ENDOWMENT REPORT

2024

BROWN

Introduction

During the fiscal year that ended on June 30, 2024 (FY24), Brown University's endowment and other managed assets grew by $607 million to $7.2 billion, an investment return of 11.3%. The change is the result of $203 million in deposits into the endowment, $281 million in contributions from the endowment to the University's operating budget, and gains on investments of $728 million.

Brown's endowment exists as a financial resource for the University's mission of scholarship and research. It is the collection of gifts — each with a designated purpose — that donors have shared with Brown to both shape the University's character and ensure its permanence. These gifts are prudently invested in a portfolio of financial assets aimed at preserving the resource for future generations of scholars.

Up until the beginning of the 2000s, Brown's endowment was invested in a relatively straightforward mix of stocks and bonds and managed by a small group of University trustees who volunteered their spare time and expertise. Over the past few decades, the financial markets have significantly increased in complexity and, as the value of the endowment has grown, Brown has adapted. The Investment Office was established in 2001, and today a team of professional investors pursues a diverse set of investment strategies that require high levels of expertise and investment acumen.

To execute this approach, Brown hires competitively advantaged managers to make investments on its behalf. Brown's diverse set of strategies includes biotechnology investors that employ biology Ph.D.s, energy-transition specialists that employ electrical engineers, and several country-specific strategies in places like Korea, India, Spain and others that require local knowledge and relationships. In each of these cases, Brown's Investment Office does extensive due diligence on the manager and the strategy, and then ultimately gives that manager discretion on what investments to make. The Investment Office prioritizes identifying managers who invest with ethics and integrity, and each investment strategy is monitored for compliance with the stated investment mandate throughout its life.

Because of Brown's mission of scholarship and research, and because of the advantage conferred by the University's long investment horizon, Brown is privileged to have access to many of the best specialist investment managers in the world. Several of these have now managed capital for Brown for multiple decades and created enormous value for the endowment, every dollar of which ultimately contributes to Brown's mission of education and research.

