Dartmouth College Endowment Report 2009

Contents

ENDOWMENT OVERVIEW	Fiscal Year				
	2009	2008	2007	2006	2005
Market Value (in millions)	$2,824.9	$3,660.2	$3,760.2	$3,092.1	$2,714.3
Return	-19.6%	0.6%	23.7%	14.9%	14.4%
Endowment Distribution to Operations (in millions)*	$227.2	$161.4	$164.1	$127.5	$120.2
Endowment Distribution % (Beginning market value)	6.3%	4.3%	5.3%	4.7%	4.9%
Operating Revenues (in millions)*	$701.0	$670.8	$677.4	$628.3	$581.0
Endowment Distribution as a % of Operating Revenue	32.4%	24.1%	24.2%	20.3%	20.7%
Asset Allocation					
U.S. Equity	11.1 %	14.4 %	19.2 %	21.6 %	29.7 %
International Equity	10.8	11.0	15.8	15.4	8.8
Emerging Markets	4.8	5.8	5.8	2.7	2.3
Global Equities	26.7	31.2	40.8	39.7	40.8
Marketable Alternative Equity	24.1	24.4	20.6	22.0	20.1
Private Equity/Venture	24.4	21.2	15.9	15.1	13.8
Total Equity	75.2	76.8	77.3	76.8	74.7
Real Estate	10.9	10.2	6.9	7.6	7.0
Other Real Assets	8.2	6.2	4.7	4.7	3.3
Total Real Assets	19.1	16.4	11.6	12.3	10.3
Fixed Income	5.4	6.8	7.6	7.1	10.8
Cash	0.3	0.0	3.5	3.8	4.2
Total Portfolio	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

**per audited financial statements*

Overview

Dartmouth's endowment plays a critical role in supporting the current and future work of the College. This report provides a broad overview of the endowment, and will review investment policy, performance, spending policy, liquidity and management oversight. We plan to provide this report annually, and we welcome your feedback.

The fiscal year that ended in June 2009 was the most difficult investment environment since the 1930s, and resulted in one of the worst twelve-month performance periods for the endowment, which finished down 19.6%. It is little comfort to note that the endowments of our peer colleges and universities generated returns that were down between 16% and 28%.

It is important to put these losses in a longer-term context. Over the past decade, Dartmouth's endowment has produced an annual return of 8% during a time when equity markets generated negative returns. These results placed Dartmouth's endowment returns in the top 5% of all endowments and foundations.

The Dartmouth endowment has a long-term investment horizon, and we pursue 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 severely tested during fiscal 2009, we believe this endowment investment approach remains valid.

