we seek equity and equity-like returns across much of the portfolio, due to our long-term orientation we do not always expect the Endowment's return to keep pace with equity returns during a strong public-equity market rally. Dartmouth has a diversified portfolio with differentiated sources of return to manage volatility.

For fiscal year 2017, the Endowment returned +14.6%, outperforming the median institution in the Cambridge Associates (CA) College & University universe as well as a general 60% equity/40% bond benchmark return. The strong fiscal-year performance results relative to these common benchmarks is reflective of excess returns generated by world-class investment managers selected for the portfolio from around the globe. Given the perpetual nature of the Endowment, the Investment Office staff is focused on sustained outperformance over long periods of time. For the 10 years ending June 30, 2017, Dartmouth's endowment has generated an average annualized return of 6.4%, outperforming the referenced benchmarks as well as the 3.7% return for the MSCI All Country World Index. Over 20 years, Dartmouth's endowment has generated an average annualized return of 10.2%, outperforming its primary objective of generating inflation-adjusted investment returns in excess of the distribution rate. From a peer perspective, Dartmouth's long-term returns are strong, ranking 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.

Fiscal Year Annualized Return (as of 6/30/2017)

	1 Yr.	3 Yr.	5 Yr.	10 Yr.	20 Yr.
Dartmouth College	14.6%	6.8%	10.6%	6.4%	10.2%
60% MSCI ACWI/40% Barclays Aggregate	10.9%	4.1%	7.4%	4.5%	5.9%
CA Colleges & Universities Median	13.1%	4.1%	8.0%	4.5%	7.1%

Endowment Overview

	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011	FY2010	FY2009
Market Value (\$M)	\$4,956.5	\$4,474.4	\$4,663.5	\$4,468.2	\$3,773.6	\$3,486.4	\$3,413.4	\$2,998.3	\$2,842.9
Endowment Distribution (\$M)	\$225.4	\$208.6	\$214.2	\$188.5	\$185.5	\$182.9	\$174.9	\$204.5	\$229.6
Endowment Distribution (% of Beg MV)	5.0%	4.5%	4.8%	5.0%	5.3%	5.4%	5.8%	7.2%	6.3%



ENDOWMENT IN ACTION

Scholars and Teachers

Veronica Williamson '17 works with Professor Irene Kacandes on a research project. Kacandes is the Dartmouth Professor of German Studies and Comparative Literatures, an endowed professorship. Dartmouth faculty are known for their commitment to both research and teaching, and Kacandes says she views her students as apprentice scholars.

Dartmouth has ranked in the top 10 for undergraduate teaching every year since the category was established by *U.S. News & World Report*.

Asset Allocation and Asset Class Performance

For fiscal year 2017, all asset classes generated positive investment performance results with alpha distributed broadly across the portfolio.

Global Equity was the largest contributor to overall performance, earning 22.1% in fiscal year 2017. A higher weighting in the portfolio proved to be beneficial, as did approximately 300 basis points of excess return generated by the investment managers in this part

of the portfolio. These managers add value through portfolio management experience, knowledge of local investment markets around the world, and stock selection. In particular, strong security selection and concentration in stocks from the infotech and financial sectors were notable contributions for the fiscal year.

Private Equity and Venture Capital and Natural Resources also posted double-digit investment returns for the fiscal year on the back of strong global public equity market returns for PE/VC and notable investment realizations in the Natural Resources portfolio.

The Hedge Fund portfolio returned +9.9% for the fiscal year, with 200 basis points of excess return over its benchmark.

Over the last 10 years, Private Equity and Venture Capital and Natural Resources have added significant value by each outperforming the MSCI ACWI by well over 600 basis points. In fact, for fiscal year 2017 the asset allocation range for Private Equity and Venture Capital was increased to better position the portfolio to benefit from this type of excess return, which is more likely to be generated from this segment of the market. However, for fiscal year 2017 the allocations to Private Equity and Venture Capital, Hedge Funds, and Real Estate all declined as a percentage of the total Endowment value from one year ago as they could not keep pace with the portfolio-level appreciation driven by the Global Equity program.



