

**Response to
The Senate Finance and House Ways and Means
Committees Request**



Submitted by
Dartmouth College

April 1, 2016



Dartmouth

HANOVER • NEW HAMPSHIRE 03755

THE PRESIDENT

Sent via Electronic Mail

April 1, 2016

The Honorable Orrin G. Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Kevin Brady
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Peter J. Roskam
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Senator Hatch and Representatives Brady and Roskam,

Thank you for your letter of Feb. 8, 2016, and your request for information about the operations of Dartmouth College and its endowment.

Dartmouth was founded in 1769 and consistently ranks among the world's best academic institutions. Dartmouth educates promising students and prepares them for a lifetime of learning and of responsible leadership, through a faculty dedicated to teaching and the creation of knowledge.

The endowment provides just less than one quarter of the annual funding required to achieve this vision. The generosity of Dartmouth alumni, parents, and friends, combined with an investment and management philosophy designed to protect and grow the purchasing power of the endowment over the long term, through market highs and lows, have led to a sustainable source of annual operating funding.

Careful management of the endowment has enabled Dartmouth to remain one of the few institutions in American higher education that is committed to need-blind admissions for domestic applicants. Over the last decade, Dartmouth has steadily increased scholarship expenditures (scholarship expenditures have grown at a 6.1% rate while tuition revenues grew at 4.8%), to decrease the average cost of education for students with demonstrated financial need. Today, 100% of the financial need of any domestic or international undergraduate student who is admitted to Dartmouth is met, and students whose family income is below \$100,000 are provided free tuition and are not required to borrow to fund room or board. As a result, the median level of borrowing by Dartmouth graduates (both scholarship and non-scholarship recipients) is less than the national median for all undergraduates, and is lower now than it was ten years ago. Specifically, the median level of borrowing by Dartmouth graduates who were scholarship recipients declined from \$17,044 for the Class of 2005 to \$13,454 for the Class of 2015.

Dartmouth students come from diverse backgrounds from across the country and around the globe. The 1,116 members of the class of 2019 are drawn from 837 schools. Forty-six percent of the class received need-based scholarships from Dartmouth; 14% are the first in their families to attend college. Forty percent of the class identify as students of color; 8% are international students. Dartmouth has a historic commitment to educating Native Americans and, since 1970, nearly 700 Native Americans from 200 tribes have attended the College.

We are proud of the quality and value of a Dartmouth education. Our first-year retention rate is 97% (for students who entered in the fall of 2014), and our six-year graduation rate averaged 95% over the most recent five-year period available. A 2015 survey of graduating seniors showed that 85% of them had firm plans following graduation.

Dartmouth has forged a singular identity for combining its deep commitment to outstanding undergraduate and graduate education with a faculty that produces distinguished research and scholarship and its three leading professional schools—the Geisel School of Medicine (founded 1797), Thayer School of Engineering (founded 1867), and the Tuck School of Business (founded 1900). In January, Dartmouth’s Board of Trustees approved the creation of the School of Graduate and Advanced Studies, the first new school at Dartmouth in over 100 years, to enhance the impact of Dartmouth’s existing research efforts, attract additional talented students and faculty, and promote collaborative and interdisciplinary efforts among Dartmouth’s existing schools.

Research at Dartmouth has contributed to advancements in many fields. For instance, the first clinical x-ray was taken at Dartmouth and the computer language BASIC was developed by Dartmouth faculty. Dartmouth researchers discovered the mechanism for how light resets the biological clocks, and won awards for research on converting biomass feedstocks into motor vehicle fuels. For over 20 years, the Dartmouth Atlas project has documented variations in how medical resources are distributed and used in the United States. These are just a few examples of the type of research being conducted by faculty and their student partners.

The endowment is critically important to Dartmouth’s ability to create new knowledge as well as to provide current and future generations of students of all backgrounds access to an education that will prepare them to be leaders of governments and communities, industries and organizations, and the arts and letters. We are pleased to describe on the following pages Dartmouth’s approach to

endowment management, as well as the role of the endowment in funding Dartmouth's teaching, research, student life, and infrastructure. If you have any questions about our reply, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Philip J. Hanlon".