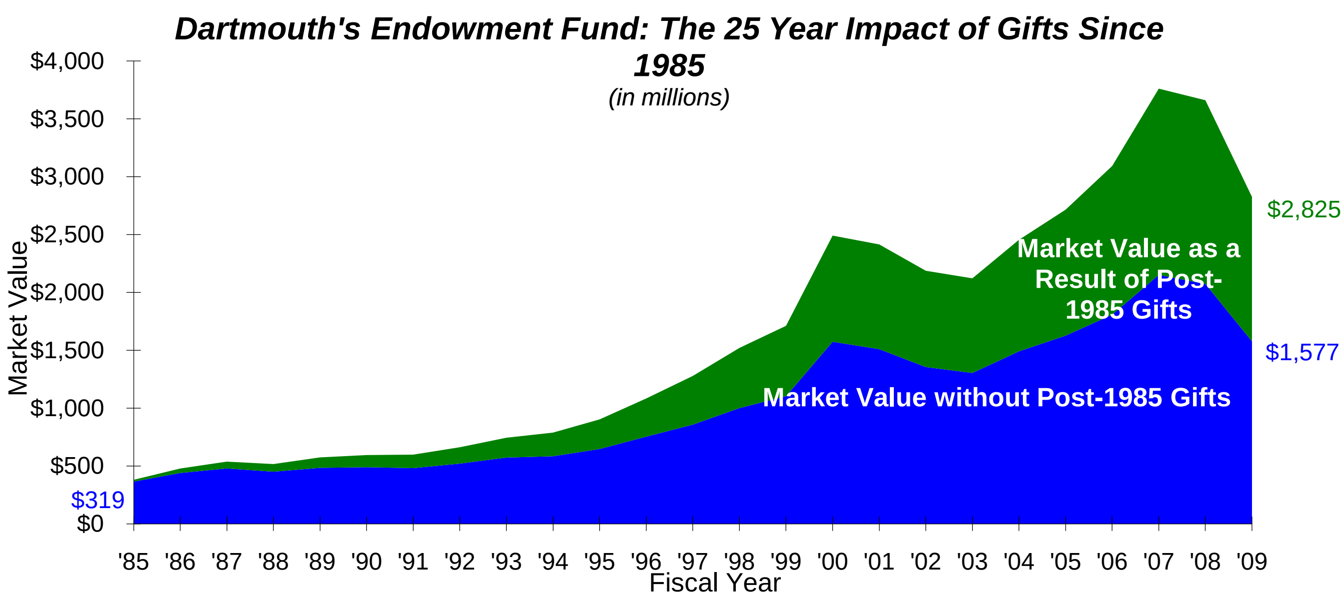
A number of the perennial challenges of managing an endowment with a long-term investment horizon were reinforced during fiscal 2009 as financial markets declined. Outsized returns often come at the price of liquidity. The combined impact of market declines, capital calls from private partnerships, limited distributions from these same partnerships, and increased endowment spending requirements severely tested many large endowment funds, and their ability to manage liquidity.

Dartmouth took several key steps to enhance its liquidity position prior to and during fiscal 2009. These steps included increasing cash-on-hand by strategically selling public equities and redeeming certain hedge fund holdings, and by restructuring our credit lines. As a further safety net for the College, we issued $250 million of taxable debt at very favorable rates in mid 2009. The proceeds are held as a liquidity reserve and have not been used. We also believe it will be prudent to reduce our allocation to illiquid asset classes over the coming years.

Purpose and Use of the Endowment

Dartmouth's endowment provides financial support to the operations of the College. Its investment and spending policies are designed to balance the needs of current Dartmouth students with the needs of future generations of Dartmouth students. Earning long-term returns that maintain the inflation-adjusted purchasing power of the endowment underpins this concept of intergenerational equity.

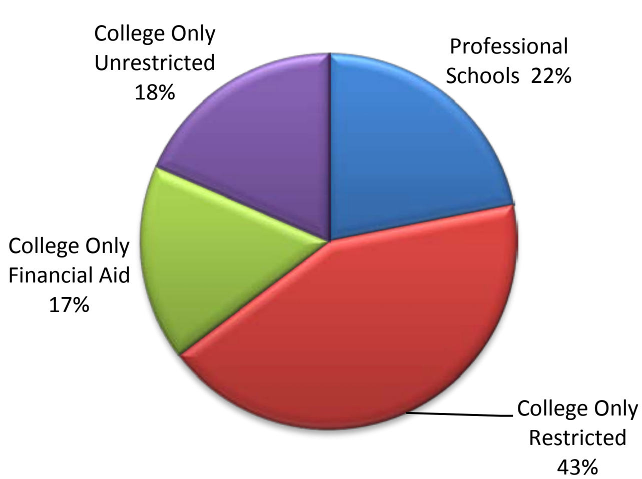
Donor support has been critical to Dartmouth in fulfilling its broad mandate of teaching and research excellence at the College and its professional schools. In fiscal year 2009, $54 million came in as gifts to endowment from alumni, parents and friends of the College. The value of the Dartmouth endowment on June 30, 2009 was $2.8 billion. Without the continued support of generous donors over the past 25 years, the value on June 30, 2009 would have been only $1.6 billion.



