



An Investment in Northwestern Fiscal Year 2023

A Message from the Chief Investment Officer

The Northwestern University Endowment, or Long-Term Balanced Pool, generated a virtually flat return (-0.1 percent) for the 12 months that ended June 30, 2023, bringing the three- and five-year returns to 11.3 percent and 7.9 percent respectively. Returns over the past two years have been depressed by significant volatility in equity and bond markets. The endowment's diversified strategy has allowed Northwestern to generate higher returns than a traditional 70 percent equity / 30 percent bond portfolio over a three-, five-, and 10-year basis. Importantly, the University has achieved those returns with lower levels of volatility. The estimated dollar value of the endowment at the end of June is \$13.7 billion.

The asset allocation strategy of the University is described in this report. We remain committed to a diversified asset allocation and one that seeks to exploit excess return opportunities in asset classes where patient capital and strong security selection can boost returns.

Our goals remain to preserve and enhance the purchasing power of the endowment. This requires generating a stable stream of returns across a wide range of market conditions. For the three years that ended June 30, the University achieved an 11.3 percent annual rate of return, exceeding the long-term spending rate for operations and inflation over the period. During this three-year period, the median return of the Cambridge Associates universe of endowments with assets greater than \$1 billion was 11.1 percent.

As the following table illustrates, the past few years have been characterized by extreme movements in primary asset classes. Fears during the pandemic resulted in a significant market sell-off followed quickly by a liquidity-fueled equity market surge. Huge gains in private equity and venture capital in 2021 were followed by large losses in public equity and bond markets in 2022 as the Fed began tightening liquidity to combat rising inflation. In 2023, public markets rebounded while private equity and venture capital funds wrote down assets. Through all of these extreme moves, a dollar invested in the Northwestern pool has held its value much better than a dollar invested in a traditional 70/30 portfolio.

Primary Asset Class Allocation Over Time <i>(For the 12 months ending June 30)</i>					
Asset Class	2019	2020	2021	2022	2023
Global Equities (MSCI All World Index)	5.7%	2.1%	39.3%	-15.8%	16.5%
US Treasury Bonds (Barclays Treasury)	7.2%	10.4%	-3.2%	-8.9%	-2.1%
Private Equity (Cambridge Associates)	11.8%	7.0%	57.1%	3.3%	5.9%
Venture Capital (Cambridge Associates)	18.8%	15.6%	84.9%	-1.2%	-9.3%
70/30 Portfolio	6.7%	4.5%	26.3%	-14.0%	11.2%
Northwestern Endowment	4.3%	1.8%	42.2%	-2.9%	-0.1%

We continue to seek ways to improve the performance of the endowment relative to our custom benchmark and our peers. We have taken a number of important steps to enhance our performance, including concentrating our investments with our highest-conviction managers and reducing exposure to asset classes that have underperformed over time. We have invested in improved analytical capabilities that enhance our capacity to monitor exposure and rebalance in a timely fashion. To ensure greater accuracy in our reporting, in 2022 we began reporting returns for investment periods that conclude on June 30 of the year. All historical return data in this report reflect June 30 figures.

We have increased the percentage of the endowment that is allocated to illiquid asset classes. While we retain a laser-like focus on maintaining sufficient liquidity to meet the needs of the University, we recognize that less-efficient markets offer greater opportunity for outperformance. This is evident in the dispersion of returns across funds in private equity and venture capital relative to more efficient areas such as large-cap US public equity.

On balance, during 2023, we maintained a relatively conservative posture, which may have cost us some return during the relatively sharp rally that ran from mid-March until the end of July 2023. Since then, however, markets have given back some of that rally, and we expect the University will benefit from moderately lower public equity exposure. Above all, we continue to pursue a disciplined policy of rebalancing so that our actual allocations do not vary dramatically from our targets.

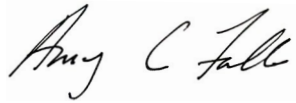
The University retains a solid cushion of cash and treasury bonds equal to approximately 8.0 percent of assets as of June 30.

The Investment Office strives to work with the best minds and most ethical partners we can across a range of investment disciplines, including venture capital, private equity, long-short equity, credit markets, and others.

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. We are confident that the endowment is well positioned to preserve its value should market volatility persist and also to profit from growth in the years to come.