Philip J. Hanlon
President, Dartmouth College

Cc: Christopher Armstrong (Senate Committee on Finance)
Justin Coon (Senate Committee on Finance)
Amanda Neely (House Committee on Ways and Means)

Endowment Management Principles

Endowments serve as critical funding sources for our nation's most enduring educational institutions, providing budget stability and financial autonomy. Endowments enable the independent research and academic freedom that are at the heart of the academy, and that serve the public interest. Ensuring our ability to educate current and future generations, and to produce new scholarship, serve as the foundation for Dartmouth's approach to endowment management.

At Dartmouth, the purpose of our endowment is to provide maximum sustainable financial support for Dartmouth's mission, in perpetuity. This requires balancing the interests of current and future generations of Dartmouth students and faculty, a concept known as intergenerational equity. Providing budgetary stability benefits the institution today, while preserving the purchasing power of the endowment ensures that Dartmouth's global contribution to higher education and transformational research continues for generations to come. Trustees and fiduciaries balance the tension between these two objectives through the development of investment and spending policies. The investment policy establishes the investment guidelines and objectives for managing the investment assets of the endowment, whereas the spending policy determines the amount of money that will be spent out of the endowment annually to support the operating budget. A high level of spending favors the academy today, whereas a lower spending amount favors growing the purchasing power of the endowment for the future. Dartmouth's investment and spending policies are key elements of our overall endowment management philosophy and exist to support the enduring educational and research mission of the Institution.

Investment Objective:

Dartmouth's investment objective is informed by historic capital markets experience, which provides a basis for projecting expected investment returns in the future. Dartmouth's primary investment objective is to generate, on average, long-term inflation-adjusted investment total returns that at least match the distribution used for operations. When this investment goal is achieved over a long period of time, then the purchasing power of the endowment has been maintained for future generations, meaning that Dartmouth can continue to support the same level of activities that the institution is providing today in the future. If the actual investment returns exceed the investment objective, then Dartmouth has increased the purchasing power for future generations to take on more activities to tackle the world's most pressing challenges; if actual returns fall short of the investment objective, the outcome is the erosion of purchasing power. Translating Dartmouth's investment objective into numbers results in a targeted long-term, inflation-adjusted net investment return of 8 to 9% based on a spending distribution for operations in the range of 5 to 6% of endowment value and inflation in the range of 2 to 3%.

During the 10 years that ended June 30, 2015, Dartmouth's endowment generated an average annualized compound net investment return of 8.8%, with an average of 5.1% of the endowment distributed annually for a difference of 3.7%, relative to a 2.7% increase in the higher education cost index (HEPI) during the same period. As such, Dartmouth's endowment did achieve its

investment objective of maintaining purchasing power for future generations during this time period.

It is important to note, however, that a 10 year period is a very short period of time for an investment pool that is expected to generate financial support for Dartmouth **in perpetuity**. The endowment must provide financial support during periods of strong investment return and low inflation as well as during periods of negative investment return and high inflation.

Spending Distribution:

The setting of an appropriate endowment-spending rate is indicative of how Trustees and fiduciaries seek to achieve intergenerational equity. Because the Dartmouth endowment typically supports between 20 to 25% of the annual operating budget, it is also important to craft a spending strategy that prioritizes a stable and dependable flow of financial support to operations. The annual distribution of cash from the endowment is the mechanism for the endowment's perpetual financial support for operating expenditures.

Dartmouth, like most of its peers, employs a "total return" distribution strategy. Using a total return strategy, the amount of endowment distributed to support the operating budget in any single year is independent of the investment return in any single year. Using a total return strategy, the unexpended gains during periods of positive investment return are retained in the endowment, accumulated and allocated to each individual fund, so the endowment can satisfy the distribution required for spending during periods of low or negative investment returns. This approach limits volatility in the operating budget regardless of whether investment markets are strong or weak, and it allows for an investment strategy that is focused on long-term capital growth rather than short-term income yield.

For example, in fiscal 2015 net investment return was 8.3%, generating \$350 million of value through investment income and realized and unrealized gains. The distribution to support operating activities was \$214 million, 4.8% of the endowment value at the beginning of the fiscal year and 61% of the net investment return generated during the year. In fiscal 2009, however, the endowment lost \$691 million of value, yet \$230 million, representing 6.3% of the value at the beginning of the year, was distributed from previously accumulated endowment gains to support operations. During the 10-year period ending in fiscal 2015, Dartmouth's investments generated \$3.0 billion of net return, of which \$1.8 billion, more than 60%, was distributed in support of Dartmouth's mission at an average annual rate of 5.1% of the beginning value of the endowment each year.