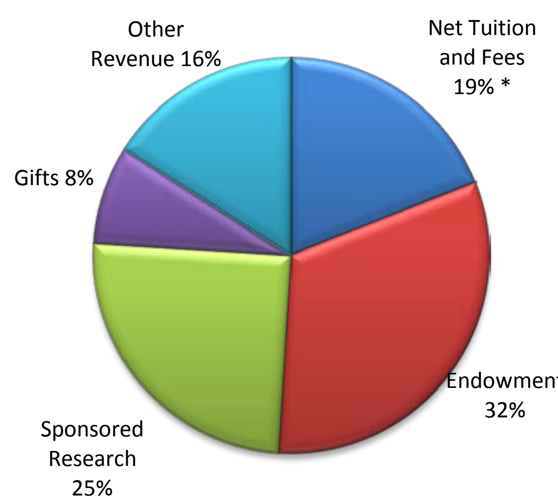
The endowment is composed of both restricted funds, for which donors designate a specific purpose for their gifts, and unrestricted funds. There are over 5,400 separate funds that comprise Dartmouth's endowment. The designation of those funds is shown in the chart below. It is interesting to note that only 18% of the endowment is unrestricted for College-only use, limiting budgetary flexibility.

The College is highly dependent on investment return to support endowment spending, which is a significant source of revenue for the College, accounting for nearly one-third of the operating budget in fiscal 2009, as shown below. This operating budget is for the entire College, including Dartmouth Medical School, the Thayer School of Engineering, and the Tuck School of Business. Endowment spending for the College only, excluding the professional schools, accounts for an even larger percentage of its operating budget.

Endowment Fund Allocation
Fiscal Year 2009



Operating Budget Revenue
Fiscal Year 2009



Tuition and fees are net of financial aid.

Asset Allocation

Asset allocation is a key variable in the success and long-term growth of the endowment. Proper diversification across different asset classes serves to enhance total return while avoiding undue risk from concentration in any single asset class or investment style.

To ensure broad diversification among the major categories of investments, Dartmouth has adopted the following target (neutral) percentages and upper and lower bounds within which we manage our exposures:

As of June 30, 2009	Policy			Actual
ENDOWMENT	**Lower Bound %**	**Upper Bound %**	**Neutral %**	**%**
Public Equity	30%	50%	40%	26.8%
U.S.	15%	25%	20%	11.1%
International	10%	20%	15%	10.8%
Emerging Markets	5%	10%	5%	4.8%
Absolute Return	15%	30%	20%	24.1%
Private Equity	10%	20%	15%	24.4%
Real Assets				
Real Estate	5%	15%	10%	10.8%
Other Real Assets	0%	10%	5%	8.2%
Fixed Income	-5%	15%	10%	5.4%
Bonds	-5%	10%	5%	1.5%
TIPS	0%	10%	5%	3.9%
Cash	0%	10%	0%	0.3%
Total			100%	100.0%

Below lower range
In range
Above upper range

In less volatile times, when an asset class exceeds its allocation target, the portfolio is rebalanced to the neutral allocation in a timely and cost-effective manner. The actual asset allocation mix has deviated from the policy in recent years. The extreme sell-off across public financial markets in 2008 and early 2009 triggered a significant increase in our exposure to private equity, real estate, and other illiquid, alternative investments. The College's spending needs and ongoing capital commitments further magnified this dislocation from policy as public equity investments became the only non-debt source of liquidity to fund obligations. We are carefully managing this over-allocation to private investments, including real estate and other real assets, with an objective of lowering our allocation to these asset classes over the next few years.

In addition, given the increasingly global nature of investing in public equities, Dartmouth's asset allocation policy will in the future reflect the broad opportunity set available to public equity managers. As such, we will remove specific targets for domestic, international and emerging markets as we plan to invest with those managers who will yield superior dollar-based returns, regardless of their capitalization and/or geographic orientation.