We deeply appreciate your generosity, as well as the valuable counsel and leadership provided by the Investment Committee of Northwestern's Board of Trustees. While economic and political uncertainty remain high, the strength of the University community and our commitment to excellence and perpetual improvement should help the endowment continue to grow.

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 \$13.7 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 \$13.7 billion as of June 30, 2023. The endowment's growth over the past 32 years is the result of new gifts, University contributions, and capital appreciation, minus cumulative yearly spending.

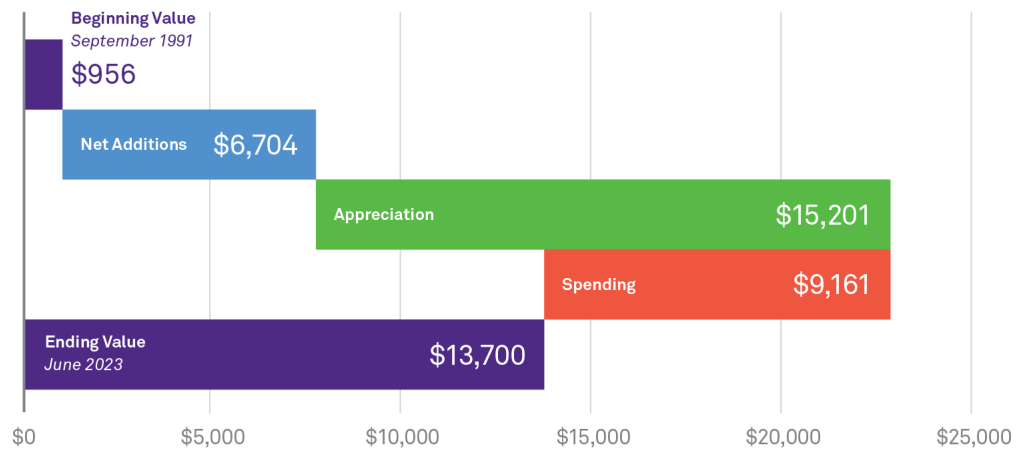
In the years since Northwestern's founding in 1851, alumni, parents, and friends have generously supported the University's efforts to provide an unparalleled education for its students and to conduct cutting-edge research in a range of important areas. When gifts are designated to the endowment, Northwestern 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 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 8 percent), chiefly fixed income and cash holdings. The Investment Office is composed of 24 staff members, 13 of whom are investment staff.

In fiscal year 2023, the endowment disbursed \$675 million in financial aid, support for academic programs, and other current operations. This amount represents approximately 23 percent of the University's fiscal year 2023 operating expenses. Annual spending from the endowment has increased 15-fold since we implemented the Yale model, moving from a 60 percent stock / 40 percent bond portfolio to a diversified strategy with alternative investments, in fiscal year 1992.

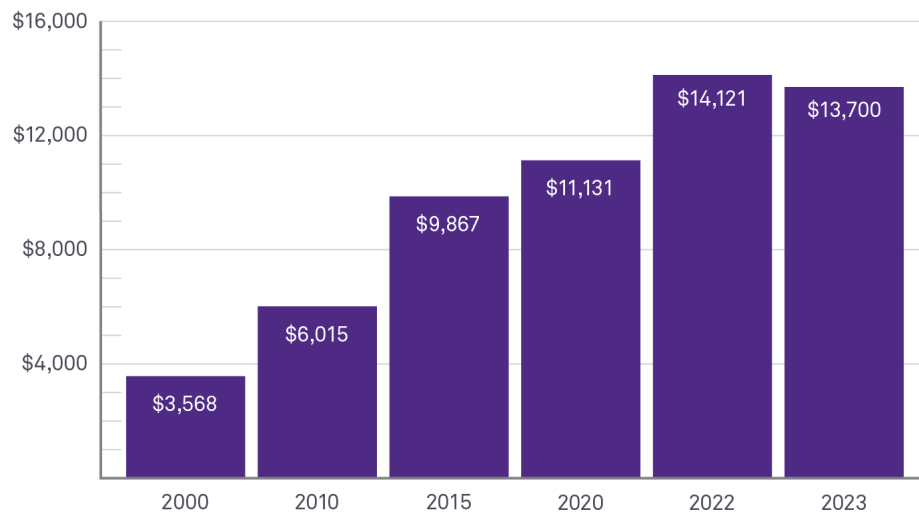
FY92–FY23 Endowment Increases and Payout

