

## An Investment in Northwestern



**On the cover:** Northwestern University's Evanston campus

## A Message from the Chief Investment Officer

The Northwestern University Endowment, or Long-Term Balanced Pool, generated a 37.0 percent gain for the fiscal year ending August 31, 2021, and the value now stands at \$14.9 billion.

The year 2021 witnessed extraordinary returns for Northwestern—and university endowments more broadly. For the 12 months ended June 30, which we track for ease of comparison to the fiscal years of many of our peer universities, Northwestern's endowment generated a 42.2 percent return. During this same period, the median return in the Cambridge Associates universe of endowments with assets greater than \$1 billion was 38.9 percent, the second-highest median return since Cambridge Associates began keeping records in 1968.

Important strides in combating the COVID-19 virus as well as large fiscal and monetary stimulus propelled financial markets to new highs. Northwestern's investment program was well positioned to benefit from these trends, and the gains of the past year will provide financial support to the University's mission for years to come.

While we are highly gratified by the strong absolute and relative returns generated this year, we remain mindful that equity market returns are volatile, with big gains often followed by losses. The spending formula adopted by the University serves to ensure that the endowment's support for the budget remains steady through these periods of volatility. For the 10 years ended June 30, the University achieved a 10.2 percent annual rate of return, handily covering the long-term spending rate for operations and management and inflation.

The portfolio's outperformance was broad based. The Venture Capital portfolio did particularly well, more than doubling over the period, and our public equity managers also generated strong returns, outperforming their benchmarks in both US and International Equities. Even the more defensive Absolute Return portfolio generated a 13.9 percent return for the year, well ahead of the benchmark given the lower exposure to equities. Finally, the Real Estate and Natural Resource portfolios also performed well for the period.

As with any period of exceptional market strength, the Investment Office has worked hard to maintain our portfolio discipline and rebalance toward our long-term policy targets. We are pleased to have outperformed the median endowment and many of our larger peers while maintaining prudent levels of risk. We are confident that the endowment is well

positioned to profit from ongoing market strength and also to preserve its value, should markets become more volatile.

Overall, endowment returns enabled the Investment Office to contribute more than \$588 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 was established in 2016 to advise the Board's Investment Committee on ethical and social issues that may arise in the management of the investments within the endowment.

I was honored to join the University in May and look forward to working with our extraordinary investment committee and building on the strong leadership team and culture of the office. I am particularly grateful to Craig Johnson and the four managing directors for shepherding the endowment during the transition.

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 76 new endowed funds, including 49 scholarships and fellowships and 10 professorships, in the past fiscal year. We 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,



Amy C. Falls  
Vice President and Chief Investment Officer  
Northwestern University



## Long-Term Growth of the Fund

The chart on the top of page 3 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 \$14.9 billion at the end of fiscal year 2021. The endowment's growth over the past 30 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.

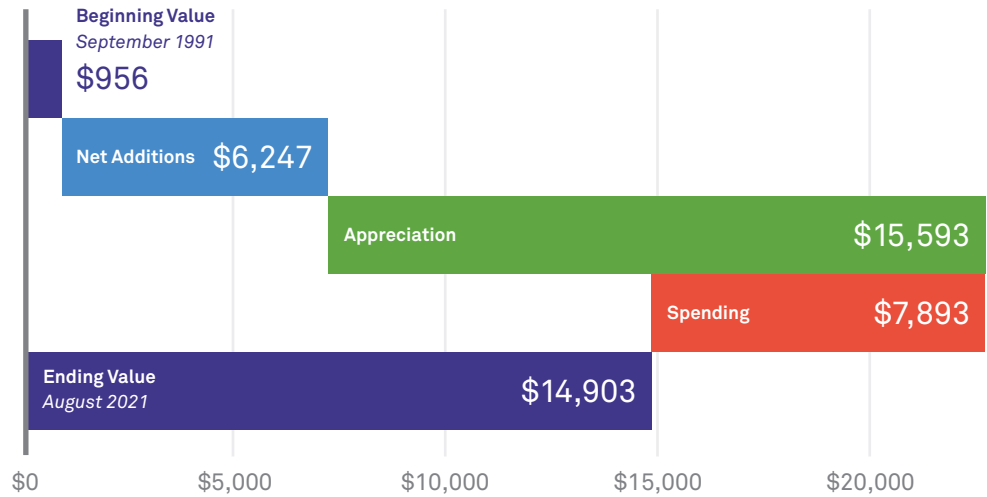
The Investment Office directly manages the remainder of the endowment (about 9 percent) internally, chiefly within the Fixed Income portfolio. The Investment Office is composed of 20 staff members, 12 of whom are investment staff.



