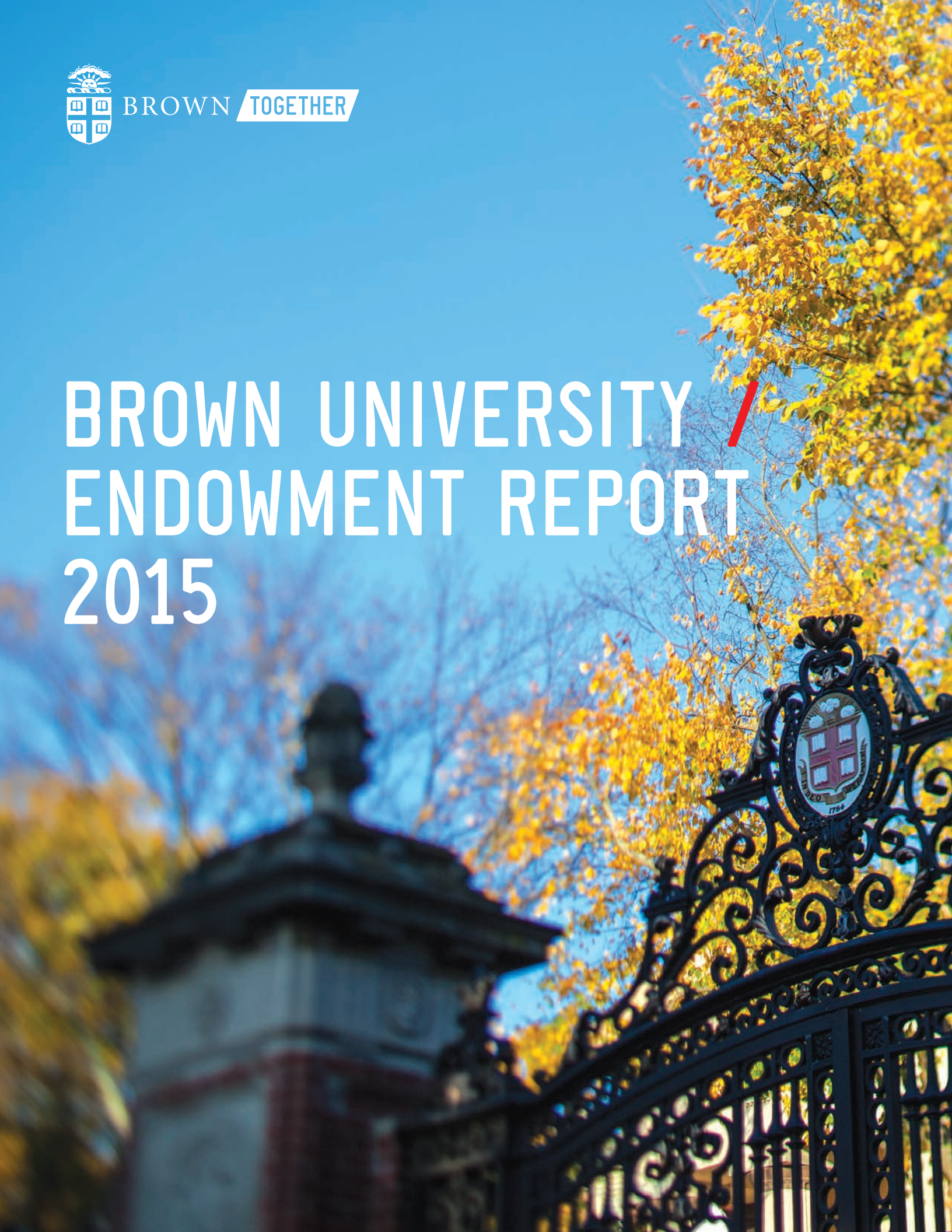




BROWN / TOGETHER

# BROWN UNIVERSITY / ENDOWMENT REPORT 2015







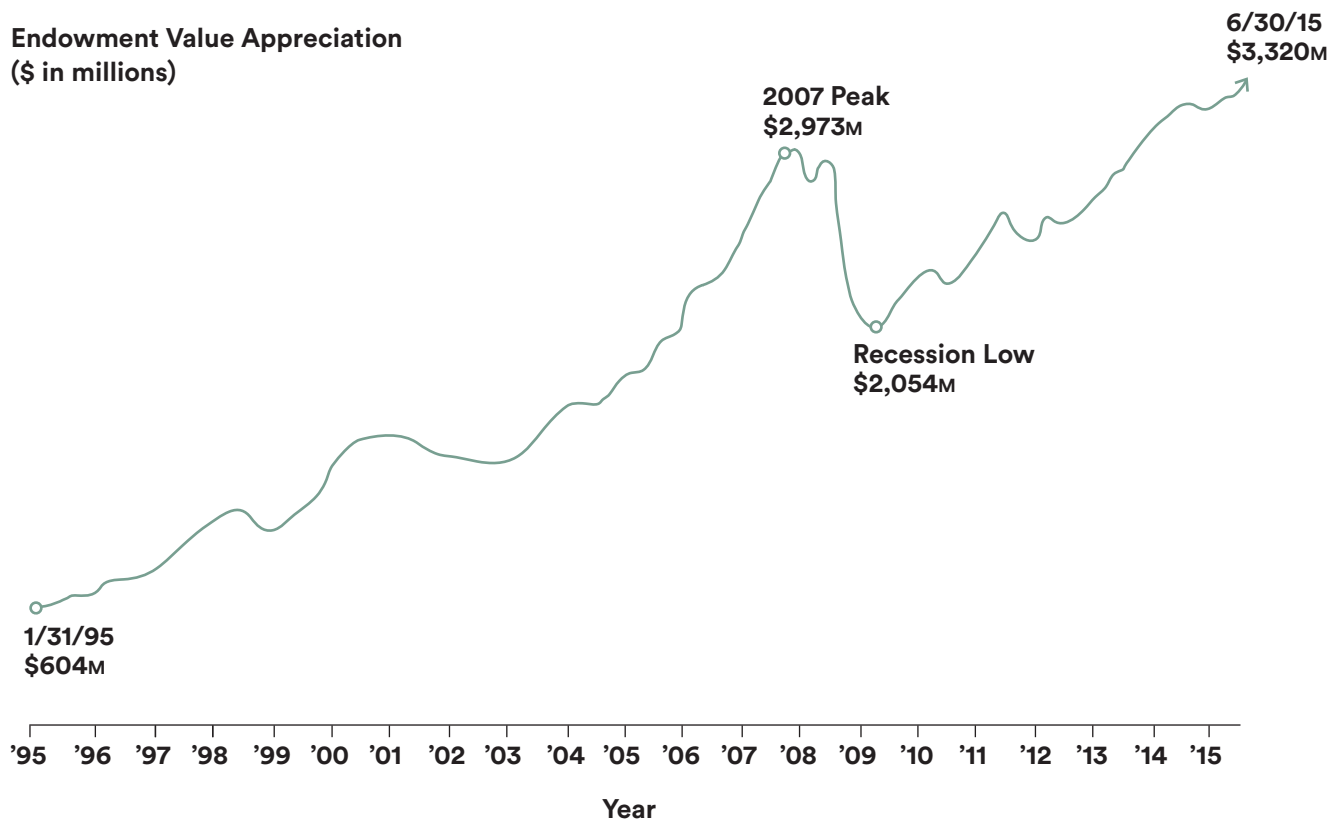
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# THE HISTORY OF THE ENDOWMENT

**With generous donations and prudent investing, the Brown endowment has grown to \$3.3 billion as of June 30, 2015, a new record.**

The Brown endowment was established in 1769 with an initial gift of \$4,500. With generous donations and prudent investing, the endowment has grown to \$3.3 billion as of June 30, 2015, a new record. While both the endowment and the University have grown substantially since their founding, the purpose of the endowment is unchanged. It remains an enduring asset that shapes the character of the University, ensures its permanence, and supports the many endeavors of Brown's faculty and students. Today there are approximately 2,900 named endowed accounts supporting the faculty, student body, and Brown's academic infrastructure.

