

## An Investment in Northwestern





Students, researchers, and educators explore crucial issues at the third annual Global Health Education Day. The symposium was hosted by the Center for Global Health Education, part of the Robert J. Havey, MD Institute for Global Health in Northwestern University Feinberg School of Medicine. The institute was endowed by the Patrick G. '59, '09 H and Shirley W. Ryan '61, '19 H ('97, '00 P) Family and named in honor of Robert J. Havey '80 MD, '83 GME, '84 GME ('08, '13 P), the institute's deputy director and clinical professor of general internal medicine and geriatrics at Feinberg. The Havey Institute provides interdisciplinary global health education and research, as well as clinical outreach to underserved communities in the US and around the world.

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 2.9 percent loss for the 12 months ending June 30, 2022. While disappointing in absolute terms, this loss compares to a 10.6 percent drop in the S&P 500 and a 10.3 percent drop in the Barclays US Aggregate Bond Index over the same period. The estimated dollar value of the endowment at the end of June is \$14.1 billion.

You will note a change in the presentation of the endowment's returns this year from prior years. Historically, the University reported returns for the University's endowment for the 12 months ending August 31 to coincide with the end of the University's fiscal year. As the percentage of the endowment's assets invested in private vehicles (private equity, venture capital, real estate, and other private assets) has grown, however, the August 31 reporting date has become increasingly misleading, as these funds only report returns at quarter ends (March, June, September, and December). Thus, the August return figures cannot capture the returns on a substantial portion of the endowment.

To ensure greater accuracy in our reporting, we have chosen to begin reporting returns for investment periods that conclude on June 30 of the year. All historical return data in this report will be restated to June 30 figures. This change has the added benefit of being more comparable to Northwestern's peers and benchmarks, most of which use a June 30 period.

After unusually strong investment returns in 2021, rising inflation and interest rates, geopolitical uncertainty, supply chain disruption, and fears of an economic downturn all contributed to declines in global equity and fixed income markets during the last 12 months. The diversification of Northwestern's investment program helped to mitigate the University's losses during this volatile time.

Nevertheless, conditions remain highly uncertain. The Investment Office has taken steps to safeguard liquidity in the endowment in order to meet the University's needs without having to liquidate assets in a troubled market. 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.

In addition, the endowment has a solid cushion of cash and short-duration treasury bonds totaling 10 percent of endowment assets as of August 31.

For the three years that ended June 30, the University achieved a 12 percent annual rate of return, handily covering the long-term spending rate for operations and inflation.

During this three-year period, the median return in the Cambridge Associates universe of endowments with assets greater than \$1 billion was 10 percent.

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. Overall, endowment returns enabled the Investment Office to contribute more than \$600 million to support Northwestern's operations during the fiscal year.

As with any period of exceptional market volatility, 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 preserve its value should markets decline further and also to profit from a return to market strength.

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 71 new endowed funds, including 34 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

Northwestern established the Investment Office to manage the University's endowed funds. Today, the Investment Office is the fiduciary for the \$14.1 billion Northwestern University Endowment Fund, or Long-Term Balanced Pool, which comprises nearly all of Northwestern's investable assets. The Long-Term Balanced Pool has grown from \$956 million at the start of fiscal year 1992 to \$14.1 billion as of June 30, 2022. The endowment's growth over the past 31 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. The Investment Office directly manages the small remainder of the endowment (about 10 percent), chiefly fixed income and cash holdings. The Investment Office is composed of 20 staff members, 12 of whom are investment staff.