	Returns*	
	1 Year	10 Year
Global Equity	22.1%	6.5%
Hedge Funds	9.9%	5.1%
Venture Capital & Private Equity	16.4%	12.4%
Natural Resources	16.9%	10.3%
Real Estate	7.9%	3.5%
Fixed Income & Cash	0.2%	0.5%

Asset Allocation		
6/30/17	6/30/16	Capital Allocation Ranges
37.8%	32.8%	20-40%
24.9%	27.7%	20-35%
18.4%	19.0%	15-25%
7.1%	7.0%	5-15%
4.3%	5.8%	0-10%
7.5%	7.7%	3-12.5%

* Annualized return through June 30, 2017



Exploring Human Origins in South Africa

In November 2016, after spending fall term studying how anthropologists piece together the story of human evolution, 15 students traveled to South Africa to conduct scientific research of their own. The students were enrolled in the anthropology class “Experiencing Human Origins and Evolution,” taught by Associate Professor Jeremy DeSilva and Professor Nathaniel Dominy. Over the course of three weeks in South Africa, the students and professors traveled to significant dig sites—and even uncovered a fossil while participating in a dig at a World Heritage site.

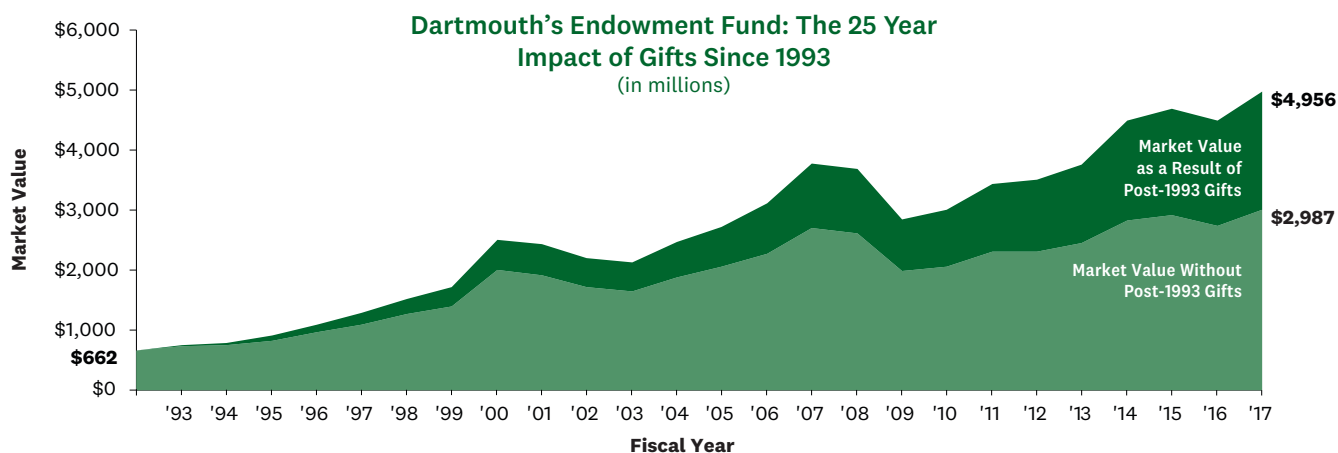
More than half of undergraduates participate in off-campus programs, and Dartmouth leads the Ivy League in the number of faculty-led study-abroad programs.



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 2017, gifts to the Endowment from alumni, parents, and friends totaled \$60 million plus additional transfers of \$17 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.



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 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 2017-2018

Elizabeth Cogan Fascitelli '80
Philip J. Hanlon '77, ex officio
William W. Helman IV '80, trustee emeritus
Douglas Hodge '79
David C. Hodgson '78
Richard H. Kimball '78, Chair
Brian K. Laibow '00
Christopher H. Lord '86
Greg Maffei '82
Laurel J. Richie '81, ex officio
William C. Vratatos '91

Investment Office Staff

Alice A. Ruth '83

Chief Investment Officer

Kelsey M. Morgan '02 T'08

Deputy CIO

Megan Hammond '90

Managing Director Real Assets

Michael P. Sullivan '91 T'97

Managing Director Private Equity/Venture Capital

Heather Huff

Chief Operating Officer

Joseph R. Celli '11

Senior Investment Analyst

Michal Pramik

Senior Investment Analyst

Danny Guo

Investment Analyst

Jon Xu '15

Investment Analyst

Barbara L. Ibey

Senior Investment Operations Manager

Kerri A. Gandin

Investment Operations Manager

Maria Rublev

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Danielle M. Skehill

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DARTMOUTH

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