(\$ in millions)



Endowment Fund Assets as of June 30, 2023

(\$ in millions)





The Center for Human-Computer Interaction and Design (HCI+D) brings together researchers and practitioners from the University's McCormick School of Engineering and School of Communication to study and shape the future of human and computer interaction. HCI+D received its largest gift to date in 2022 from Patricia Pei Bao '13 PhD, endowing a professorship and expanding the center's research, staffing, and student recruitment and retention efforts through the center's endowed fund. HCI+D is led by co-directors (left to right) Elizabeth Gerber, professor of mechanical engineering and communication studies; Darren Gergle, Bao Family Professor in Human-Computer Interaction and John G. Searle Professor of Communication Studies; and Bryan Pardo, professor of computer science and radio/television/film.

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, 2023, 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 2022, the Investment Office, in consultation with the Investment Committee, took measures to increase equity risk by reallocating to various asset classes and to decrease cash and short-duration fixed income. The measures included slightly higher allocations to private equity and venture capital and a slightly higher risk tolerance in the absolute return allocation, offset by some reduction in the equity beta of the public equity portfolio via long-short strategies. Cash and fixed-income holdings peaked at slightly above 10 percent of assets in December 2022 and finished at 7.9 percent as of June 30, as shown in the table.

Over time, the office expects to gradually reduce both the underweight in public equity and the overweight in real assets while still maintaining an above-average cash cushion.

Portfolio Asset Allocation		
Asset Class	Target	Actual <i>(as of June 30, 2023)</i>
Public Equity 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%	29.0%
Private Equity Investments in global buyout funds, including both growth equity and leveraged buyouts, with illiquid exposure to corporate activity in the US and abroad.	15%	12.4%
Venture Capital 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%	20.7%
Absolute Return 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%	15.1%
Real Assets Investments in energy, timber, real estate, and commodity funds.	10%	14.9%
Fixed Income 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%	6.4%
Cash	0%	1.5%

Composite Benchmark

Computed by multiplying the target weights of each asset class by the respective benchmark.



One of the many ways Northwestern Student Enrichment Services (SES) supports first-generation and/or lower-income students is through the SES One Form, which allows students to apply for more than 30 University funding opportunities using a single application portal. Approximately 2,200 Northwestern students each year seek financial support for programs and activities, ranging from undergraduate research and internships to Dance Marathon, through the SES One Form. Access to the form's software is made possible by the Cahillane Family Student Enrichment Services Endowed Fund, created by University Trustee Steven A. Cahillane '87 and Tracy Tappan Cahillane '88 ('17, '19 P).

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 that ended June 30, 2023, the Long-Term Balanced Pool generated an 11.3 percent annualized return net of all internal and external fees and costs, exceeding inflation and University spending by 0.8 percent per year for the period.

Primary Investment Objective: Annualized Total Return \geq Spending + Inflation				
	3-Year	5-Year	10-Year	20-Year
Annual total return ¹ as of June 30, 2023	11.3%	7.9%	8.2%	9.0%
– Spending ² as of August 31, 2023	4.8%	5.0%	5.0%	4.8%
– Inflation as of August 31, 2023	5.7%	4.0%	2.8%	2.6%
= Above or below objective	0.8%	-1.1%	0.4%	1.6%

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. 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

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 70 percent equity / 30 percent bond portfolio for all periods. The portfolio outperformed the composite benchmark for the three- and 20-year periods, while it underperformed for the five-year and roughly matched the benchmark for the 10-year period. The overweight to real assets has been a significant detractor to performance of the endowment over both the five- and 10-year timeframes; the office continues to aggressively pursue the reduction of this asset class. The measures taken in fall 2021 to reduce equity risk and increase cash and short-duration fixed income, as well as add to absolute return holdings, helped drive outperformance for the three-year period.

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.