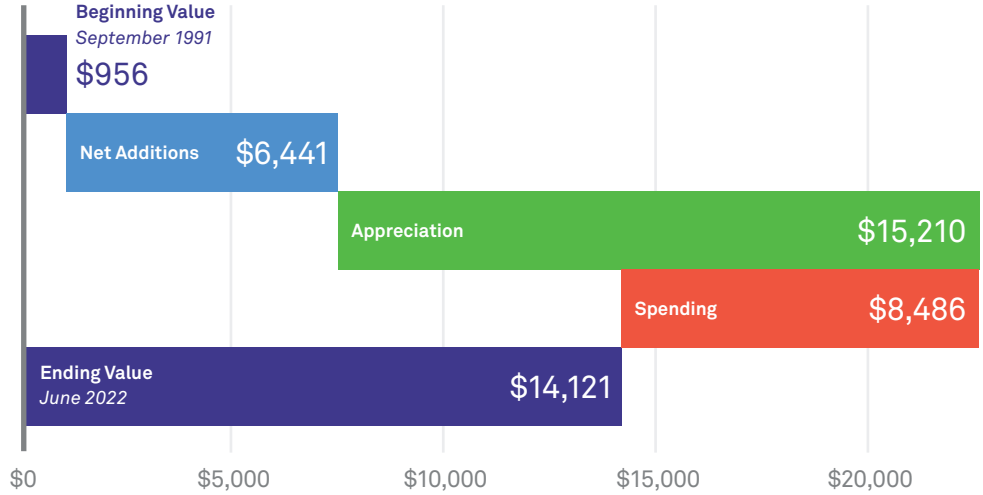
In fiscal year 2022, the endowment disbursed \$609 million in financial aid, support for academic programs, and other current operations. This amount represented approximately 22 percent of the University's fiscal year 2022 operating expenses. Annual spending from the endowment has increased more than 13-fold since the Yale model was implemented in fiscal year 1992.

Chemistry honors students take a break from a lab experiment as part of their studies through the Center for Talent Development in the School of Education and Social Policy. In the summer of 2022, the Richard X. Zhang Endowment for the Center for Talent Development—a generous gift from Richard Zhang '93 MBA—awarded five full scholarships to elementary through high school students participating in the center's Academic Summer Day and Residential Camps at Northwestern and other Chicago-area sites.



**FY92–FY22 Endowment  
Increases and Payout**

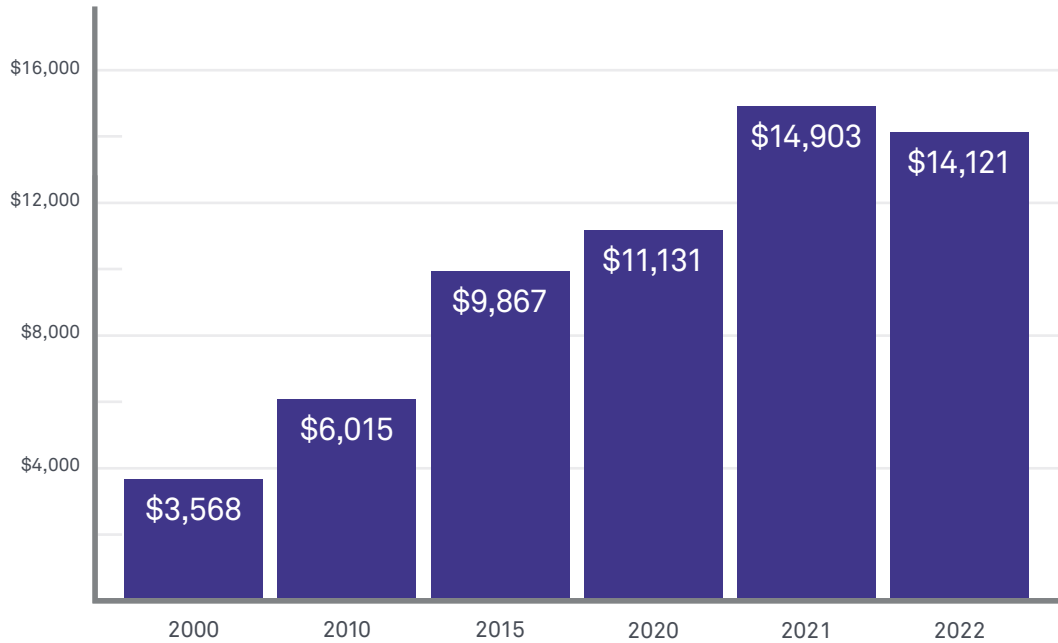
(\$ in millions)



*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  
Assets as of  
June 30, 2022**

(\$ in millions)



*Note: Assets for 2022 were calculated as of June 30. Assets for previous years were calculated as of August 31.*

## Investment Objective

The primary investment objective of the endowment is to provide a **consistent stream of income** to support current University programs and **preserve the purchasing power** of the endowment for the benefit of future generations.