Baker Scholar Ana Paula Velazquez '24 is following in the footsteps of Heather Baker '92, University trustee, whose transformative experience conducting primary research as an undergraduate at the Weinberg College of Arts and Sciences prompted her, along with her husband, to establish the **Heather and Felix Baker Undergraduate Research Fund**. The fund provides the opportunity for students like Velazquez to experience the intellectual curiosity and growth that come from working more deeply with accomplished scholars across the disciplines.

**FY92–FY21 Endowment  
Increases and Payout**

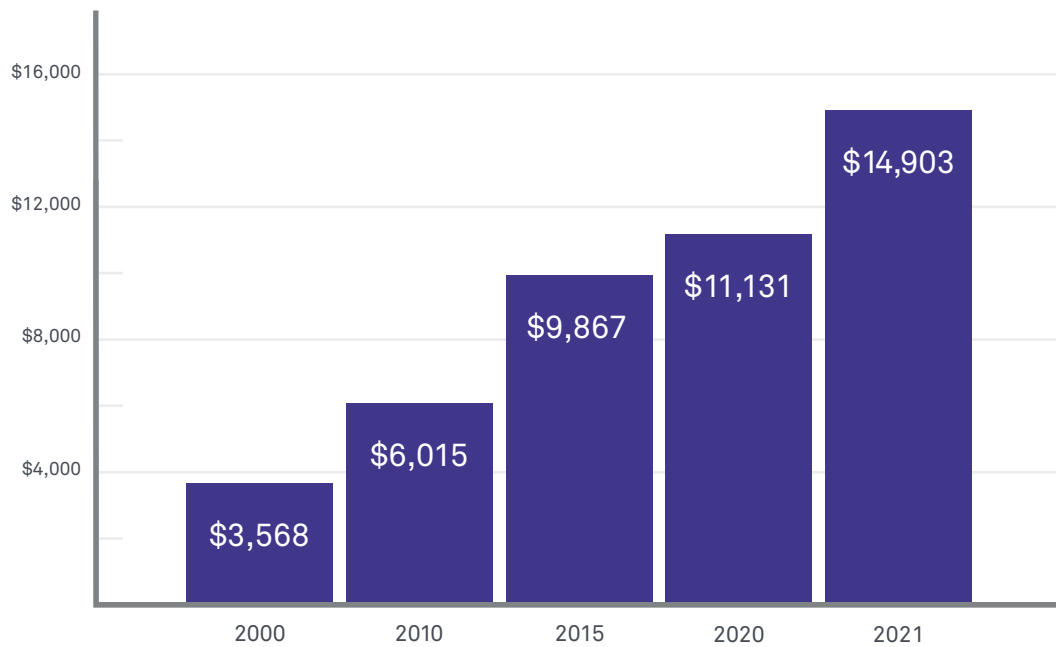
(\$ in millions)



*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)



## 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 2021 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<br>(as of August 31,<br>2021) |
| <b>U.S. Equity</b>          | U.S. equity securities, primarily invested in active strategies, across all sectors and market capitalizations as defined by the Russell 3000 Index            | 12%    | <b>11.9%</b>                         |
| <b>International Equity</b> | Global investments in foreign equity securities in active strategies across developed and emerging market countries  | 19%    | <b>15.6%</b>                         |
| <b>Fixed Income</b>         | Diversified portfolio of global fixed-income investments, including both sovereign and corporate bonds   | 8%     | <b>5.3%</b>                          |
| <b>Absolute Return</b>      | Portfolio of long-short equity, event-driven, and uncorrelated strategies, which aims to provide equity-like returns with a low correlation to global equities | 20%    | <b>14.7%</b>                         |
| <b>Private Investments</b>  | Investments in global buyout funds as well as venture capital  | 27%    | <b>35.9%</b>                         |
| <b>Real Assets</b>          | Investments in energy, timber, real estate, and commodity funds  | 14%    | <b>12.8%</b>                         |
| <b>Cash</b>                 |  | 0%     | <b>3.8%</b>                          |

|                            |  |
|----------------------------|--|
| <b>Composite Benchmark</b> | Computed by multiplying the target weights of each asset class by the respective benchmark |
|----------------------------|--|

## 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 ended August 31, 2021, the portfolio increased 37.0 percent, outperforming the objective by 27.3 percent. The portfolio outperformed the objective for all periods as shown in the chart below.

