

Northwestern University

Annual Endowment Report 2024: An Investment in Northwestern





Overview

The Northwestern University Endowment generated a return of 8.4 percent net of external management fees for the twelve months ended June 30, 2024, bringing the five- and ten-year returns to 8.7 percent and 7.3 percent respectively. These longer-term returns matched or exceeded returns on a benchmark that mirrors the diversified asset allocation of the University's investment pool over the same period and exceeded returns on a simpler benchmark weighted 70 percent global equities and 30 percent bonds.

While public equity markets have generated strong gains in recent years, we remain committed to a diversified strategy which we believe will outperform over longer periods and preserve the consistency of the endowment's payments to the University over time. Our asset allocation targets and rationale are detailed starting on page 5. Overall, we retain a large allocation to equity investments in order to generate strong long-term returns. But we also maintain a steady allocation of 35 percent to nonequity investments which provide important diversification benefits to the program.

The goal of the University's asset allocation policy is to preserve the purchasing power of the endowment over time by generating returns in excess of our spending rate and our cost growth. In addition, we seek to shield the University from large swings in available funding by limiting the volatility of the overall investment pool. Over the ten and twenty years ended June 30, 2024, the annual volatility of the endowment's investment returns has been less than half that of the S&P 500 index. This is important because while the University has a long-time horizon, we draw over 5 percent of the capital out of the endowment every year to support operations. As we will describe below, our spending policy supports necessary budget stability by smoothing the impact of market swings, but the percentage payout rises in periods of low or negative returns. It is important to generate long-term returns but also to reduce risk in the portfolio while maintaining ample liquidity to fund the University's annual draw.

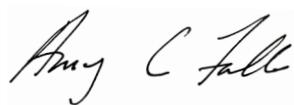
In the 12 months ending June 2024, US and global public equity markets performed extremely well with the S&P 500 up 24.5 percent and the MSCI All Country World Index up 19.3 percent. There were few areas of weakness for investors to exploit and gains were narrowly concentrated in the US markets and in the "Magnificent Seven" stocks specifically. Our public equity holdings generated solid returns but are more evenly distributed geographically and by market sector and segment than the S&P. As a result, our returns were more in line with equal weight and global indices. Private equity and venture capital funds also lagged their public market counterparts during the year, but we are seeing improving results in these categories and remain confident in the potential of these asset classes to generate superior returns to public market equivalents in exchange for being less liquid.

Our diversifying Absolute Return managers had a very solid year as did our cash and treasury bond holdings.

We continue to seek ways to improve the performance of the endowment relative to our custom benchmark and our peers. Most importantly we seek to partner with the most talented and driven investors we can find. We have sought to increase the concentration of our holdings with our highest-conviction managers and to reduce exposure to asset classes which are more efficient and where manager skill may be less able to add value. We have invested in improved analytical capabilities that enhance our capacity to monitor exposure and to rebalance in a timely fashion.

The University retains a solid cushion of cash and short duration treasury bonds equal to approximately 6 percent of assets as of June 30, 2024.

Overall, the Investment Office strives to work with the best minds and most ethical partners we can across a range of investment disciplines. We are grateful to our donors and to our partners who work diligently to steward the capital of the University in support of its mission in the advancement of knowledge and the education of generations of capable and inspiring students.



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

History and Growth of the Endowment

Northwestern's endowment was created around the time of the University's founding in 1851. Since then, alumni, parents, and friends have generously supported the University. In addition, technology and innovation by Northwestern faculty have further enhanced the University's endowed pool. When gifts are designated to the endowment, Northwestern accepts responsibility for ensuring that these contributions fulfill and sustain their intended purposes in perpetuity.