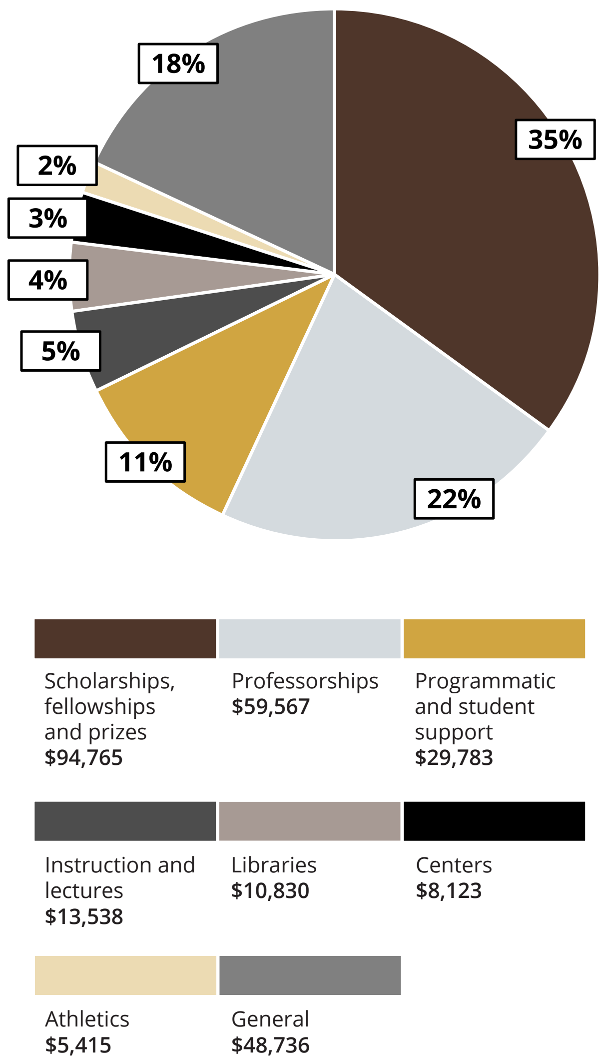
Supporting the University

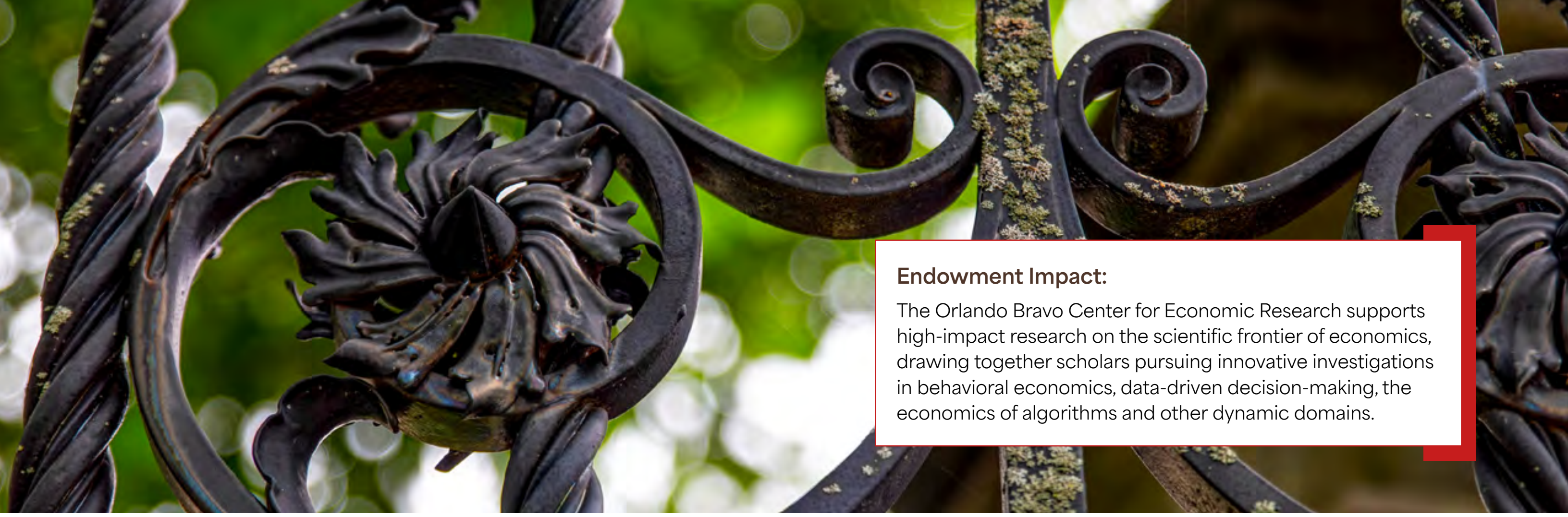
As the endowment grows, so does the annual contribution to the University's operating budget. This year's contribution of $281 million is another new high and equivalent to 21% of total revenue. For FY24, the contribution represents 4.8% of the endowment. While the contribution is determined annually, it is always between 4.5% and 5.5%. This payout rate is expressed as a percentage of the 12-quarter trailing average of the endowment's size. Using a 12-quarter average serves to insulate the beneficiaries of the endowment's contributions from the volatility inherent in the financial assets in which the endowment invests. Through the designated purpose for each endowed gift that makes up the endowment, the annual contribution supports financial aid, professorships, research centers, lectures, libraries and anything else to which a benefactor has designated a gift (see Fig. 1).

Endowment Impact:
The Janus Forum Lecture Series, an endeavor of the Center for Philosophy, Politics, and Economics and named for the Roman god with two faces, brings together two prominent researchers with different perspectives on contentious topics for the opportunity to present their research in direct dialogue with one another.

Figure 1: Endowment Income by Gift Purpose

dollars in thousands





Endowment Impact:

The Orlando Bravo Center for Economic Research supports high-impact research on the scientific frontier of economics, drawing together scholars pursuing innovative investigations in behavioral economics, data-driven decision-making, the economics of algorithms and other dynamic domains.