**Endowment Value Appreciation**  
(\$ in millions)





# FISCAL YEAR 2015 AND LONG-TERM PERFORMANCE

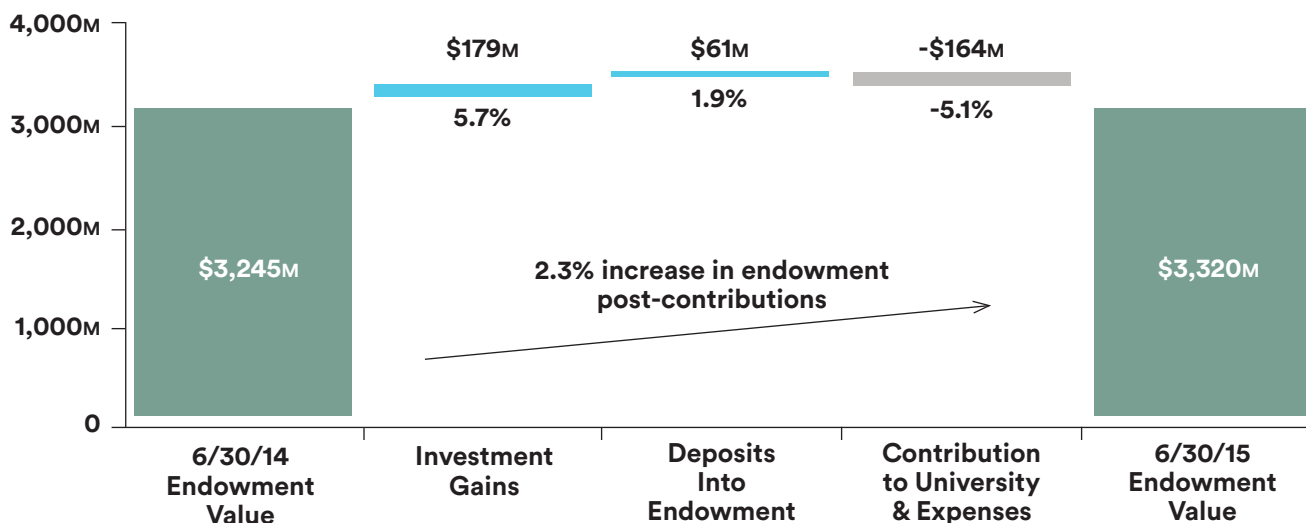
**The Brown endowment reported a 5.7% return for the fiscal year that ended June 30, 2015.**

For the fiscal year ended June 30, 2015, the endowment delivered a 5.7% return, producing \$179 million in investment gains. The endowment received \$61 million in gifts and distributed \$155 million (equivalent to \$18,000 per student) to the University. The market value of the Brown endowment at 2015 fiscal year-end was \$3,320 million.

For the second year in a row, the venture capital asset class was the most accretive to the portfolio, returning 32% and contributing over five times its portfolio weight. Exposure to commodities was the largest drag on the portfolio.



**FY 2015 Components of Change in Endowment Value**  
(\$ in millions)



## Fiscal Year Annualized Returns

	Annualized Returns				
	1 Year	3 Year	5 Year	10 Year	20 Year
<b>Brown Endowment</b>	<b>5.7%</b>	<b>11.3%</b>	<b>10.5%</b>	<b>7.5%</b>	<b>9.8%</b>
Aggregate Benchmark <sup>1</sup>	3.3%	8.7%	8.5%	6.0%	N/A
70/30 MSCI ACWI/Barclays Global Aggregate	-1.6%	8.8%	9.0%	5.8%	4.2%
MSCI All-Country World (ACWI)	0.7%	13.0%	11.9%	6.4%	6.7%
MSCI All-Country World (ACWI) ex-US	-5.3%	9.4%	7.8%	5.5%	4.0%
S&P 500 Index	7.4%	17.3%	17.3%	7.9%	8.9%

For fiscal year 2015, the endowment beat its global benchmark — the MSCI All-Country World Index (ACWI) return of 0.7% — but lagged the S&P 500 return of 7.4%. The United States and dollar denominated assets were the primary drivers for performance. This was clearly illustrated by the fact that the MSCI ACWI ex-US delivered a -5.3% return. The endowment's explicit US bias helped protect it from the challenged world markets.