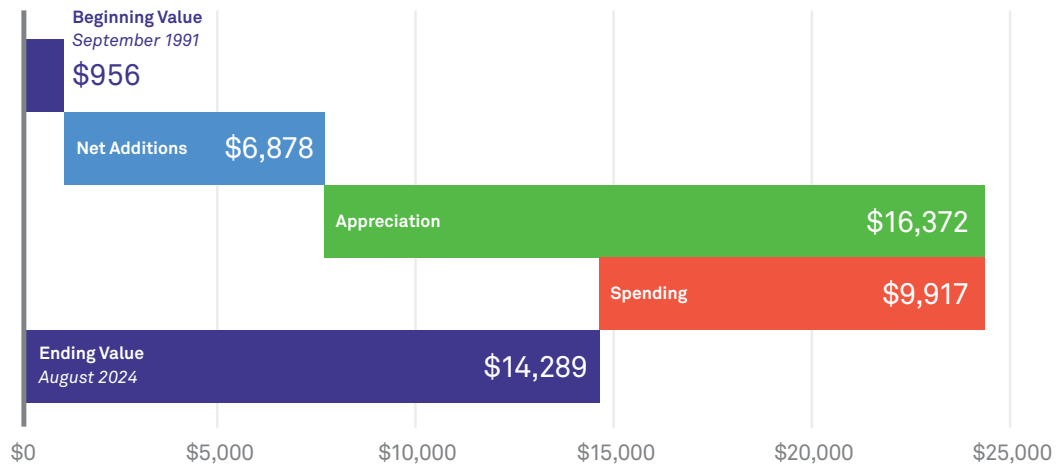
Since the current investment office implemented a modern endowment management strategy (modeled on that of Yale University) in 1992, the value of the endowment has increased from \$956 million to \$14.3 billion as of August 31, 2024, making it one of the top twenty University endowments in the country. This growth has been achieved while distributing nearly \$10 billion to the University for budget support over this same period. Aggregate gifts of \$ 6.9 billion have generated \$16.3 billion in investment gains, demonstrating the power of endowed gifts to provide both stability and growth to the University. Over the past decade, the payout to operations has more than doubled, increasing from \$350 million in 2014 to \$756 million in 2024. This amount represents approximately 23 percent of the University's 2024 operating expenses.

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, the Investment Office employs outside managers, partnering with many of the world's most successful and thoughtful investment managers. The Investment Office directly manages a small remainder of the endowment (roughly 6 percent), chiefly fixed income and cash holdings. The Investment Office employs 24 staff members, 13 of whom are investment staff. The total annual costs of the Investment Office are estimated to be 12 basis points (or roughly one-tenth of one percent of the net asset value of the pool).*

**Investment returns are reported net of external management fees but gross of Investment Office costs.*

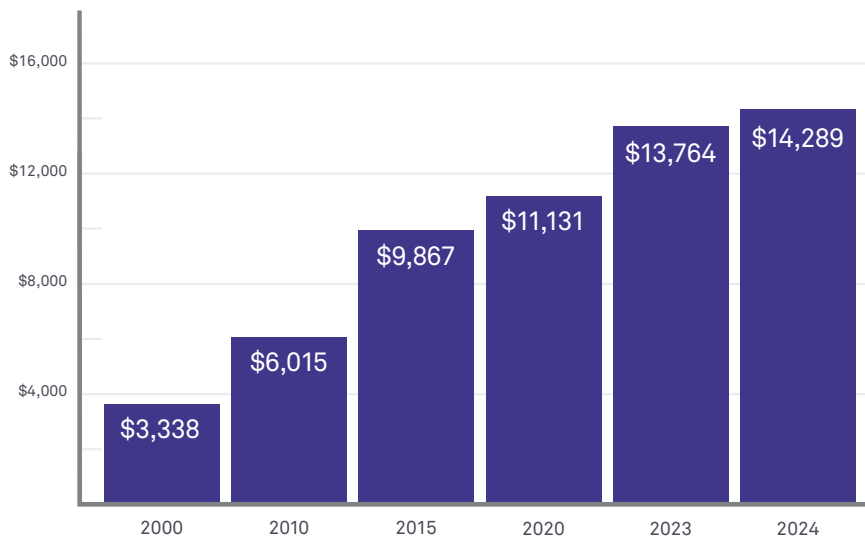
FY92–FY24 Endowment Increases and Payout