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 for the long term while meeting the current needs of the institution is complex. It requires disciplined asset allocation and a long-term perspective in formulating both 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 illustrates the actual asset allocation of the endowment as of June 30, 2022, along with the target weights developed by the Investment Committee.

A target composite benchmark is derived from policy asset allocation targets to measure the endowment's performance.

In general, the Investment Office works to keep actual allocations in line with targets. From time to time, however, and with input from the Investment Committee, the office may deviate from long-term targets.

In the fall of 2021, the Investment Office, in consultation with the Investment Committee, took measures to reduce equity risk and increase cash and short-duration fixed income. The University was a net seller of public equity through the end of 2021. Cash and fixed-income holdings peaked at around 13 percent of assets in January 2022 and finished at 10 percent as of June 30, as shown in the table below.

During the first half of 2022, equity markets sold off dramatically while real assets, including both natural resource and real estate investments, exhibited strong performance. As a result of both earlier public and private equity sales and the market decline, the endowment was underweight equities and overweight real assets relative to targets. Over time, the office expects to gradually reduce both the underweight in equities and the overweight in real assets while still maintaining an above-average cash cushion.

Portfolio Asset Allocation			
Asset Class	Description	Target	Actual (as of June 30, 2022)
<b>Public Equity</b>	Global investments in US and foreign equity securities, primarily invested in active strategies, including long-short equity, across all sectors and market capitalizations in developed and emerging market countries.	31%	<b>26.7%</b>
<b>Private Equity</b>	Investments in global buyout funds, including both growth equity and leveraged buyouts, with illiquid exposure to corporate activity in the US and abroad.	15%	<b>11.3%</b>
<b>Venture Capital</b>	Investments in venture capital, primarily early-stage investments, that simultaneously offer the highest return and the highest risk of any asset class in the Long-Term Balanced Pool. The University partners with world-class external managers on these investments.	20%	<b>22.3%</b>
<b>Absolute Return</b>	Portfolio of credit and distressed, multi-strategy, and uncorrelated investments, which aims to provide equity-like returns with a low correlation to global equities and fixed-income markets.	18%	<b>14.9%</b>
<b>Real Assets</b>	Investments in energy, timber, real estate, and commodity funds.	10%	<b>15.0%</b>
<b>Fixed Income</b>	Diversified portfolio of global fixed-income investments, including both sovereign and corporate bonds, providing a highly liquid, relatively low-risk source of funding for the University.	6%	<b>6.3%</b>
<b>Cash</b>		0%	<b>3.5%</b>

<b>Composite Benchmark</b>	Computed by multiplying the target weights of each asset class by the respective benchmark.
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The Morton Schapiro Northwestern Academy for Chicago Public Schools (CPS), which has provided mentorship and college-prep resources to hundreds of CPS students, was endowed and named in honor of President Emeritus Morton Schapiro by the Potocsnak family. Cutting the ribbon at the August 2022 dedication event were, from left, Dan McAdams, interim dean of the School of Education and Social Policy; Morton Schapiro; Mimi Schapiro; Chicago Mayor Lori Lightfoot '20 H; John and Laura Potocsnak; Cassandra Salgado, academy director; and Ernest Willingham, academy alumnus.

## Investment Performance

The Investment Office strives to meet three performance objectives. First and foremost, we seek to preserve the long-term value of the endowment. We also strive to add value to both a custom benchmark and a simple 70 percent equity / 30 percent bond portfolio. Finally, we strive to be among the best of our peers and to be thought leaders for the industry.

### 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 this objective. For the three-year period ended June 30, 2022, the Long-Term Balanced Pool generated a 12 percent annualized return net of all internal and external fees and costs, exceeding inflation and University spending by 2.4 percent per year for the period.

### Secondary Investment Objective

The secondary investment objective is for endowment returns to exceed both the target composite benchmark and a simple 70 percent equity / 30 percent bond portfolio.

