

An Investment in Northwestern



A Message from the Senior Vice President

The Northwestern University Endowment, or Long-Term Balanced Pool, generated a 7.1 percent gain for the fiscal year ending August 31, 2020.

This return masks a year of significant market volatility driven by the coronavirus (COVID-19) pandemic. Following the market's steep decline in the first quarter, central banks signaled a willingness to keep rates low while governments provided substantial fiscal stimulus; together, these steps persuaded many investors back into the equity markets.

Although the value of the University endowment dropped to \$9.9 billion at the end of March 2020, it recovered along with the equity markets and stood at \$11.1 billion at the end of the fiscal year. The U.S. Equity, International Equity, and Private Investments portfolios led the recovery. Generating returns in the mid- to high teens for the fiscal year, each of these asset classes benefited from broad and global exposure to the technology sector. Absolute Return assets helped protect the endowment during the market downturn and were flat for the fiscal year. Real Assets detracted from performance due to the Natural Resources portfolio's return of -25 percent for the fiscal year.

Overall, endowment returns enabled the Investment Office to contribute more than \$562 million to support Northwestern's operations during the year.

The Investment Office acts as a steward of the endowment to provide a stable and growing stream of income and to support the University's academic and research goals for current and future generations. At the same time, the Board of Trustees and University leadership are aware that some investments may raise environmental, social, and corporate governance concerns. Accordingly, the Advisory Committee on Investment Responsibility, established in 2016, meets regularly and advises the Board's Investment Committee on ethical and social issues that may arise in the management of the investments within the endowment.

As you may know, the Investment Office experienced its first notable staff changes in nearly two decades with the departures of Will McLean, vice president and chief investment officer, and Amy Diamond, managing director, private investments and real assets. When Will started in his role at Northwestern in January 2002, the University's endowment was about \$3.3 billion. Under his leadership, the endowment has grown to \$11.1 billion as of August 31, 2020. Over the 18 years Will was at the helm, support from the endowment to the University's operating budget totaled almost \$5.3 billion. The remaining four managing directors and I—along with the Investment Committee—will have oversight of the endowment until the University names a new chief investment officer. The search for our next chief investment officer is currently underway.

As a member of our community of endowment donors, you enable Northwestern's students, faculty, and staff to experience excellence each and every year in our classrooms, laboratories, and libraries and through co- and extra-curricular activities in the arts, sports, innovation and entrepreneurship, and community service. University benefactors like you created 58 new endowed funds, including 27 scholarships and fellowships, and five professorships in the past fiscal year. The Investment Office and I are mindful of the trust you place in our team to steward these assets.

We deeply appreciate your generosity, as well as the valuable counsel and leadership provided by the Investment Committee. Thank you for all you do to ensure that Northwestern can fulfill our ambitious mission for generations to come.

Sincerely,

A handwritten signature in black ink that reads "Craig Johnson". The signature is fluid and cursive, with the first name "Craig" written in a larger, more prominent script than the last name "Johnson".

Craig A. Johnson
Senior Vice President for Business and Finance
Northwestern University

Long-Term Growth of the Fund

The chart below indicates the sources contributing to the growth in value for the Northwestern University Endowment Fund, or Long-Term Balanced Pool, from \$956 million at the inception of fiscal year 1992 to \$11.1 billion at the end of fiscal year 2020. The endowment's growth over the past 29 years is the result of new gifts, University contributions, and capital appreciation, minus cumulative yearly spending.