(\$ in millions)



Endowment Fund Assets as of August 31, 2024

(\$ in millions)





During the Commitment to Scholarships luncheon at Northwestern's Feinberg School of Medicine in April 2024, Dr. Jack Frable '59 MD, '60 '64 GME connected with five current and past Frable Scholars: from left, current scholars Sydney Fleishman, Angela Yang, and Austin Drysch and former scholars Ansh Goyal '24 MD and Michael Drakopoulos '24 MD. Jack and Mary Ann Smith Frable '59 MD, '64 GME created the Jack and Mary Ann Frable Medical Student Scholarship nearly 30 years ago, and this scholarship has supported 15 Frable scholars to date. The Feinberg School dean's office established another endowed scholarship—the Mary Ann Frable, MD Dean's Scholarship for Women in Medicine—in memory of Mary Ann Frable upon her passing in 2020.

Investment Objective

The primary 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.

Northwestern seeks a long-term total rate of return (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 can be complex and challenging in certain periods. It requires disciplined asset allocation and a long-term perspective in formulating both spending and investment policies. All the assumptions that inform the University's asset allocation and spending targets are reviewed annually by the Investment Committee.

Portfolio Asset Allocation

Investing across a range of asset classes with varying return characteristics is key to growing the endowment while appropriately managing overall risk. The portfolio asset allocation table on page 6 illustrates the actual asset allocation of the endowment as of June 30, 2024, relative to the target weights approved annually by the Investment Committee.

A target composite benchmark is derived from policy asset allocation target weights applied to widely accepted asset class benchmarks to measure the endowment's performance relative to its opportunity set. 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 the established long-term targets.

Commencing in 2021 and continuing through more recent policy discussions in 2023 and 2024, the Investment Committee approved a meaningful increase in the endowment’s overall allocation to equities from a total 2020 target of 57 percent to a total target of 65 percent in 2023. The composition of the equity allocation has also been adjusted to reflect greater current and expected allocations to venture capital and private equity. The current targets imply that over half (57 percent) of total equity investments would be made via private market investments although current holdings are more evenly split between public and private markets.

The decision to allocate more capital to equities and a higher percentage of our equity exposure to privates reflects higher return expectations for equities as well as a belief in the long-term potential for private investments to earn a liquidity premium over public counterparts. It also reflects the fact that Northwestern has access to top tier managers in both the private equity and venture arenas. Given the high dispersion of manager returns in these asset classes as well as demonstrated persistence for winning franchises, the Investment Office believes it can generate meaningfully higher alpha (or manager excess return) for the University.

The higher allocation to private equity and venture was offset to some degree by a reduction in private real estate and natural resources.

| Portfolio Asset Allocation | | |
|--|--------|--|
| Asset Class | Target | Actual <i>(as of June 30, 2024)</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. | 29.0% | 31.7% |
| 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. | 17.0% | 13.2% |
| 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. | 20.0% | 20.5% |
| TOTAL EQUITY ORIENTED | 66.0% | 65.4% |
| 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. | 17.0% | 14.8% |
| Real Assets Investments in energy, timber, real estate, and commodity funds. | 11.0% | 14.1% |
| 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. | 5.0% | 4.2% |
| Cash | 1.0% | 1.5% |
| TOTAL DIVERSIFIERS | 34.0% | 34.6% |

Composite Benchmark

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



Weinberg dean Adrian Randolph (from left) poses with Ted Sargent, the Lynn Hopton Davis and Greg Davis Professor of Chemistry; trustee Lynn Hopton Davis '82, '86 MBA; and Greg Davis on April 18. Sargent is a creative and innovative scholar known for his groundbreaking research in nanoscience, blending state-of-the-art inorganic and physical chemistry. His research has contributed to fundamental advances in nanotechnology and materials chemistry. The Lynn Hopton Davis and Greg Davis Professorship, established within Northwestern's Weinberg College of Arts and Sciences, allows the University to further its leadership in the field of nanoscience and remain on the forefront of advancements in medicine and technology.