Restrictions on Use of the Dartmouth Endowment

An endowment is a pool of underlying invested funds. "True-endowment" funds are formed with assets contributed by donors to a nonprofit organization for its charitable purpose and by law are not fully expendable for current use. "Quasi-endowment" funds, also historically known as "funds functioning as endowment," are funds that allow for the expenditure of principal as well as accumulated investment return. Quasi-endowment funds may be established either with assets contributed by donors for a specific purpose or with College-designated funds. Quasi-

endowment funds are pooled for investment and management purposes with true-endowment funds in order to provide efficient investment management of the funds and sustainable financial support for the organization's charitable purpose. Donors may place restrictions on the use of true- or donated quasi-endowment funds, including the use of investment returns generated by the funds. The governing body or management of the organization may designate purposes of institutional quasi-endowment funds, but these designations are generally not legally binding limitations on the use of the funds or the use of investment return as are donor restrictions. The \$4.7 billion endowment of Dartmouth as of June 30, 2015, comprises more than 5,750 individual funds, 4,850 of which, with a value of \$3.6 billion, have been created with donor contributions and 900 of which, with a value of \$1.1 billion, have been created with unrestricted Dartmouth funds. The pool of true and quasi endowment funds operates similar to a mutual fund, whereby units are attributed to individual funds based on the value of the assets contributed to the pool and investment returns are allocated and annual distributions are deducted based on the number of units attributed to each individual fund.

As of June 30, 2015, true- and quasi-endowment funds that have been restricted by donors amount to approximately \$3.6 billion, 77% of the endowment value. Dartmouth is required by law to use the funds, and earnings thereon, for the purpose agreed upon with the donor. The remaining \$1.1 billion, 23% of the endowment value, is comprised of unrestricted quasi endowment funds that are pooled with donor restricted endowment funds in order to provide long term financial support for purposes designated by Dartmouth.

Of the total \$214 million distributed for spending from the endowment in fiscal 2015, 68% was restricted to specific purposes according to donor restrictions, including: 21% to support scholarship awards to students, 15% to support compensation and other costs of endowed professorships, 15% to support academic centers and programs, and 17% to support a range of activities including Dartmouth's libraries, museums, performing arts, professional schools, facilities, and athletic programs. The remaining 32% of the distribution in fiscal 2015 provided general support to Dartmouth's activities, including financial aid awards.

New Hampshire law allows Dartmouth to appropriate for expenditure "so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established ... the institution shall act in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances..."¹ New Hampshire law also creates a rebuttable presumption of imprudence if an amount in excess of 7% of a three year quarterly average market value is appropriated.

College Affordability and Access to a Dartmouth Education

Any discussion of college affordability should distinguish between full tuition² and net price. Dartmouth provides significant financial aid in the form of scholarships to reduce full tuition to a much lower net price for students with demonstrated financial need. (At Dartmouth, all

¹ New Hampshire Statutes, Chapter 292-B: Uniform Prudent Management of Institutional Funds Act, Section 292-B:4

² We use the term full tuition to include tuition, mandatory fees, and room and board.

undergraduate financial aid is awarded on the basis of financial need. There are no athletic or other “merit” scholarships.)

Dartmouth is one of very few U.S. colleges and universities that admit U.S. students without regard to financial need and with a comprehensive financial aid package that meets the demonstrated financial need of all admitted students. In addition, students whose family income is below \$100,000 are provided free tuition and are not required to borrow to fund the other costs of their Dartmouth experience, such as room and board.

In the undergraduate Class of 2019, which entered Dartmouth in the fall of 2015, 46.8% of students were scholarship grant recipients, up from 41.4% in the Class of 2015. Scholarship recipients in the Class of 2019 received, on average, \$46,340 in scholarship grants, leaving a net price of \$17,794. Since the Class of 2010 entered Dartmouth in the fall of 2006, the net price of a Dartmouth education for scholarship recipients has increased at a rate of 2.2%.