Volatility in global markets led to a fairly wide dispersion of performance and muted average endowment returns. According to a Cambridge Associates survey of 162 peer colleges and universities,<sup>2</sup> the mean and median return for the fiscal year was 2.7% and 2.3%, respectively.

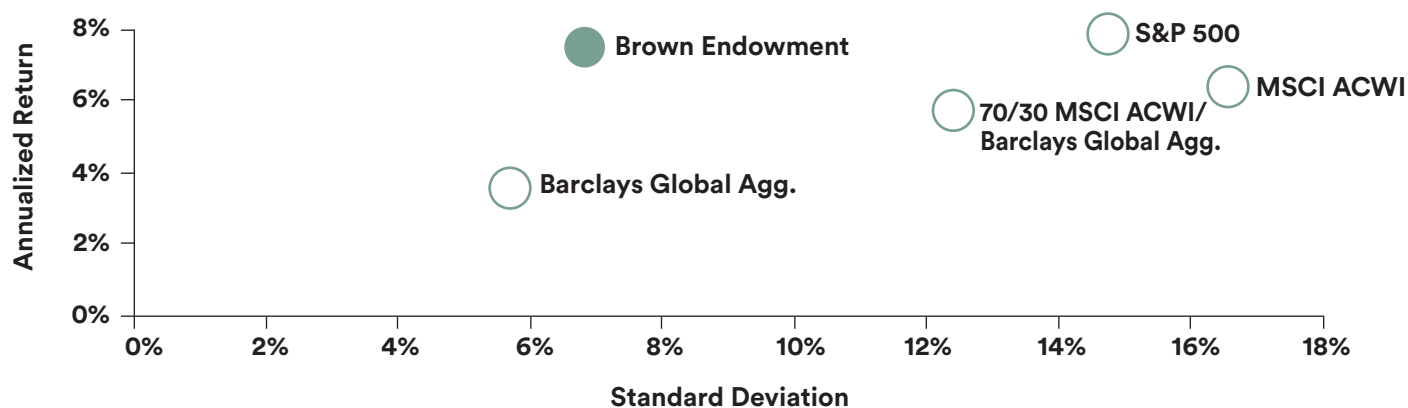
Over the 10-year period ending June 30, 2015, the Brown endowment produced an annualized return of 7.5%, outperforming its aggregate benchmark, a 70% stocks / 30% bonds portfolio, and the MSCI ACWI index. Notably, the endowment outperformed the MSCI ACWI index by over 100 basis points with less than half of the volatility. The chart below shows the 10-year risk<sup>3</sup> / return of the Brown endowment relative to selected benchmarks.

<sup>1</sup> Aggregate benchmark is a weighted average of blended asset class benchmarks.

<sup>2</sup> Cambridge Associates Fiscal Year 2015 College and University Flash Statistics, Summary of Investment Pool Nominal Total Returns, as of December 1, 2015.

<sup>3</sup> Utilizing standard deviation as a measure of risk.