Global Equities

Dartmouth's public equity investments follow a variety of strategies including long-only, long/short, absolute return and distressed securities. Each is designed to provide long-term equity returns, but with different risk and liquidity profiles. We choose managers in each category, and each has a deeply-rooted, fundamentally-driven process shared by a seasoned investment team whose interests are aligned with those of the College, and whose assets under management still provide the flexibility required to deliver attractive risk-adjusted returns going forward.

Long-Only Global Equity

Dartmouth seeks managers who are not trying to mimic an index, but rather who are attempting to add value by leveraging their industry and individual company knowledge. We favor managers who run more concentrated portfolios, and who have a global approach to investing.

Global Long/Short Equity

Our long/short equity managers hold a long equity portfolio offset by a portfolio of short equity holdings. Underlying this model is the assumption that public equity markets have a long-term upward bias, and Dartmouth looks for long/short equity managers who have a net long bias. The portfolio of longs and shorts is constructed such that it is directionally exposed to the market.

The short portfolio serves as a hedge against market declines, but importantly provides additional value through selecting stocks that are likely to underperform. Dartmouth evaluates the ability of its existing and prospective long-short managers to add value through stock selection on long and short positions, as well as a manager's ability to make timely shifts in market exposures via tilts in capitalization, sectors and/or geographies.

Absolute Return

Our absolute return managers include discrete and blended strategies in distressed securities, global capital structure arbitrage, mortgage-backed and asset-backed securities, volatility, yield curve and asset-spread arbitrage, as well as merger and risk arbitrage. The role of absolute return investments is to provide superior equity-like returns for the endowment independent of the returns of broader global equity, fixed income and commodity markets.

Distressed Securities

Distressed securities managers take either strategic or control positions in the securities of lower rated, distressed or bankrupt entities with the objective of capital appreciation through a corporate restructuring, or simply through an improvement in underlying operating fundamentals. Although less liquid than our investments in public equities, distressed securities can provide equity-like returns with lower risk.

Fixed Income

The purpose of fixed income investments is to provide diversification and a predictable and dependable source of current income. In addition, fixed income instruments reduce the overall volatility of the endowment's assets and provide a deflation hedge.

Given the long-term horizon of the endowment and the lower expected returns associated with government and corporate fixed income investments, Dartmouth's exposure to fixed income over the last few years has focused on credit opportunities across a broad range of geographies and sectors. In addition, to mitigate inflation risk, Dartmouth has added Treasury Inflation Protected Securities (TIPS), a portion of whose return is determined by changes in the Consumer Price Index (CPI).

Private Equity

Dartmouth established its private equity program more than 30 years ago, and was among a small handful of early institutional investors to identify the potential attractiveness of this asset class to generate long-term rates of return materially higher than public equities, while also providing additional diversification to the endowment. The College's private equity investments include participation in venture capital and leveraged buyout partnerships based primarily in the United States, but who may invest actively outside of the U.S.

Venture Capital

Dartmouth's venture capital partnerships focus on seed, early and expansion-stage investments primarily in East Coast and West Coast technology and healthcare companies in a wide range of sectors including software, consumer internet, enterprise information technology, networking equipment, semiconductor, cleantech and biotechnology. Over the years, many of these small, private start-up companies have generated extraordinary returns for the College when they went public or were acquired, and have grown into some of the leading public companies in the world, including Google, Apple, and Cisco, and, closer to home, GlycoFi, a spin-out from the Thayer School of Engineering, which was acquired by Merck in 2006 in the largest all-cash acquisition of a private biotech company in history.

Buyouts

The College's leveraged buyout partnerships focus on much larger, more mature companies at the time of investment. These buyout transactions can include the acquisition of a division of a large corporation, a private company acquired from founders seeking liquidity, or a publicly-held company taken private. Common to all attractive buyout transactions are strong management, valuable assets and predictable cash flow. Dartmouth's buyout partnerships typically target one of several key strategies that include mega buyouts, middle-market and lower middle-market buyouts, growth equity investing, and distressed investing.