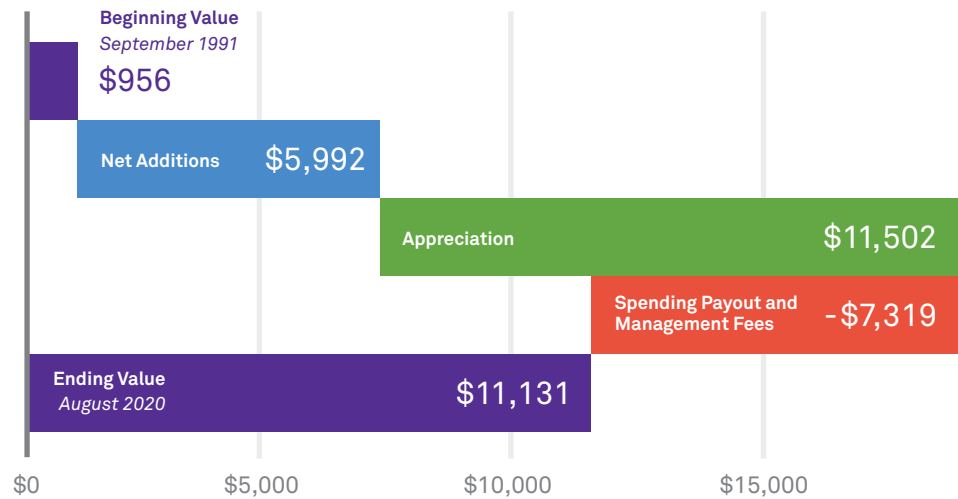
In the years since Northwestern's founding in 1851, alumni, parents, and friends have generously supported the University's efforts to provide an unparalleled education for its students and to conduct cutting-edge research in a range of important areas. When gifts are designated to the endowment, Northwestern accepts responsibility for ensuring that these contributions fulfill and sustain their intended purposes in perpetuity.

The endowment is stewarded by the Investment Committee of the University's Board of Trustees. Guided by the committee's policies, the University's Investment Office invests in a widely diversified pool of assets. For the majority of the investments in the endowment, the Investment Office employs many of the world's most successful outside managers for public equities, fixed income, absolute return, private equity, and real asset strategies.

The Investment Office directly manages the remainder of the endowment (about 5 percent) internally, chiefly within the Fixed Income portfolio. The Investment Office is composed of 18 staff members, nine of whom are investment staff.

FY92–FY20 Endowment Increases and Payout

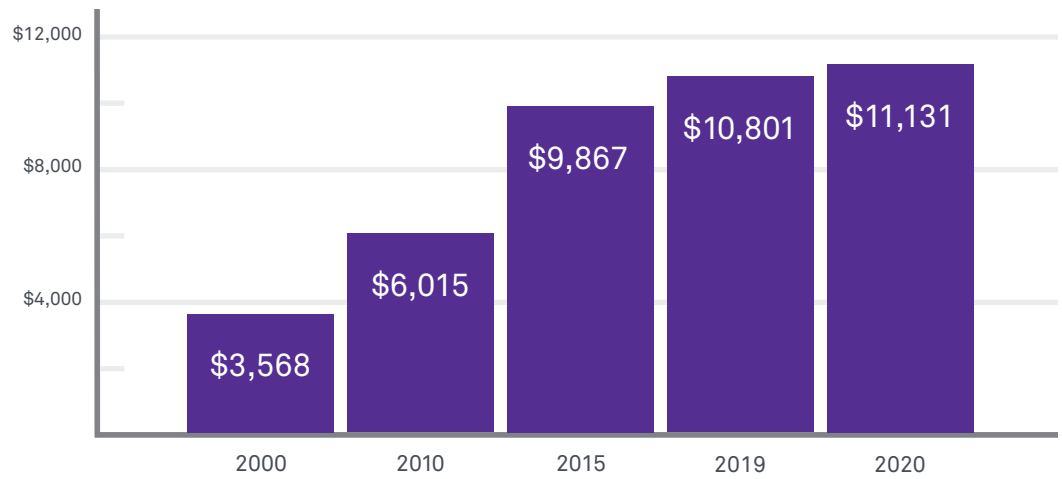
(\$ in millions)



Note: September 1991 (or the beginning of fiscal year 1992) is the base year because we changed from a 60 percent stock / 40 percent bond portfolio to a diversified strategy with alternative investments, such as hedge funds, private equity, venture capital, and oil and gas partnerships.

**Endowment Fund
Fiscal Year-End Assets**

(\$ in millions)



Ali Shilatifard directs the **Simpson Querrey Institute for Epigenetics** at Northwestern University Feinberg School of Medicine. The institute was made possible by the philanthropy of University Trustees Louis A. Simpson '58 ('96 P) and Kimberly K. Querrey ('22 P). The institute's scientists study the epigenetic mechanisms underlying the development of disease.