## 10-Year Risk<sup>3</sup> / Return









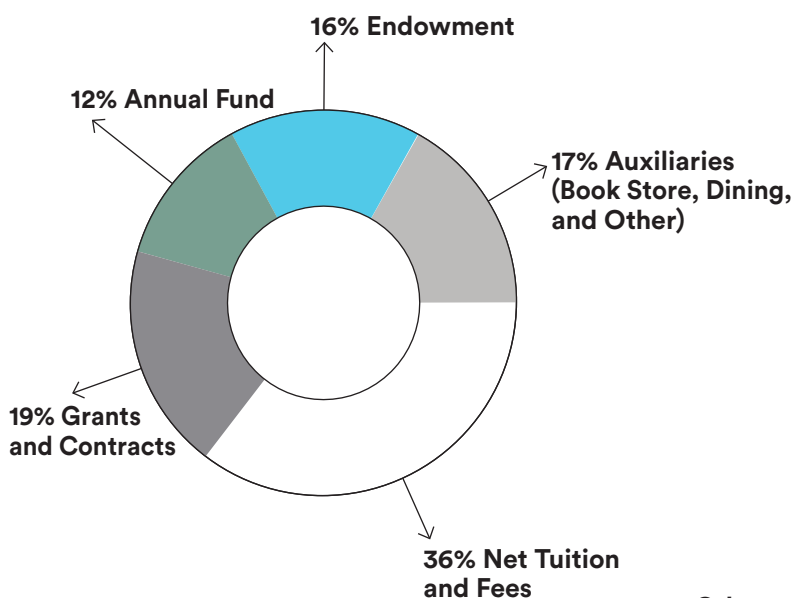
# PURPOSE AND USE OF THE ENDOWMENT

The endowment's mission is to financially support the many endeavors of the University's faculty and students, shape the character of Brown as an institution, and ensure its permanence.

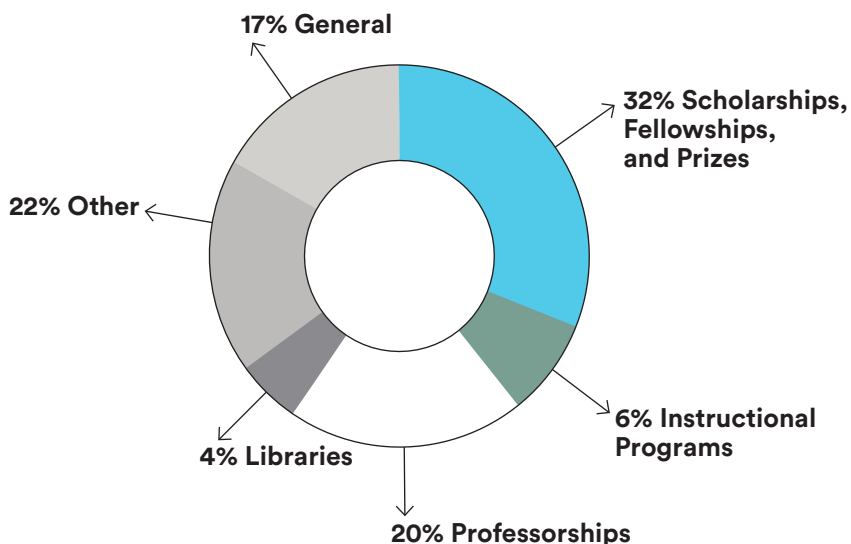
To support Brown's mission, the endowment is managed with a dual mandate: preservation of capital and prudent growth. Gifts in to the endowment are invested globally in a diversified portfolio of assets with the intention that the original gift will grow in size and provide an ongoing income stream to support the specific endowed purpose.

Approximately 5% of the endowment's value is contributed annually to the University in order to support vital activities such as student scholarships, professorships, and academic programs. During fiscal year 2015, the endowment provided \$155 million to the University — representing 16% of the annual operating budget — through the more than 2,900 named accounts that support the faculty, student body, and the University's academic infrastructure. The \$155 million payout is equivalent to approximately \$18,000 per student.