### 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 outperformed the composite benchmark for the most recent fiscal year as well as longer term for all periods. In addition, the endowment has exceeded the 70 percent equity / 30 percent bond portfolio in all 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 ended June 30, 2021, Northwestern performed in the top quartile in the one-, 10- and 20-year periods and in the second quartile for the three- and five-year periods.

| Primary Investment Objective: Annualized Total Return $\geq$ Spending + Inflation<br>(as of August 31, 2021) |              |             |             |             |             |
|--|--------------|-------------|-------------|-------------|-------------|
|  | 1-Year       | 3-Year      | 5-Year      | 10-Year     | 20-Year     |
| Annual Total Return <sup>1</sup>   | 37.0%        | 14.6%       | 13.1%       | 10.2%       | 9.1%        |
| – Spending <sup>2</sup>  | 4.4%         | 4.9%        | 5.2%        | 4.9%        | 4.8%        |
| – Inflation  | 5.3%         | 2.8%        | 2.6%        | 1.9%        | 2.2%        |
| <b>= Above or Below Objective</b>  | <b>27.3%</b> | <b>6.9%</b> | <b>5.3%</b> | <b>3.4%</b> | <b>2.1%</b> |

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

<sup>2</sup> Special payouts for fiscal years 2019, 2018, and 2017 are included. 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<br>(as of August 31, 2021) |        |        |        |         |         |
|---|--------|--------|--------|---------|---------|
|   | 1-Year | 3-Year | 5-Year | 10-Year | 20-Year |
| Northwestern University   | 37.0%  | 14.6%  | 13.1%  | 10.2%   | 9.1%    |
| Composite Benchmark   | 30.2%  | 13.8%  | 12.6%  | 9.7%    | 8.2%    |
| Global 70% Equity / 30% Bond Index  | 19.5%  | 12.0%  | 11.1%  | 9.0%    | 7.1%    |

## 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 4.4 percent for fiscal year 2021. For fiscal year 2022, the per-unit spending rate will be increased by 2.3 percent to \$11.30 per unit.



Through the **Underrepresented in Medicine Fund**, Lynne Jacobs '81 ('14 P), MD, and Avery Scheiner ('14 P), MD, support academic and pre-professional activities related to the study of medicine for students who are underrepresented in the medical profession. In 2020, this included the NU DOCS program—an immersive, week-long introduction to careers in medicine for Northwestern undergraduate students.



## Supporting Teaching, Research, and Scholarship

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Jessica Hullman is the first **Ginni Rometty Professor of Computer Science**. Through the Ryan Family Chair Challenge, IBM endowed two professorships supporting research and teaching related to artificial intelligence and machine learning in the McCormick School of Engineering in honor of Virginia M. “Ginni” Rometty ’79, ’15 H, University trustee, the first woman to lead the company. Hullman also holds an appointment as associate professor in the Medill School of Journalism, Media, Integrated Marketing Communications.



Erik C. Nisbet is the inaugural **Owen L. Coon Endowed Professor of Policy Analysis and Communication**. Established by the Owen L. Coon Foundation, through the Ryan Family Chair Challenge, this professorship furthers the work of the Department of Communication Studies in Northwestern’s School of Communication. Nisbet, who has held the chair since September 2020, is known for his expertise at the intersection of communication, public opinion, and public policy in science, environmental policy, and other areas. He also directs the school’s Center for Communication and Public Policy.



Adrian Figg served as the inaugural **Weinberg Family Postdoctoral Fellow** in 2020–21 at Northwestern’s International Institute for Nanotechnology (IIN), where he conducted research on developing more potent and specific therapeutically relevant antibodies using modular nanoscale structures. The fellowship was established by the Judd A. and Marjorie Weinberg family to support fellows in the IIN.