Secondary Investment Objective: Annualized Total Return ≥ Composite Benchmark <i>(as of June 30, 2023)</i>				
	3-Year	5-Year	10-Year	20-Year
Northwestern University	11.3%	7.9%	8.2%	9.0%
Composite Benchmark	10.6%	8.3%	8.3%	8.2%
Global 70% Equity / 30% Bond Index	6.5%	6.1%	6.7%	6.9%

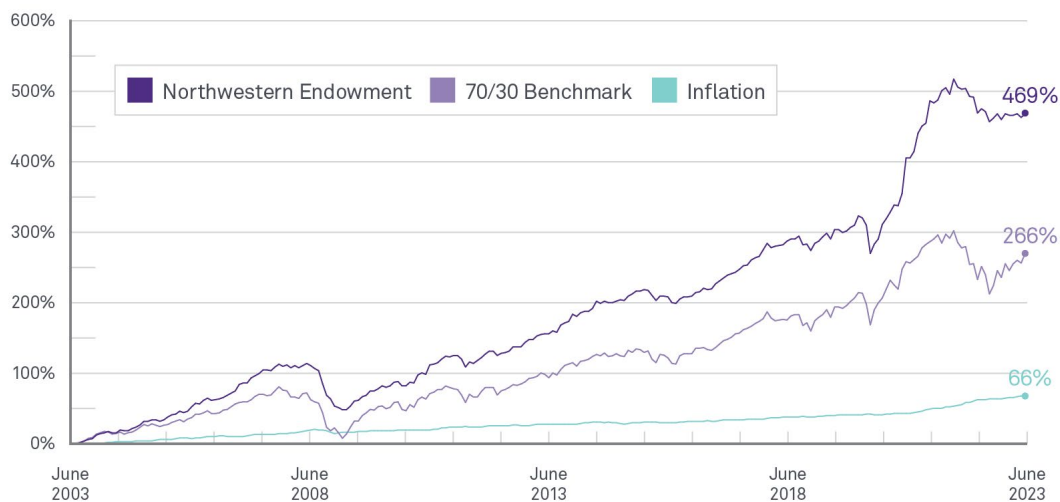
Tertiary Investment Objective

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 that ended June 30, 2023, Northwestern performed in the top quartile for the 20-year period, in the second quartile for the three-year and 10-year periods, and in the third quartile for the five-year period.

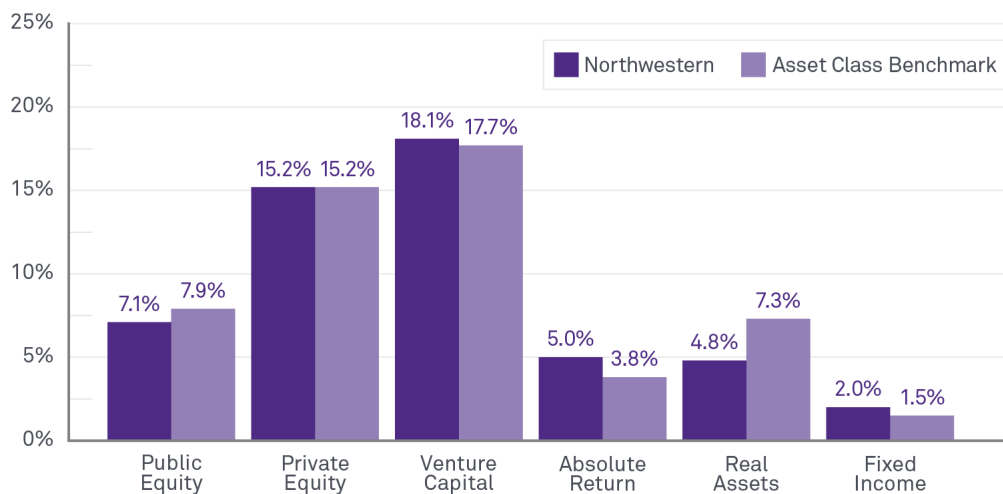
We hope to continue to improve our performance relative to peers to enable Northwestern to lead in spendable resources in a competitive environment.

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 9.0 percent, exceeding the passive global 70 percent equity / 30 percent bond index by 2.1 percent annually and surpassing inflation by 6.4 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



Kimberly A. Gray '78 is the inaugural Roxelyn and Richard Pepper Family Chair in Civil and Environmental Engineering. A gift from Roxelyn (Roxy) '53 and the late Richard Pepper '53 endowed the position, which was also supported by University Trustee Patrick G. Ryan '59, '09 H and Shirley W. Ryan '61, '19 H ('97, '00 P) through the Ryan Family Chair Challenge. Gray investigates environmental chemistry and applied ecology, with an overarching aim of reinventing the flows of materials and energy in cities to combat the climate emergency.