Real Assets

Real Estate

Real estate provides the potential for equity-like returns coupled with a low historical correlation with equity and fixed income investments.

Dartmouth emphasizes investing in income-producing properties in markets or submarkets with high barriers to entry, using prudent levels of third party leverage when it is appropriate. Diversification by property manager, property type, geography, and vintage year are important considerations in portfolio construction.

Dartmouth implements its real estate investing by using qualified third party managers, emphasizing investments in private, co-mingled funds. Dartmouth will consider investments in managers investing in public real estate securities on an opportunistic basis.

The College also directly owns a number of income-producing properties, both residential and commercial, primarily in the Hanover area. These assets are part of the endowment and are managed by a separate team affiliated with the Investment Office.

Other Real Assets

Other real assets, primarily oil and gas and timber partnerships, also can provide equity-like returns and have a low historical correlation with traditional marketable assets as well as having the potential to provide protection against inflation.

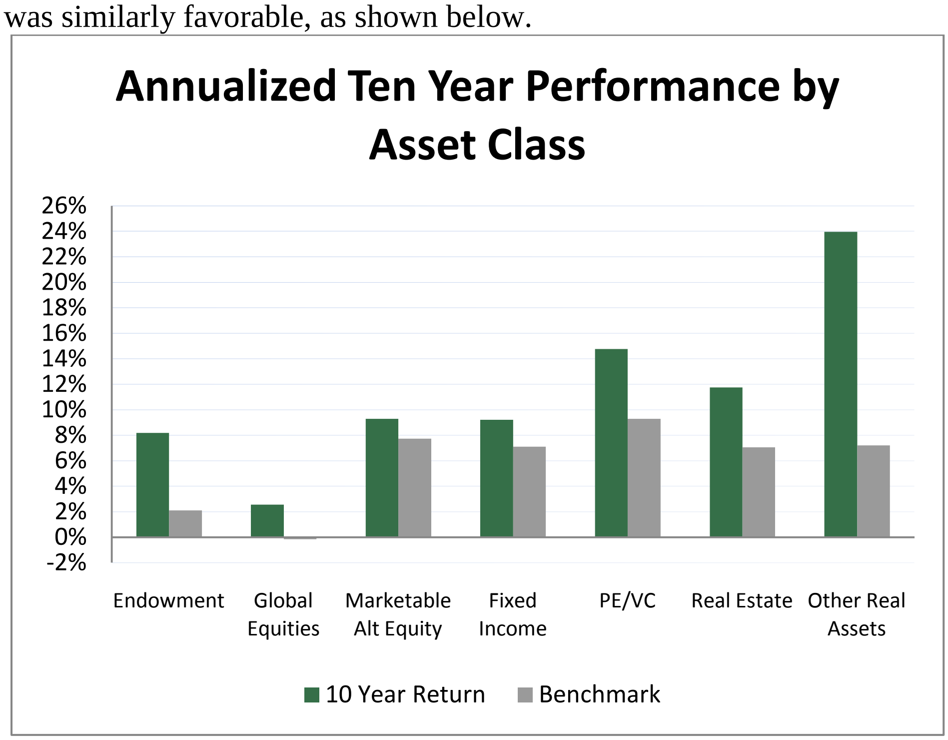
Dartmouth seeks managers who have the potential to reach their targeted rate of return in times of flat commodity pricing by adding value to the underlying assets through their operating activities. When appropriate, Dartmouth is open to managers hedging against changes in commodity prices in order to earn a more stable, predictable level of return. Historically, Dartmouth has found that its criteria are better met by managers with private fund structures than those with public fund structures.

Investment Performance

For the fiscal year ending June 30, 2009, the Dartmouth endowment generated a return of -19.6%. The market value of the endowment was $2.8 billion, down from $3.7 billion on June 30, 2008, which represents a 23% decline. This decline includes investment losses plus spending, with an offset from new gifts and transfers. For the same 12-month period, the broad U.S. equity market was down over 26%. As in previous periods of financial turmoil, a diversified portfolio continued to serve the College well, even though in fiscal 2009 nearly every asset class had a negative return.