**Brown University Operating Revenue Sources**



**Endowment Income Distribution by Purpose**



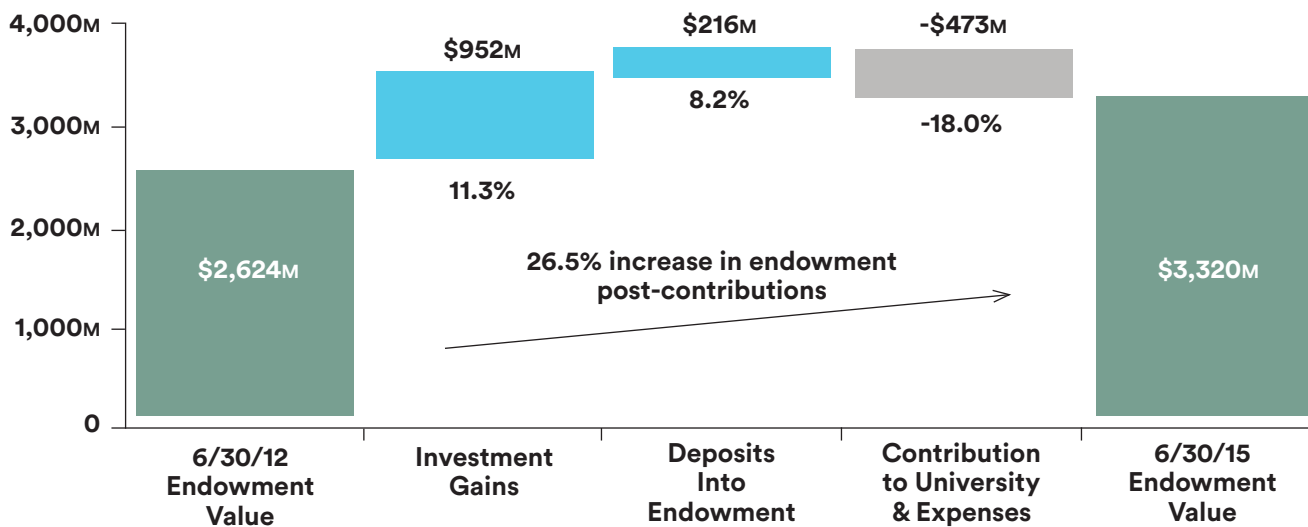
# THE POWER OF GIFTS AND COMPOUNDING

## Donor support is crucial in fulfilling Brown's mission.

Generous donations from alumni, parents, students, and friends of Brown have been, and continue to be, crucial in supporting Brown's educational mission. The endowment's payout to the University supports investments in people, innovative education and research, initiatives in campus infrastructure and student life, and enables Brown to realize the goals of *Building on Distinction*, the strategic plan that will guide the University's growth and development into the next decade.

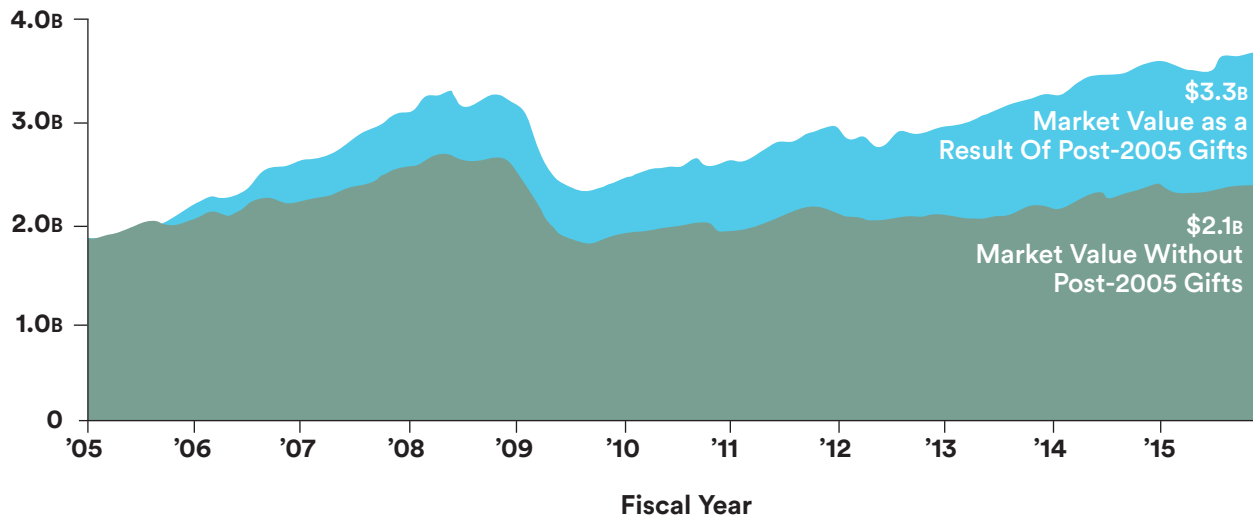
Since President Paxson assumed office in July 2012, the endowment has received \$216 million in gifts and generated \$952 million in investment gains for an annualized return of 11.3%. Notably, these investment gains are larger than the endowment in its entirety in 1997.