In terms of Pell grant recipients, an indicator of financial need, 14.5% of the entering class received a Pell grant compared to 12.8% in the Class of 2015 and 11.8% in the class of 2010.

In the most recently completed academic year, 43.8% of all undergraduate students were scholarship recipients, averaging \$43,341 each, including Dartmouth scholarship, Pell grant, and Supplemental Educational Opportunity Grant (“SEOG”). Of the total \$83.3 million of scholarship awards, \$80.1 million was provided from Dartmouth resources. Dartmouth’s resources toward scholarship have grown at a rate of 6.3% over the past ten years and comprise 96% of total scholarship funding while grants awarded from the Pell and SEOG federal programs have grown at a rate of 3.3% over this period and amount to only 4% of total scholarship funding.

Over the past ten years, scholarship expenditures have grown at a 6.1% rate while tuition revenues grew at 4.8%. On a per-student basis, the average scholarship provided to grant recipients from 2005-2015 grew at the rate of 6.0% while tuition, mandatory fees, room & board have grown at a rate of 4.7% during this period. In other words, scholarship expenditures are gradually reducing the average cost of a Dartmouth education for students with demonstrated financial need.

One final point about affordability pertains to student borrowing. As mentioned above, students whose family income is less than \$100,000 are not expected to borrow any money to finance their Dartmouth education. The median level of borrowing by Dartmouth graduates who were scholarship recipients declined from \$17,044 for the Class of 2005 to \$13,454 for the Class of 2015. The median level of borrowing by all Dartmouth graduates (including non-scholarship recipients) declined from \$18,749 for the Class of 2005 to \$17,543 for the class of 2015. These amounts compare very favorably to national medians for all undergraduates of \$18,259, and \$35,050, respectively.

While the above discussion of affordability and access has focused on the difference between full tuition and actual or net price, it is also important to note that even full tuition falls far short of covering the actual cost of a student’s education. The cost of the experience at top colleges and

universities is driven by competition to recruit and retain a highly educated workforce, recruitment of a diverse student body, investments in educational technology, operations and maintenance of outdated facilities, and regulatory requirements. The price of a residential college education is the amount charged for tuition, mandatory fees, room and board, and on a per student basis this price is much less than the average cost. In fiscal 2015, for example, average expenditures per undergraduate student at Dartmouth were more than \$117,000. Endowment distribution, annual giving from alumni and friends, cost recoveries from sponsored research, and net revenues from auxiliary operations subsidized the average cost per student by approximately \$55,000, even for students who paid the full cost of almost \$62,000 in fiscal 2015.

Managing our Expenses

Dartmouth is slowing the growth of operating expenditures using a resource allocation process over the three most recent budget cycles that is designed to redeploy people and resources from lower priority activities to higher priority activities. This shift in resources has allowed tuition growth to slow and new funding from other sources such as philanthropy and investment returns to be deployed to new programs and initiatives. The factors cited above--competition for the best faculty and students in a diverse and inclusive community, investment in new technologies, and improvements in facilities-- will continue to increase costs, but a culture that thrives on reinvesting its resources in the top priorities will be the most prepared for the future.

Detailed Responses to Your Questions

Detailed responses to the questions are provided on the following pages.

Question 1.

What categories of assets are included in your college or university's endowment? For each category, please include the amount of funds that are:

- a. unrestricted;**
- b. permanently restricted by donors;**
- c. temporarily restricted by donors;**
- d. permanently restricted by your college or university (quasi-endowments); and**
- e. temporarily restricted by your college or university.**
- f. For each restricted asset, please describe the uses for which the funds are restricted and the amount of the fair market value of the endowment apportioned to each use. How and why were the restrictions put into place?**

Dartmouth's endowment is a pooled fund comprising more than 5,750 individual funds managed according to New Hampshire state law. This includes approximately 4,850 funds formed according to donor restrictions, with a value at June 30, 2015, of \$3.588 billion, or 77% of the total endowment. Approximately 900 unrestricted funds are designated as endowment funds by Dartmouth, with a value of \$1.076 billion, or 23% of the total endowment.