The composite benchmark's asset class weights and benchmark components are based on the target asset allocation policy. This performance goal is to realize superior gains within each asset class through the selection of superior outside investment managers.

The endowment outperformed the composite benchmark, as well as the 70 percent equity / 30 percent bond portfolio, for all periods. The measures taken in fall 2021 to reduce equity risk and increase cash and short-duration fixed income, as well as adding to absolute return holdings, helped drive this outperformance.

In absolute terms, the last decade has seen very strong annualized performance from private equity, venture capital, and public equity. In relative terms, every asset class has matched or exceeded its benchmark except for public equity and real assets.

### Tertiary Investment Objective

A third performance objective is realizing investment returns that are competitive with those of our peer institutions. According to an annual comparative study of the returns of colleges and universities by Cambridge Associates, for the period ended June 30, 2022, Northwestern performed in the top quartile for the 20-year period and in the second quartile for all other periods.

Primary Investment Objective: Annualized Total Return $\geq$ Spending + Inflation				
	3-Year	5-Year	10-Year	20-Year
Annual Total Return <sup>1</sup> as of June 30, 2022	12.0%	10.3%	9.5%	9.1%
– Spending <sup>2</sup> as of August 31, 2022	4.7%	5.0%	4.9%	4.8%
– Inflation as of August 31, 2022	4.9%	3.8%	2.5%	2.5%
<b>= Above or Below Objective</b>	<b>2.4%</b>	<b>1.5%</b>	<b>2.1%</b>	<b>1.8%</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.

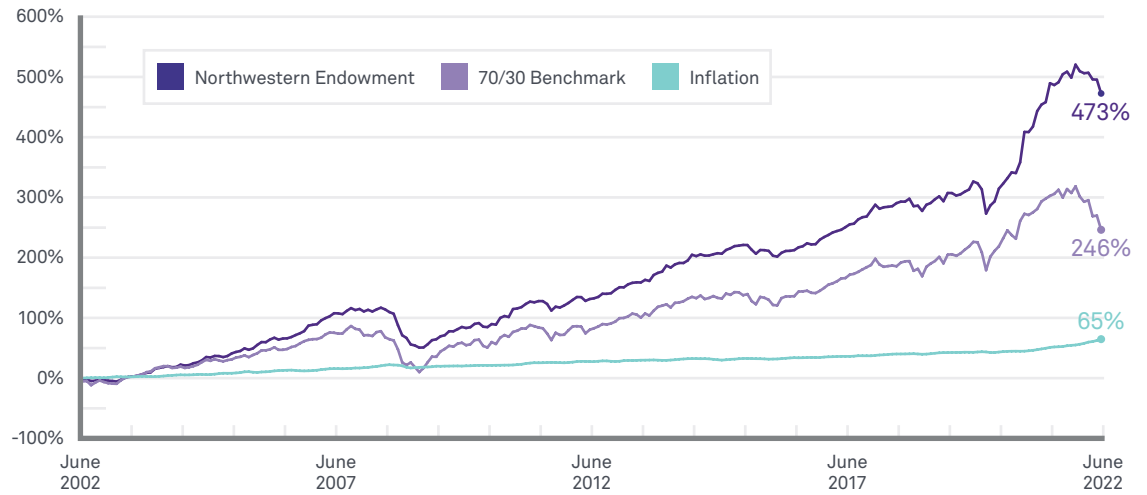
<sup>2</sup> Special payouts for fiscal years 2019, 2018, and 2017 are included. The management and administrative fee is set by the Northwestern Board of Trustees and used for University costs related to gift-funded activities.

Secondary Investment Objective: Annualized Total Return $\geq$ Composite Benchmark (as of June 30, 2022)				
	3-Year	5-Year	10-Year	20-Year
Northwestern University	12.0%	10.3%	9.5%	9.1%
Composite Benchmark	10.1%	9.6%	8.9%	8.3%
Global 70% Equity / 30% Bond Index	4.3%	5.4%	6.7%	6.4%