Investment Performance

The Investment Offices 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 investment performance relative to the long-term depletion of the endowment's real value through spending and inflation. Historically, the University's investments have generated returns at or in excess of this objective for almost all time periods. The three years post the Covid pandemic were atypical and reflected significant volatility in public and private equity markets as well as a meaningful spike in inflation—the worst of all worlds for an endowment. In 2024, returns did exceed spending plus inflation once again, and we expect the 3-year figure to continue to improve going forward.

| 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, 2024 | 1.7% | 8.7% | 7.3% | 8.4% |
| – Spending ² as of August 31, 2024 | 4.7% | 4.7% | 4.9% | 4.7% |
| – Inflation as of August 31, 2024 | 4.2% | 3.8% | 2.7% | 2.5% |
| = Above or below objective | -7.2% | 0.2% | -0.3% | 1.2% |

¹ Total returns are net of fees and 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 except for the three-year. The portfolio outperformed the composite benchmark for the five- and 20-year periods, while it underperformed for the three-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 three- 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 five-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, 2024)</i> | | | | |
|---|--------|--------|---------|---------|
| | 3-Year | 5-Year | 10-Year | 20-Year |
| Northwestern University | 1.7% | 8.7% | 7.3% | 8.4% |
| Composite Benchmark | 2.8% | 8.3% | 7.4% | 7.9% |
| Global 70% Equity / 30% Bond Index | 3.0% | 7.6% | 6.5% | 6.7% |

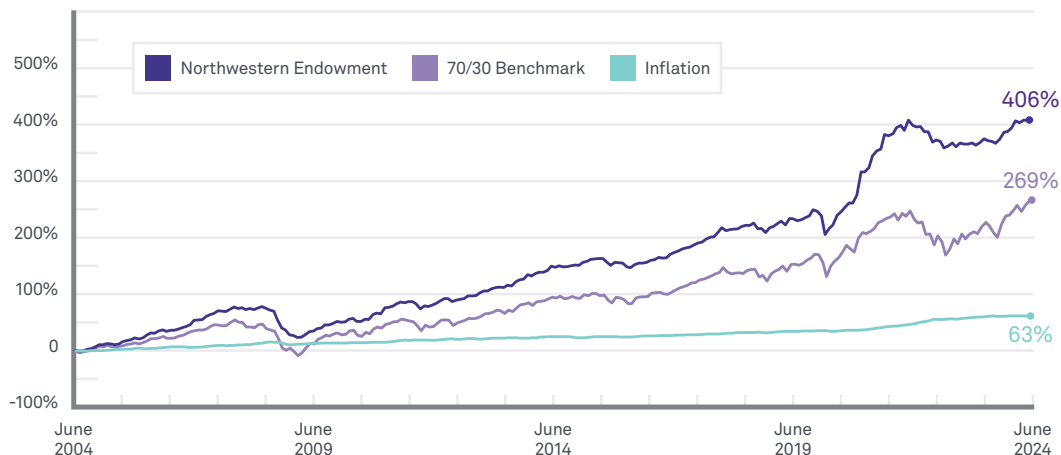
Tertiary Investment Objective

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, 2024, Northwestern performed in the top quartile for the 20-year period and in the third quartile for the three-year, five-year, and 10-year periods.