Table 1. Endowment Net Assets as of June 30, 2013-2015 (in millions)

| Fiscal Year | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|------------------------|------------------------|---------|
| 2015 | | | | |
| Donor-restricted endowment funds | | 2,407.9 | 1,179.7 | 3,587.6 |
| Board-designated endowment funds | 1,075.9 | | | 1,075.9 |
| Total as of June 30, 2015 | | | | 4,663.5 |
| 2014 | | | | |
| Donor-restricted endowment funds | | 2,307.2 | 1,124.4 | 3,431.6 |
| Board-designated endowment funds | 1,036.6 | | | 1,036.6 |
| Total as of June 30, 2014 | | | | 4,468.2 |
| 2013 | | | | |
| Donor-restricted endowment funds | | 1,854.6 | 984.4 | 2,839.0 |
| Board-designated endowment funds | 894.6 | | | 894.6 |
| Total as of June 30, 2013 | | | | 3,733.6 |

The uses supported by the restricted net asset balances are presented in the table below. The permanently and temporarily restricted funds valued at \$3,587.6 million as of June 30, 2015, provided \$49 million of unrestricted endowment distribution and \$165.2 million of restricted endowment distribution to support Dartmouth's operating budget in FY 2015. This support amounted to approximately 24% of Dartmouth's total operating expenses and 48% of total scholarships provided by Dartmouth to undergraduate students.

Table 2. Asset Use Restrictions 2013—2015 (in millions)

| Purpose | 2015 | 2014 | 2013 |
|---|----------------|----------------|----------------|
| Scholarships | 962.3 | 920.8 | 790.6 |
| Professorships | 713.7 | 676.4 | 576.6 |
| Academic Programs | 680.5 | 636.5 | 443.3 |
| General Support Dartmouth College | 436.1 | 426.1 | 370.6 |
| Plant and Plant Operation | 308.4 | 304.4 | 257.1 |
| Libraries | 104.4 | 101.4 | 86.2 |
| Athletics | 73.4 | 67.1 | 55.3 |
| Hood Museum of Art | 55.6 | 45.1 | 38.7 |
| Fellowships | 47.8 | 45.7 | 39.7 |
| Hopkins Center for the Arts | 46.9 | 46.2 | 37.3 |
| Tucker Foundation & Dartmouth Center for Public Service | 31.9 | 35.7 | 30.8 |
| Student Services | 21.9 | 20.4 | 17.0 |
| General Support Geisel School of Medicine | 19.4 | 18.9 | 16.8 |
| Prizes and Awards | 19.2 | 18.9 | 16.3 |
| Student Loans | 17.0 | 17.1 | 17.8 |
| Dartmouth Outing Club | 16.9 | 16.5 | 15.0 |
| General Support Tuck School of Business | 16.1 | 15.7 | 13.6 |
| General Support Thayer School of Engineering | 10.8 | 12.1 | 10.5 |
| Other | 5.3 | 6.7 | 5.7 |
| Total | 3,587.6 | 3,431.6 | 2,839.0 |

Question 2.

Does your college or university hold any investments that are not included in the endowment? If so, what are they, and what are their fair market values and basis? How are they used to further the educational purpose of the college or university?

In addition to endowment assets, Dartmouth holds cash and investments of \$133.4 million as of June 30, 2015, invested according to charitable remainder trust agreements and donor advised fund agreements. Investments associated with charitable remainder trust agreements support donor-designated beneficiaries other than Dartmouth until a future date when the remaining value is available to be used by Dartmouth for the purposed determined by the donor. A portion

of the investments associated with donor advised funds are subject to designation by Dartmouth to other charitable organizations recommended by the donor. As of June 30, 2015, Dartmouth had recorded a liability of \$49.9 million associated with these agreements. The net amount of the investments minus associated liabilities, \$83.5 million, is the estimated amount that will become available to Dartmouth for its future use. In addition to cash and investments associated with the endowment and with charitable remainder trust agreements and donor advised funds, Dartmouth's cash and investments include \$1,130.9 million that support Dartmouth's operations and liquidity management. The use of approximately \$177.4 million of this amount is for restricted purposes determined by donors or according to legal or contractual requirements.