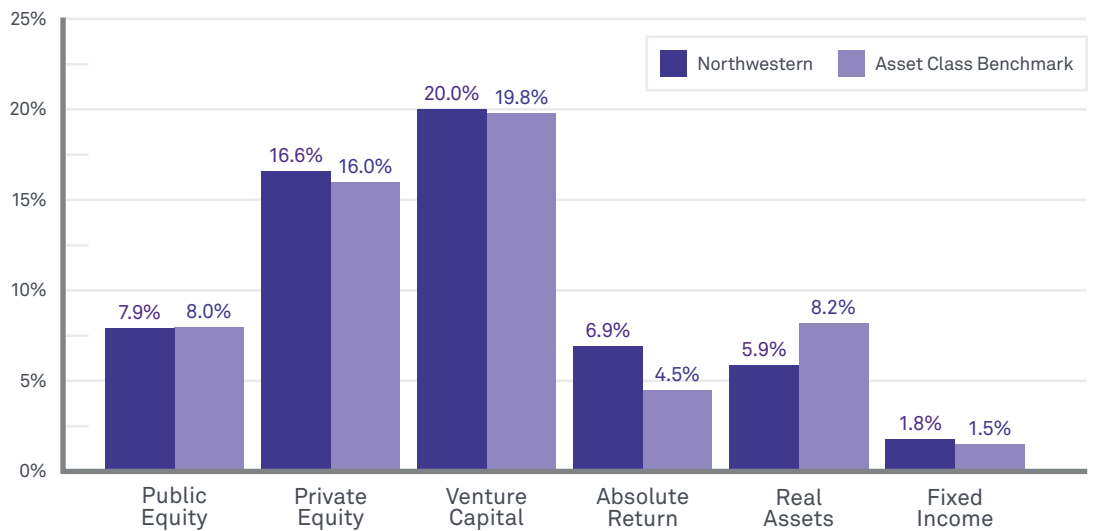


Northwestern has delivered impressive results over the long term. For the last 20 years, the Long-Term Balanced Pool has earned an annualized net return of 9.1 percent, exceeding the passive global 70 percent equity / 30 percent bond index by 2.7 percent annually, and surpassing inflation by 6.6 percent.

**20-Year Growth of a Dollar**



**Long-Term Balanced Pool: 10-Year Asset Class Annualized Net Performance Relative to Selected Benchmarks**



**Asset Class Benchmarks**

Public Equity	MSCI ACWI Index / HFRI Equity Hedge (Total) Index
Private Equity	Cambridge Associates Private Equity Pooled Return
Venture Capital	Cambridge Associates Venture Capital Pooled Return
Absolute Return	HFRI Relative Value: Multi-Strategy Index
Real Assets	Cambridge Associates Real Estate and Natural Resources Blended Pooled Return
Fixed Income	Barclays US Aggregate Bond Index

## 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 crux of this purpose is to provide a stable source of revenue for current operations while preserving the purchasing power for future generations. A new spending guideline that adjusts for evolving market conditions was adopted and approved by the Board of Trustees in fiscal year 2022 to take effect in fiscal year 2023.

The new guideline has a target spending rate of 5.10 percent, assuming budget growth of the Consumer Price Index (CPI) plus 1 percent, and adding both a cap (6.25 percent) and floor (4 percent) on the avail rate at the time the annual budget is approved. The new guideline calculates the amount of the endowment Northwestern spends each year as follows:

- The **spending component** includes an inflation adjustment equal to CPI over the prior year's endowment payout, plus 1 percent for budget growth. This change in the annual endowment payout carries a weight of 70 percent.
- The **market component** is calculated by multiplying the long-term target spending rate of 5.10 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 new payout guideline generates an estimated total payout of \$666 million for fiscal year 2023.

The Simpson Querrey Lung Institute for Translational Science, created and endowed with a gift from Trustee Kimberly K. Querrey ('22, '23 P) and the Louis Simpson Trust, will advance new basic discoveries in pulmonary medicine for the benefit of patients. Part of the Feinberg School of Medicine, the institute will be directed by Scott Budinger '85, the Ernest S. Bazley Professor of Airway Diseases and chief of pulmonary and critical care in the Department of Medicine at Feinberg.