Performance

The endowment's investment program is designed to create optimal outcomes over longer time frames than a single year. Nonetheless, an annual review of the investment performance is suitable to evaluate the ongoing success of the program in exceeding appropriate hurdles: spending adjusted for inflation, market benchmarks and the results of peer institutions.

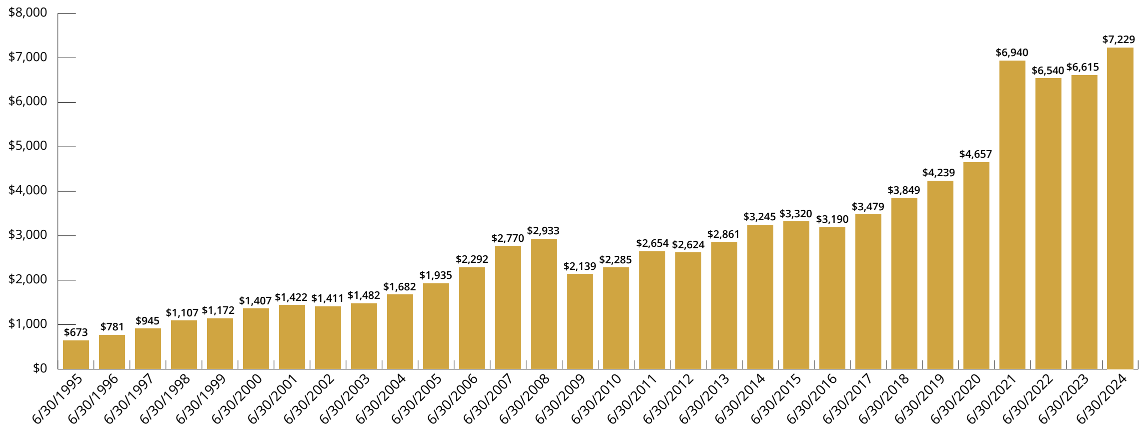
Spending

As of the end of FY24, the endowment was made up of almost 4,000 endowed funds and other managed assets. These endowed gifts are intended to make their contribution to the University in perpetuity. In order to do so, the remaining funds must be invested in assets that can appreciate at a rate equal to or greater than the annual payout of 4.5% to 5.5%. An investment return that equaled the payout rate, however, would still suffer the effects of inflation over time, thereby maintaining the principal of the gift but not protecting its purchasing power. As a result, the minimum acceptable investment performance — measured over appropriate timeframes — must be the payout rate plus inflation.

The most relevant measure of inflation is the Higher Education Price Index (HEPI), maintained by Commonfund. HEPI has been averaging 2.9% over the past 20 years, thereby combining with the annual payout to create an effective hurdle of 7.5% to 8.5%. Brown's FY24 investment return of 11.3% clears this hurdle, as do the five-, 10- and 20-year returns. The result is that Brown has been able to not just maintain the purchasing power of the endowment over those time frames but also grow it substantially, thereby amplifying the impact on the University's mission.

Figure 2: Market Value by Fiscal Year End

dollars in millions



Performance *continued*

Benchmark Comparison

In measuring the investment performance of the endowment, the Investment Office makes comparisons to market benchmarks, peers and internal measures of value creation. In each of these comparisons — and throughout this report — Brown's returns are presented net of all fees and expenses.

The first comparison offered here assesses Brown's performance relative to market benchmarks. Because Brown employs an active model that incurs fees and expenses, it makes sense to compare the endowment's results with passive strategies that have lower associated expenses in order to determine if Brown is utilizing the right approach. The most relevant benchmark for comparison is a blend of global stock and bond indexes in a 70/30 mix. The Investment Office considers a combination of assets: 70% stocks from the MSCI All Country World Index, and 30% bonds from the Bloomberg Global Aggregate Index. If Brown had taken this passive approach, it would have resulted in higher returns for FY24 (13.6% vs. Brown's 11.3%). However, over longer time frames, Brown's active approach has created enormous value for the University. Over 10 years, Brown's 10.8% return is nearly double the 5.9% annualized return of a global 70/30 portfolio, reflecting superior outcomes compared to a passive model.