Investment Objective

The primary investment objective of the endowment is to provide a **consistent stream of income** to support University programs and **preserve the purchasing power** of the endowment payout. On average, Northwestern seeks a total rate of return (actual income plus appreciation over time) that exceeds inflation plus actual spending. The objective of preserving purchasing power emphasizes the need to take a long-term perspective in formulating spending and investment policies.

Portfolio Asset Allocation

Investing across multiple asset classes is key to growing the endowment while appropriately managing overall risk. The portfolio asset allocation table below shows the actual fiscal year 2020 asset allocation for the various asset classes in which the endowment is invested, along with the target weights developed by the Investment Committee.

A target composite benchmark is derived from this asset allocation to measure the endowment's performance. As the secondary objective, the endowment seeks to outperform this composite benchmark over longer periods of time.

Portfolio Asset Allocation			
Asset Class	Description	Target	Actual (as of August 31, 2020)
U.S. Equity	U.S. equity securities, primarily invested in active strategies, across all sectors and market capitalizations as defined by the Russell 3000 Index	12%	13.7%
International Equity	Global investments in foreign equity securities in active strategies across developed and emerging market countries	17%	17.1%
Fixed Income	Diversified portfolio of global fixed-income investments, including both sovereign and corporate bonds	8%	7.4%
High Yield Credit	Invested in various credit markets, including distressed debt and other credit instruments with fixed-income characteristics	5%	2.2%
Absolute Return	Portfolio of long-short equity, event-driven, and uncorrelated strategies, which aims to provide equity-like returns with a low correlation to global equities	19%	17.0%
Private Investments	Investments in global buyout funds as well as venture capital	24%	28.2%
Real Assets	Investments in energy, timber, real estate, and commodity funds	15%	14.1%
Cash		0%	0.3%

Composite Benchmark	Computed by multiplying the target weights of each asset class by the respective benchmark
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Investment Performance

Primary Investment Objective

The following chart illustrates the University's actual performance meeting its primary investment objective of realizing a total return exceeding the endowment payout and inflation over a long-term horizon. The University's investments historically have grown at a rate exceeding the objective. For the 12 months ending August 31, 2020, the portfolio increased 7.1 percent, outperforming the objective by 0.8 percent. For the three- and five-year periods, the portfolio underperformed by 0.6 and 0.4 percent, respectively. For the 10-, 15-, and 20-year periods, the portfolio outperformed the objective by 1.8, 0.8, and 0.1 percent, respectively.

Secondary Investment Objective

The secondary investment objective is for endowment returns to exceed the target composite benchmark. The composite benchmark's asset class weights and benchmark components are based on the target asset allocation policy. Since it is not possible to invest in the composite benchmark, endowment performance is also measured against a 70 percent equity / 30 percent bond portfolio.

This performance goal is to realize superior gains within each asset class (U.S. Equity, Fixed Income, etc.) through the performance of outside investment managers against their respective asset class benchmark. Occasionally, investment concentrations to or away from an asset class target, or an investment theme, can also add value against this benchmark.

The endowment performed in line with the composite benchmark for the most recent fiscal year but underperformed for the three- and five-year periods. Longer term, the portfolio outperformed the policy benchmark for the 10-, 15-, and 20-year periods. While the endowment has generally exceeded the 70 percent equity / 30 percent bond portfolio, it underperformed in the most recent year significantly enough to impact several recent periods.

Tertiary Investment Objective

A third performance objective is realizing investment returns competitive with those of peer institutions. According to an annual study of colleges and universities by Cambridge Associates, which provides comparative data on the returns of our peers for the period ending June 30, 2020, Northwestern performed in the top quartile in the 10- and 20-year periods and in the second quartile for the one-, three-, and five-year periods.

Primary Investment Objective: Annualized Total Return \geq Spending + Inflation (as of August 31, 2020)						
	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
Annual Total Return ¹	7.1%	6.6%	6.6%	8.6%	7.5%	7.0%
– Spending ²	4.3%	4.6%	4.5%	4.3%	4.1%	4.2%
– Management and Administrative Fee ³	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%
– Inflation	1.3%	1.9%	1.8%	1.8%	1.9%	2.1%
= Above or Below Objective	0.8%	-0.6%	-0.4%	1.8%	0.8%	0.1%

¹ Total returns are net of fees and are calculated on annual changes in net asset value. They may differ from payout distributions.