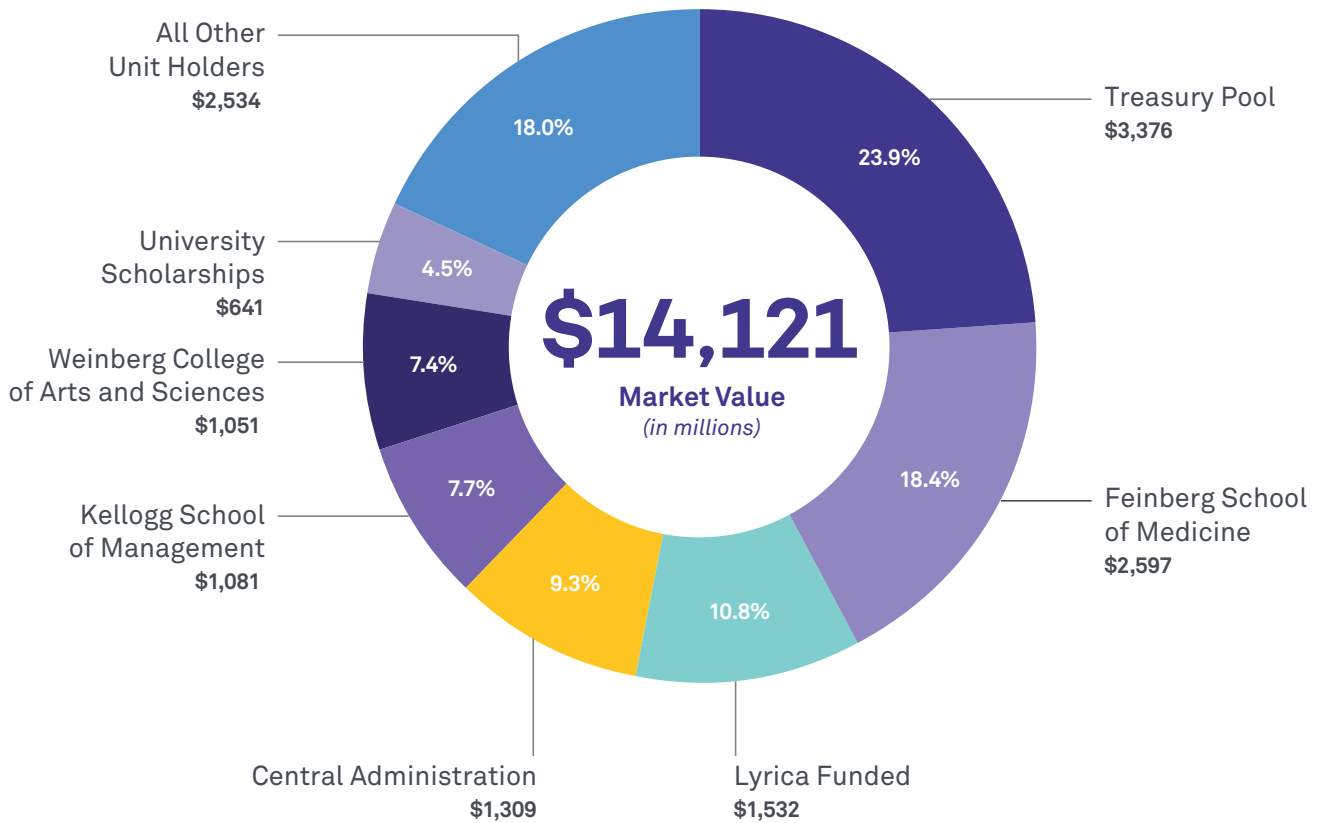
## Beneficiaries of the Endowment Fund Payout

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: 46,259,837 (as of June 30, 2022)



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



Kellogg School of Management students demonstrate personal grit and team cooperation during the school's Section Olympics. The event, which presents students with a series of physical, mental, and creative challenges to build community spirit, is funded in part by the Chookaszian Family Fund for Diversity, Equity, and Inclusion. This endowment was established by Trustee Dennis H. Chookaszian '65 and Karen M. Chookaszian ('02 P) ('19, '24 GP) to make possible activities enhancing Kellogg and Northwestern as welcoming and inclusive communities.

## Northwestern University

Alumni Relations and Development  
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