**Paxson Presidency Components of Change in Endowment Value**  
(\$ in millions)





### 10-Year Impact of Gifts (\$ in billions)



As an example of the power of compounding, \$100 donated to the endowment today and invested over 20 years could grow to ~\$280, with ~\$120 being sent back to the University and ~\$160 remaining invested to provide a perpetual and growing income stream to the University. During the last 10 years, the power of the support of the Brown community has had a profound impact on the appreciation of the endowment. Gifts and the compounding of those gifts have resulted in an additional \$1.2 billion of value to the endowment.



# ASSET ALLOCATION AND ASSET CLASS PERFORMANCE

**The endowment is diversified across asset classes through professional external managers and passive indexes to ensure that it is positioned for multiple macro-economic environments.**

The Brown endowment pursues a flexible asset allocation approach designed to produce the highest risk-adjusted returns. The portfolio is diversified across asset classes in order to perform across multiple economic scenarios.

The portfolio is 76% invested in North American securities. Low inflation, moderate growth, cheap available credit, healthy corporate balance sheets, low energy prices, improving labor markets, and wage growth potential contribute to a favorable macroeconomic picture for the United States relative to other developed markets. Given current allocations, we believe the portfolio is well-positioned to generate solid investment returns under multiple macroeconomic scenarios.

## Endowment Asset Allocation

Asset Class	Current Policy Range	6/30/2015 Allocation	FY 2015 Return
Public Equity	15% - 60%	26.8%	5.3%
Equity-Like Credit	0% - 15%	2.3%	7.1%
Hedged Strategies	15% - 35%	31.4%	5.6%
Private Equity	10% - 30%	21.3%	16.1%
Real Assets	5% - 25%	7.7%	-6.6%
<b>Total Risk Assets</b>	<b>60% - 110%</b>	<b>89.5%</b>	<b>6.5%</b>
Fixed Income	0% - 40%	4.8%	3.7%
Tail Hedges	0% - 5%	0.1%	0.0%
Cash	-10% - 30%	5.6%	0.0%
<b>Endowment</b>		<b>100.0%</b>	<b>5.7%</b>





# ABOUT THE BROWN UNIVERSITY INVESTMENT OFFICE

The Investment Office, under the direction of the Investment Committee, manages the endowment as well as other University funds.



The Brown University Investment Office consists of an 18-person investment and operations team led by Chief Investment Officer Joseph L. Dowling III. The primary goal of the Investment Office is to prudently invest the endowment to support the University in perpetuity so that future generations of students and faculty receive at least the same level of inflation-adjusted support as the current generation. The Investment Office manages the endowment and other University funds under the oversight of the Investment Committee.

The Brown Investment Committee consists of 14 experienced professionals with diverse backgrounds in finance and investing. These individuals are selected by the Brown Corporation and provide guidance and oversight of investment policy and activity. They also provide invaluable knowledge and insight for the Investment Office.

## Investment Committee

Robert P. Goodman '82, *Chair*  
 Laurence W. Cohen '78, *Vice Chair*  
 Richard A. Friedman '79, *ex officio*  
 Theresia Gouw '90  
 Jeffrey W. Greenberg '73  
 Jonathan M. Nelson '77  
 Christina H. Paxson, *ex officio*  
 Alison S. Ressler '80, *ex officio*  
 Ralph F. Rosenberg '86  
 Barry S. Rosenstein  
 Charles M. Royce '61  
 Zachary J. Schreiber '95  
 Barry S. Sternlicht '82  
 Thomas J. Tisch '76, *ex officio*

## Investment Office Staff

Joseph L. Dowling III  
*Chief Investment Officer*  
 Jane A. Dietze  
*Managing Director*  
 Daniel H. McCollum  
*Managing Director*  
 Erica Nourjian  
*Head of Operations*  
 Gary S. Padula  
*Investment Director*  
 Louisa C. Smith  
*Investment Director*  
 Katherine A. Galvin  
*Investment Associate*  
 Christopher C. Hofmann  
*Investment Associate*  
 Julien X. Angel  
*Investment Analyst*  
 Molly P. Landis  
*Investment Analyst*

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