Figure 3: Fiscal Year Annualized Returns
annualized returns as of June 30, 2024

	FY24	3-Year	5-Year	10-Year	20-Year
Brown Endowment*	11.3%	2.9%	13.1%	10.8%	9.5%
Aggregate Benchmark	6.6%	2.0%	9.8%	7.7%	7.3%
70-30 MSCI ACWI/Bloomberg Global Aggregate	13.6%	2.2%	7.0%	5.9%	6.4%
70-30 S&P 500/Bloomberg US Aggregate	17.7%	6.1%	10.5%	9.5%	8.3%
MSCI All-Country World (ACWI)	19.4%	5.4%	10.8%	8.4%	7.9%
MSCI All-Country World (ACWI) ex-US	11.6%	0.5%	5.5%	3.8%	5.8%
S&P 500 Index	24.6%	10.0%	15.0%	12.9%	10.3%

** FY24 final performance includes 98.7% of private 6/30/2024 valuations.*

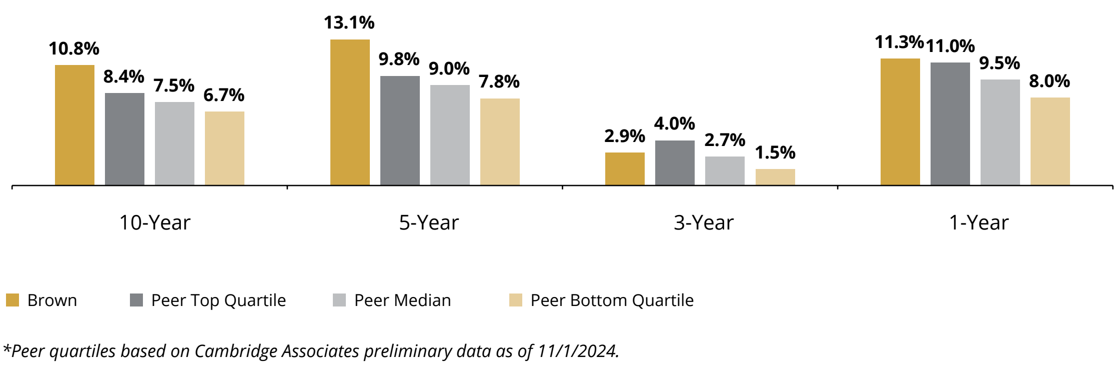
Performance *continued*

Peer Comparison and Internal Benchmark

The next comparison assesses the endowment in terms of peers. The Investment Office examines how Brown has fared against other institutions that also employ an active model. Data compiled by consultant Cambridge Associates indicates that Brown's FY24 result falls within the first quartile of endowment and foundation peers. Once again, longer-term results suggest that Brown's outcomes are exceptional. Over five- and 10-year terms, Brown's investment results fall within the top 5% of peer results, in each case by a comfortable margin (see Fig. 4).

Finally, Brown also utilizes an internal benchmark — dubbed the Aggregate Benchmark — which serves to indicate whether the investment performance is driven primarily by Brown's asset allocation or by its selection of managers within those asset class strategies. The Aggregate Benchmark is a hypothetical portfolio with an identical asset allocation to Brown's portfolio, but with index-level returns from each asset class. So, when the Aggregate Benchmark outperforms a global 70/30 blend of stocks and bonds, that indicates that Brown's asset allocation has created value. Further, when Brown's actual endowment returns exceed the Aggregate Benchmark, that indicates that Brown's investment managers are adding incremental value over and above the asset allocation. Happily, both can be said to be true. The Aggregate Benchmark trailed a global 70/30 portfolio in FY24 but has exceeded it over three-, five-, 10- and 20-year terms, and Brown's endowment results have exceeded the Aggregate Benchmark in every time period measured.

Figure 4: Brown Performance vs. Peers Through FY24
*annualized, as reported by Cambridge Associates**



**Peer quartiles based on Cambridge Associates preliminary data as of 11/1/2024.*

Endowment Impact:

Work at the Center for Alternatives to Animals in Testing at Brown is devising 3D microtissues that are better predictors of the effects of chemical exposures on humans and a potential replacement for the use of animals in research and testing.