Setting the Annual Payout Rate Performance

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 policy is set by the Board of Trustees with the intention of providing a stable source of revenue for current operations while preserving the purchasing power of the endowment for future generations. A new spending guideline was adopted and approved by the Board of Trustees in fiscal year 2022 and took effect in 2023.

The new guideline has both a budget stability component (70 percent), which is essentially last year's draw grossed up by an inflation factor, and a market-determined factor (30 percent), which reflects the current market value of the endowment. The specific components are as follows:

- The budget stability component equals the prior year's endowment payout, adjusted for the prior year CPI rate of change, plus 1 percent to account for budget growth. This component carries a weight of 70 percent.
- The market component is calculated by multiplying the long-term target spending rate of 5.1 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 \$744 million for fiscal year 2024.



Singaporean journalist and international best-selling author Cheryl Lu-Lien Tan '97 joined the faculty of the Medill School of Journalism, Media, Integrated Marketing Communications in September 2023 as senior lecturer and inaugural holder of the George R.R. Martin Chair in Storytelling. A gift from Martin '70, '71 MS, '21 H, prolific author and co-executive producer of HBO's award-winning series *Game of Thrones*, endowed the professorship and created the annual George R.R. Martin Summer Intensive Writing Workshop to help journalism professionals begin creative writing careers, including in genres often looked down upon, such as fantasy, science fiction, mysteries, thrillers, romance, and young adult fiction. Tan will launch the workshop in 2024.

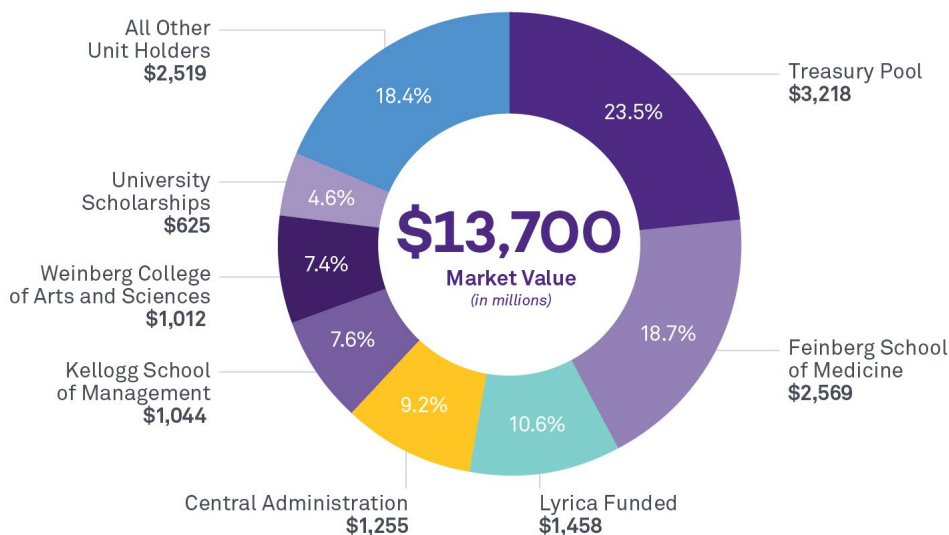
Beneficiaries of the Endowment Fund Payout

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: 47,129,137 (as of June 30, 2023)



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.



The Institute for New Music serves as the Bienen School of Music's hub for contemporary musical activities and hosts the biennial Northwestern University New-Music Conference (NUNC!). The event's fifth edition, NUNC! 5, took place in April 2023 and featured presentations by musicologist Miki Kaneda and composers Julia Wolfe and Alex Temple '17 DMA, as well as performances by several Bienen School ensembles, New York-based quartet Yarn/Wire, and dozens of guest artists. NUNC! and the Institute for New Music are supported in part by an endowed fund created in 2021 by Trine J. Sorenson and Michael R. Jacobson ('13 P).

Links

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[Advisory Committee on Investment Responsibility](#)

[Investment Office Staff](#)