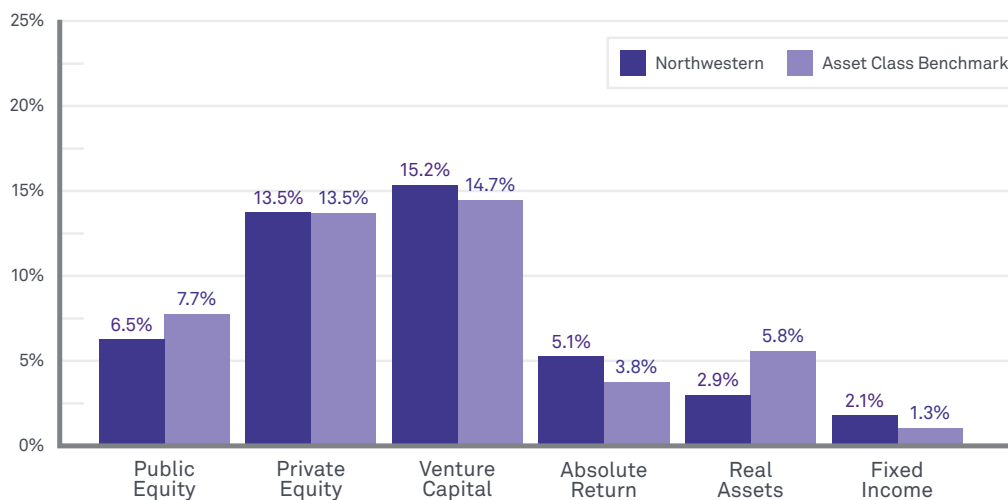
We hope to continue to improve our performance relative to peers to enable Northwestern to lead in spendable resources in a competitive environment.

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 8.4 percent, exceeding the passive global 70 percent equity / 30 percent bond index by 1.7 percent annually and surpassing inflation by 5.9 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 |



The School of Communication's first visiting professorship dedicated to expanding the diversity of the school's theatrical works and curriculum, the Astere E. Claeysens Artist in Residence was established through an anonymous gift made in memory of Claeysens, an author, professor, and Emmy Award winner. This program provides visiting artists with a yearlong professorship. The inaugural artists-in residence—Steven Sapp and Mildred Ruiz-Sapp, founders of the internationally renowned theater company Universes—taught a course on the history and development of ensembles and worked on the development of a new theater piece.

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 \$770 million for fiscal year 2025.



Gabrielle Wimes JD '25 is the current recipient of the African American History and Culture Endowed Scholarship. Gabrielle earned a bachelor's degree in criminal justice and international studies from Southern Illinois University Edwardsville in 2021. At Northwestern Pritzker School of Law, she is a member of the Black Law Student Association and the Student Funded Public Interest Fellowship. She also participates in the International Refugee Assistance Program and the Bartlit National Trial Team. Following graduation, Gabrielle will begin her career as a clerk for Judge Benton on the US Court of Appeals for the Eighth Circuit. After her clerkship, she will join White & Cases' Los Angeles office as a litigation associate.

Beneficiaries of the Endowment Fund Payout

The endowment is comparable to a mutual fund, with several beneficiary units represented as investors, or “holders.” For example, Northwestern’s Treasury Pool and Central Administration is the largest holder, followed by Northwestern University Feinberg School of Medicine, Kellogg School of Management, and 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: 47,769,785 (as of June 30, 2024)

| Holder | \$ in millions | % ownership |
|--|-----------------|-------------|
| Treasury Pool and Central Administration | \$6,072 | 42.7% |
| Feinberg School of Medicine | \$2,688 | 18.9% |
| Kellogg School of Management | \$1,101 | 7.7% |
| Weinberg College of Arts And Sciences | \$1,040 | 7.3% |
| University Scholarships | \$653 | 4.6% |
| Pritzker School of Law | \$497 | 3.5% |
| Bienen School of Music | \$314 | 2.2% |
| McCormick School of Engineering | \$271 | 1.9% |
| All Other Unit Holders | \$1,575 | 11.2% |
| Total Endowment | \$14,210 | 100% |

Note: Other unit holders include the School of Communication, Office of the Provost, University Library, and Office for Research, among others.



For more information

Statement on Investment Responsibility
northwestern.edu/investment/responsibility

Advisory Committee on Investment Responsibility
northwestern.edu/acir

Investment Office Staff
northwestern.edu/investment/about/staff-listing.html

**Northwestern
University**

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