² Special payouts for fiscal years 2019, 2018, and 2017 are included.

³ The management and administrative fee is set by the Northwestern Board of Trustees and used for University costs related to gift-funded activities.

Secondary Investment Objective: Annualized Total Return \geq Composite Benchmark (as of August 31, 2020)						
	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
Northwestern University	7.1%	6.6%	6.6%	8.6%	7.5%	7.0%
Composite Benchmark	7.2%	7.6%	7.8%	8.5%	7.3%	5.7%
Global 70% Equity / 30% Bond Index	13.6%	7.7%	8.6%	7.9%	6.2%	5.2%

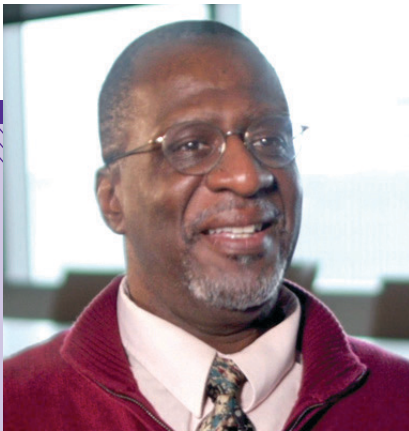
Setting the Annual Payout Rate

The primary purpose of the endowment is to provide a predictable and financially sustainable source of funding to support the University's mission. The spending guideline calculates the amount of the endowment Northwestern spends for this purpose each year. Starting with the average market value of the endowment for the previous 12 months, the spending guideline incorporates the following weighted factors to set an annual endowment payout rate:

- The **market component** is calculated by multiplying the long-term target spending rate of 4.35 percent by the endowment's average market value for the prior 12 months. This component carries a weight of 30 percent in the spending rate calculation.

- The **spending component** includes an inflation adjustment over the prior year's endowment payout, plus the annual projected growth of the budget. This change in the annual endowment payout carries a weight of 70 percent.

The calculated payout rate (including administrative and management fees) was 5.0 percent for fiscal year 2020. For fiscal year 2021, the per-unit spending rate will be increased by 1.6 percent to \$11.05 per unit.



Stan Brown is the inaugural **W. Rockwell Wirtz Professor** and director of graduate studies for the MFA in Acting program. Established thanks to the generosity of Trustee W. Rockwell Wirtz '75 and Marilyn Queen Wirtz, and the Ryan Family Chair Challenge, the professorship will help the School of Communication recruit and retain world-class educators in theater and performance studies.



Roopal V. Kundu '01 MD holds the **Jacob R. Suker, MD, Professorship in Medical Education** at Feinberg, which honors the legacy of the longtime faculty member and associate dean for medical education. She is also associate dean for admissions, professor of dermatology, and founding director of the Center for Ethnic Skin.



Annie Liang serves as the inaugural **Karr Family Professor of Computer Science**. The endowed professorship was established by Trustee Adam R. Karr '93 and Tonia Gladney Karr to advance the McCormick School of Engineering's CS+X initiative, which promotes studies at the intersection of computer science and other disciplines.