Asset Allocation

Investing in a diversified portfolio of assets is a foundational risk management technique for Brown's endowment. Diversification across different asset classes, as well as strategies within those broadly defined asset classes, reduces the likelihood of a single event or market dynamic having excessive influence over the endowment's investment performance. Asset classes can contain diverse strategies and approaches within them but nonetheless are useful organizational frameworks due to broad characteristics that describe the underlying securities in which the strategies invest.

Asset allocation does not have primacy, however, in how investments are selected at Brown. Investment strategies — run by specialized investment managers — are selected on the basis of a combination of skilled investors applying a competitive advantage to an inefficient market. Filters for the integrity of the manager and a comprehension of the potential externalities of the underlying business activities are applied rigorously. To this end, Brown has supported and encouraged the adoption of ESG principles (Environmental, Social and Governance considerations in business practices) precisely because they provide an increasingly robust vocabulary for discussing these externalities.

As a result, Brown's asset allocation does not reveal a preference for particular asset classes. To take "private equity" as one example, Brown's approach recognizes that there are high-risk and low-risk strategies within private equity, and there are high-integrity participants and low-integrity participants. Through rigorous due diligence, Brown makes its best effort to partner with ethical, talented investors with a likelihood of generating attractive investment outcomes after accounting for risk. If a preponderance of those investment opportunities and partners is found within a particular asset class, then Brown will likely have a growing allocation there. Diversification is most effective in terms of its role in risk mitigation when some asset classes produce strong results and others do not. This was not the case in FY24. The endowment benefitted from balanced growth across strategies, with meaningful contributions from every asset class.

Public Equity

Fiscal Year 2024 was a second consecutive superb year for public equity markets. Like FY23, a small handful of enormous, U.S.-based technology companies dominated the indexes with surging stock prices. The strong outperformance of these few companies made keeping up with the benchmarks — always a challenging task — particularly difficult.

Brown's allocation to public equity strategies is $971 million, or 13% of the portfolio. These investments generated returns of 13.5% for the fiscal year, trailing the 19.4% return of global stock markets, as reflected by the MSCI All Country World Index. This shortfall leaves obvious room for improvement but is within the expected range of tracking error for Brown's portfolio. Brown's longer-term record in public equities demonstrates that outperforming global benchmarks is achievable. In Public Equities, more than in the other asset classes, low-cost index exposure frequently offers a compelling alternative to active management. Brown makes every effort to distinguish between less efficient markets where outperformance by active strategies is achievable, and more efficient markets where passive exposure has a high likelihood of producing the best results over time, due to the lower costs of passive investing.

Figure 5: Endowment Asset Allocation as of June 30, 2024
dollars in millions

Asset Class	Market Value	% of Endowment
Public Equity	$971	13%
Absolute Return	1,496	21%
Private Equity	3,044	42%
Real Assets	893	12%
Asset Class	**$6,403**	**89%**
Fixed Income	$486	7%
Hedges	0	0%
Cash and Receivables	340	5%
Total Endowment	**$7,229**	**100%**

Asset Allocation *continued*

Absolute Return

Absolute Return strategies are investment partnerships that can buy and sell a broad array of securities in pursuit of returns, frequently employing some form of arbitrage to achieve desired investment results with a reduced-risk profile. By far the most common of these underlying securities is stocks, but they may also include commodities futures, currencies and other derivative instruments such as equity options.

The Absolute Return asset class has been the site of significant reorganization since a difficult period in 2022 revealed higher correlations and therefore higher implied risk than Brown's portfolio can comfortably tolerate. The industry itself is also undergoing substantial change, with the emergence of behemoth funds taking large market share and arguably impacting the behavior of stocks with the scale of their purchases and sales. For Brown, recent results are excellent. The $1.5 billion portfolio generated $200 million in profits, a return of 15.1%, substantially exceeding industry benchmarks. Today this asset class comprises 21% of the endowment.