The **Abel and Judy Friedman Center for Jewish Life**, endowed by Abel and Judy Friedman ('89 P), has enabled Northwestern Hillel to expand activities that enrich Jewish student life and learning at the University, including several events in celebration of Chanukah in 2021.

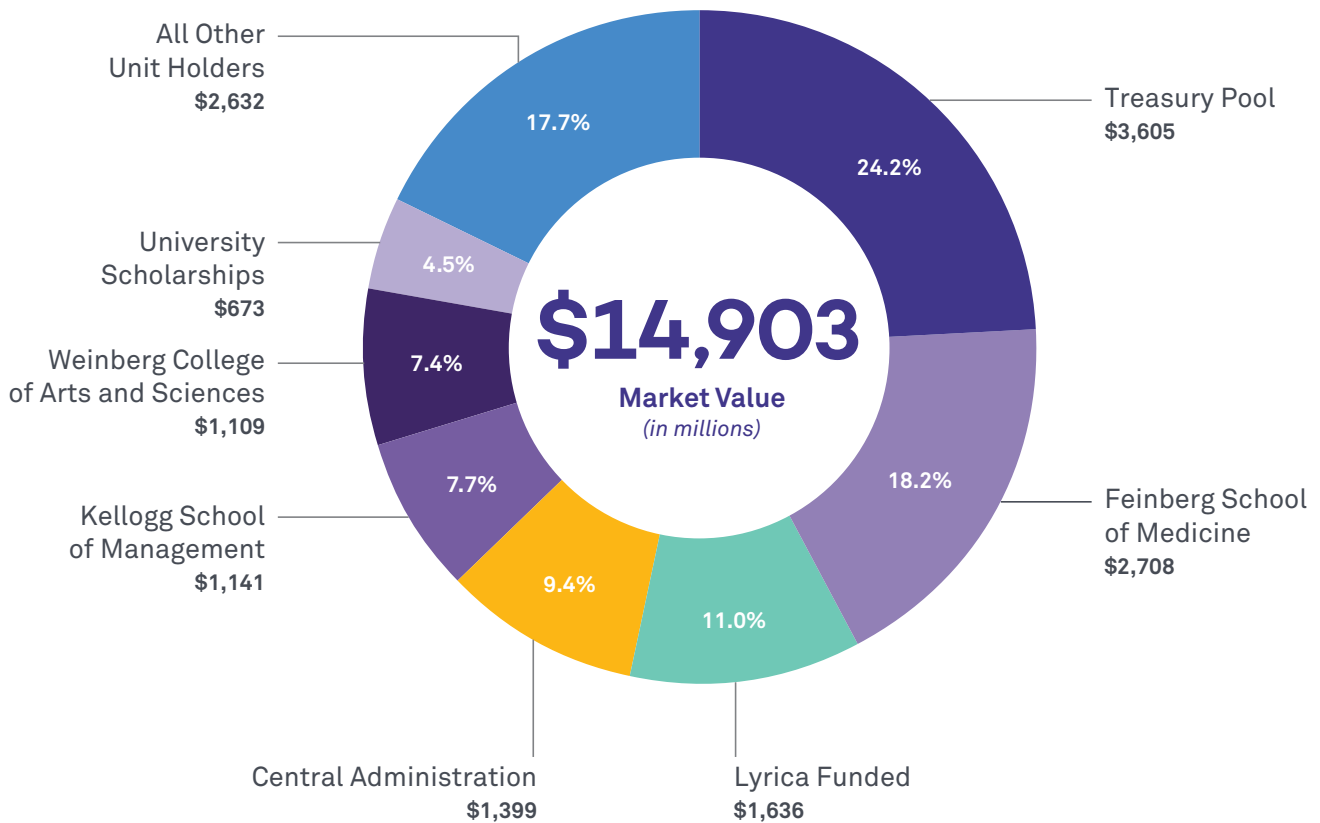
## Beneficiaries of the Endowment Fund Payout

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, Lyrica Funded, and Central Administration.

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: 45,712,629 (as of August 31, 2021)



\* Other unit holders include the Pritzker School of Law, Bienen School of Music, McCormick School of Engineering, and Office of the Provost, among others.

# Northwestern University

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