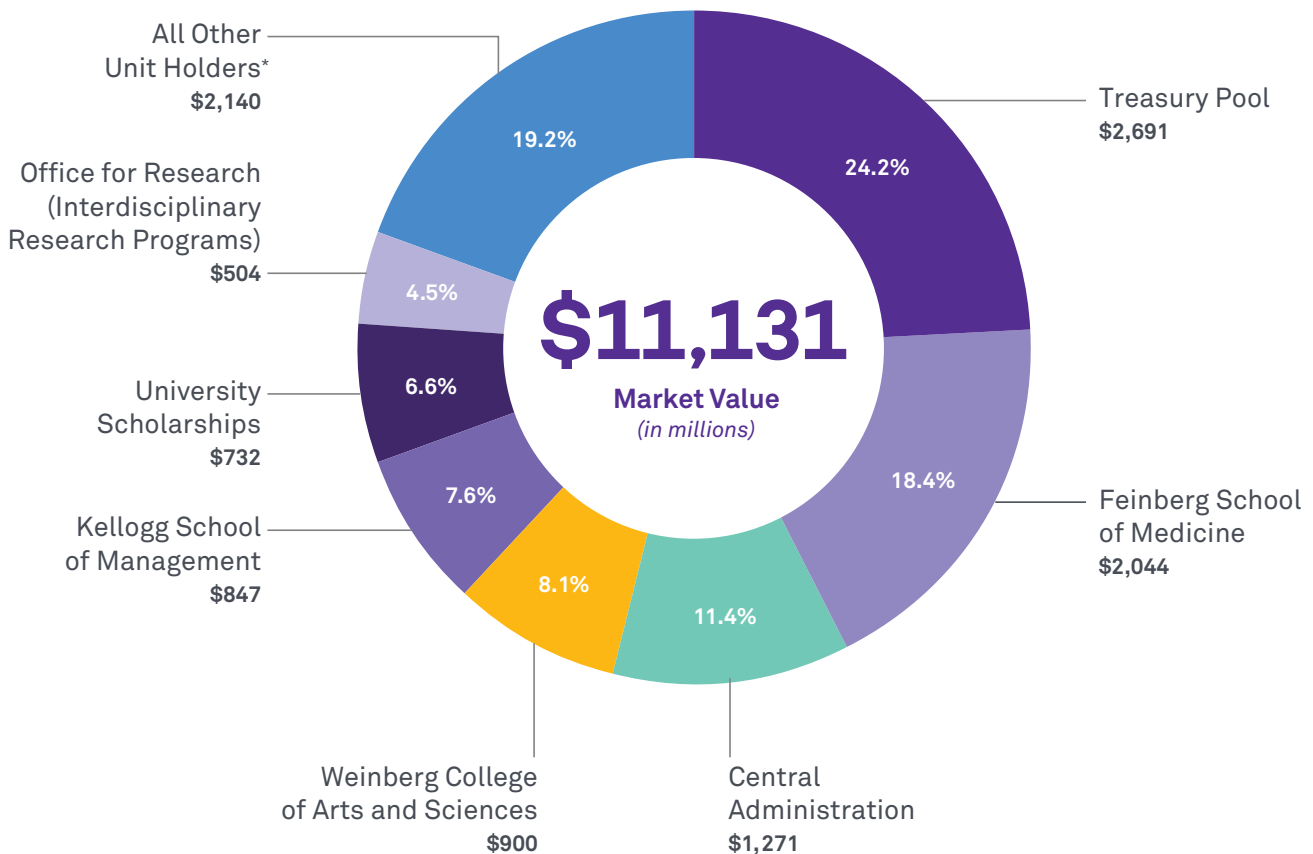
Beneficiaries of the Endowment Fund Payout

The endowment is similar to a mutual fund, with several beneficiary units represented as investors, or “holders.” For example, Northwestern’s Treasury Pool is the largest holder, followed by Northwestern University Feinberg School of Medicine, Central Administration, and the Weinberg College of Arts and Sciences.

The Treasury Pool is the University’s working capital for operations, internal liabilities, and short- and long-term credit obligations. Rather than keeping all its assets in low-yielding cash vehicles, the Treasury Pool invests a significant portion in the endowment. Each group’s portion includes all the individual funds that are designated to benefit that unit.

The Endowment Fund by Holder

Total Shares: 44,824,862 (as of August 31, 2020)



* Other unit holders include the Pritzker School of Law, School of Communication, Department of Athletics and Recreation, and Medill School of Journalism, Media, Integrated Marketing Communications, among others.



Professor Emeritus Mark A. Ratner '69 PhD and Nancy Ratner congratulate Emily A. Weiss '05 PhD (center) on her investiture as the inaugural **Mark and Nancy Ratner Professor**. Members of the Ratner family generously established the professorship, through the Ryan Family Chair Challenge, to extend Professor Ratner's legacy at Northwestern and to support excellence in chemistry.

WE WILL.
The Campaign for Northwestern

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Alumni Relations and Development
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