Private Equity

Private Equity encompasses strategies that invest in private or unlisted companies. In Venture Capital, this takes the form of investing in new companies in emerging industries or sectors that have the potential to generate a high return on invested capital. In Buyouts, the investment targets are typically mature companies seeking capital to catalyze faster, more efficient growth in earnings. Combined, these strategies make up 42% of the endowment's portfolio, split almost evenly.

The Private Equity industry has experienced decades of largely uninterrupted growth as institutional investors have steadily increased allocations. But that growth has stalled recently, marred by the most acute liquidity shortfall since 2008. The combination of a lack of an accommodating public market for new listings and the increase in the cost of debt that funds leveraged buyouts has reduced the timely distribution of profits sufficiently to inhibit new fundraising for the industry. After all, investors that are not receiving the proceeds of earlier investments can hardly be expected to allocate new capital.

Brown has been investing in these strategies for multiple decades with excellent cumulative results. The portfolio is not immune to the liquidity dynamic impacting the industry, but in part due to lessons learned in prior cycles, Brown's Private Equity portfolio returned to generating profits this year in both Buyouts and Venture without excessive liquidity challenges. Brown's Private Equity asset class generated $207 million of profits, a 7.6% return.

Endowment Impact:

Researchers at Brown's Center for Alzheimer's Disease Research are developing methods to measure and evaluate Alzheimer's blood-based biomarkers that can indicate the disease's presence in a patient with a simple blood test, improving diagnostics over costly or invasive methods such as spinal taps or PET scans.

Asset Allocation *continued*

Real Assets

Brown's Real Assets portfolio contains holdings in real estate and commodities, which amount to $893 million. Real Estate has also been impacted by the rise in interest rates and endured the second year of a difficult cycle. Fortunately, Brown has avoided, for the most part, the most challenged parts of the real estate market. Further, Brown has opted to operate predominantly as a lender in its real estate investments, insulating it from the worst damage of changes in valuations. The commodities positions in Real Assets amount to hedges on two potential macro risks to the portfolio: significant potential shortages in industrial metals, and a potential crisis of confidence in the credibility of fiat currency. Combined, the Real Assets investments generated a 13.5% return for the fiscal year.

Credit

Perhaps the most significant impact of the recent rise in interest rates for Brown's portfolio is the return of attractive investment opportunities in the credit arena. Considering that the endowment's contribution to the University is effectively fixed between 4.5% and 5.5%, the rise of interest rates to nearly that level created a considerable number of attractive investment opportunities in the lending space that generate ample returns and critically do so with lower levels of risk. The endowment will always have meaningful exposure to equity strategies due to their compounding nature, but the chance to invest in attractive debt instruments that aid the portfolio's liquidity through immediate and regular coupon payments was a positive development. As a result, Brown's Credit strategies now total $486 million and generated profits of $74 million during the year, a 16.5% return that substantially exceeds the relevant benchmarks due to skilled management by Brown's investment partners.

In Closing

Over the past 10 years, the endowment has generated $4.9 billion in investment gains. It has also been the recipient of $1.1 billion in deposits — predominantly gifts from generous donors — and contributed $2 billion to the University operating budget. As a result, the endowment has grown from $3.2 billion in 2014 to $7.2 billion as of the end of FY24.

A significant portion of that growth came in FY21, an anomalous year that generated investment returns of $2.4 billion. This was a welcome windfall for Brown's educational ambitions, but it created significant distortions in the portfolio's asset allocation and liquidity. A challenging two-year period ensued where the focus became the preservation of those gains and the re-ordering of a disordered portfolio construction. At the close of FY24, three years later, it is a privilege to report once again that Brown's endowment stands at a new all-time high, as does the level of support for the University's mission.

BROWN

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Cover Photo: Brown's Sayles Hall is home to the world's largest electric Hutchings-Voley Organ – donated in 1903 by Lucian Sharpe, Class of 1893, in honor of his parents.

- Photo by Nick Dentamaro

Produced by the Brown Investment Office with Brown's Office of University Communications