Fiscal Year 2009 Performance by Asset Class	
Global Equities	-25.5%
Marketable Alt Equity	-15.2%
Fixed Income	4.3%
Private Equity/Venture Capital	-21.1%
Real Estate	-28.6%
Other Real Assets	1.8%

Despite the challenging and disappointing year, the 10-year annualized return for the endowment of 8% compares very favorably to negative stock market performance over the same period and places the endowment in the top 5% for endowments and foundations. Performance by asset class was similarly favorable, as shown below.



Spending Policy

Dartmouth's endowment spending policy seeks to balance the competing objectives of supporting the current generation of students and faculty with the need to preserve the endowment's purchasing power for future generations. The College employs a total return endowment spending policy that establishes the amount of investment return made available for spending each fiscal year through a distribution formula. The formula is designed to moderate the volatility of endowment distributions during periods of large positive or negative investment returns. The amount released under the distribution formula is based on a weighted average of the prior year's spending adjusted for inflation (70%), and the trailing four quarter average market value of the endowment (30%) multiplied by a target percentage established by the Board of Trustees.

As illustrated in the Endowment Overview table at the beginning of this letter, spending has increased from $120 million in 2005 to nearly $230 million in 2009, reflecting a number of key College initiatives. These initiatives have included a significant increase in financial aid, growth of tenured faculty, and unprecedented investment in new and/or renovated residence halls, and academic and athletic facilities across the entire campus.

This higher spending has proven to be unsustainable in the aftermath of the market decline. As a result of new financial realities confronting Dartmouth and all colleges and universities, the Board of Trustees recently announced that the College plans to adjust the endowment distribution rate to place it closer to Dartmouth's historic rate of 5% to 5.5%, down from 6.3% in fiscal 2009. The lower endowment distribution rate will take effect in fiscal year 2011. The combination of a lower endowment spending rate, maintaining on-going gifts to endowment, and future investment returns will help achieve the objective of preserving intergenerational equity.

Liquidity

In managing the endowment, we maintain sufficient liquidity at all times, without dragging down returns unnecessarily by holding excess cash. We manage the balance between the higher returns offered by less liquid investments and the need for adequate liquidity. Outside of the endowment, the College also has significant cash on hand in working capital as well as lines of credit and liquidity reserves, should they be needed.

We need to maintain enough liquidity in the endowment to fund operations, to fund capital calls to private partnerships, and to have capital available for rebalancing. While it is simple to predict how much liquidity the endowment will need to fund operations, it is more difficult to predict how much liquidity the endowment will need for capital calls and rebalancing. During robust times, the portfolio is self funding and cash generative, and there is ample cash to rebalance. In tougher times, private partnerships still need cash to support their underlying investments, but they typically reduce the amount of cash they are sending back to the endowment. Because cash must come from liquid sources to fund operations and to fund partnership capital calls, the public component of the endowment may shrink in down markets as we use it for both spending and investment. If, however, Dartmouth were to design its portfolio planning for a worst-case scenario at any point in time, avoiding illiquid asset classes, it would surrender significant return in exchange for this downside protection.

Management and Oversight

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. Dartmouth is operating without a Chief Investment Officer for an interim period. The Investment Committee, headed by Steve Mandel '78, is working closely with the staff in each asset class to assure proper oversight.

Investment Committee

Stephen F. Mandel, Jr. '78, 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

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William W. Helman IV '80

Richard H. Kimball '78

P. Andrews McLane '69, TU'73

Susan B. Meaney TU'86

Steven Roth '62

**Beginning July 2010*

Investment Office Staff

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Managing Director – Real Assets

Heather W. Huff
Director of Investment Operations

Barbara L. Ibey
Senior Investment Operations Manager

Daniel T. Lynch AM'00
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Senior Administrative Assistant

Paul S. Olsen TU'81
Director of Real Estate

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