Table 3. Non-Endowment Investments 2013-2015 (in millions)

| Fiscal Year | Split-interest Agreements and Donor Advised Funds | Operating and Other Investments | Cash and equivalents |
|-------------|---|------------------------------------|----------------------|
| 2015 | | | |
| Fair Value | 133.4 | 841.8 | 289.1 |
| Basis | 114.2 | 748.8 | 289.1 |
| 2014 | | | |
| Fair Value | 125.2 | 886.8 | 200.8 |
| Basis | 100.9 | 752.2 | 200.8 |
| 2013 | | | |
| Fair Value | 111.7 | 810.5 | 240.2 |
| Basis | 98.6 | 725.9 | 240.2 |

Question 3.

What is your endowment size, as measured by total fair market value of its assets? What has been the net growth and net investment return on your endowment each year?

⇒ *Endowment size, as measured by total fair market value of its assets*

Dartmouth's endowment value was \$4,663.5 million, \$4,468.2 million, and \$3,733.6 million as of June 30, 2015, 2014, and 2013, respectively.

⇒ *Endowment net growth and net investment return*

Over the last three years and the last twenty years the endowment has grown at a rate of 12% and 8%, respectively. Endowment growth is a function of three important factors: contributions, net investment return, and distributions to operations. Contributions to the endowment over the past twenty years amounted to \$1,143.3 million. Net investment return of 11.3% over this period accounted for \$5,321.7 million of growth and average annual distributions of 5.1% resulted in \$2,703.8 million distributed to support scholarships and operating activities.

Table 4. Endowment Net Growth and Net Investment Return 1996-2015 (in millions)

| Fiscal Year | Market Value | Net Growth | Net Investment Return |
|--------------------|---------------------|-------------------|------------------------------|
| 2015 | 4,663.5 | 195.3 | 349.9 |
| 2014 | 4,468.2 | 734.6 | 777.5 |
| 2013 | 3,733.6 | 247.2 | 404.8 |
| 2012 | 3,486.4 | 73.0 | 197.3 |
| 2011 | 3,413.4 | 415.1 | 541.5 |
| 2010 | 2,998.3 | 173.4 | 298.3 |
| 2009 | 2,824.9 | (835.3) | (691.5) |
| 2008 | 3,660.2 | (100.1) | 22.2 |
| 2007 | 3,760.2 | 668.1 | 732.8 |
| 2006 | 3,092.1 | 377.8 | 403.4 |
| 2005 | 2,714.3 | 260.0 | 345.9 |
| 2004 | 2,454.3 | 333.1 | 386.5 |
| 2003 | 2,121.2 | (65.4) | 38.6 |
| 2002 | 2,186.6 | (227.6) | (137.0) |
| 2001 | 2,414.2 | (76.1) | (6.7) |
| 2000 | 2,490.4 | 779.8 | 798.1 |
| 1999 | 1,710.6 | 190.9 | 215.9 |
| 1998 | 1,519.7 | 242.0 | 259.1 |
| 1997 | 1,277.8 | 194.8 | 191.8 |
| 1996 | 1,082.9 | 180.7 | 193.3 |

Question 4.

How much has your college or university spent each year to manage the endowment, and how many staff and contractors are employed to manage the endowment? For any fees paid to nonemployees for investment advice, asset management or otherwise, please provide detail on the amounts paid, to whom, and the fee arrangement.

⇒ *Endowment management staff*

The Dartmouth College Investment Office, under the direction of the President and Board of Trustees' Investment Committee, manages the investments of the College, including the endowment as well as other shorter-term investment pools and a defined benefit pension plan. The Investment Office, comprised of 14 staff members and led by the Chief Investment Officer, makes recommendations to the Investment Committee on investment policies, strategies, and investments, and monitors and manages the portfolios and external investment managers day-to-day. In addition to the Investment Office, the College has internal finance and administrative resources that support the accounting and administration of the endowment and total seven staff members. Expenses charged to the endowment include direct institutional costs described above

as well as costs for outside vendors and service providers supporting the administration of investment assets, exclusive of fees paid to external investment managers.

⇒ *Payment to nonemployee investment advisors and asset managers*

Dartmouth primarily invests the endowment in commingled fund structures managed by third party managers, who charge a management fee for services. Fee structures vary across investment strategy and also over the life of a single fund investment due to offsets associated with investment performance or other activities. Recognizing this variability, Dartmouth's primary mechanism for assessing the value derived from external investment management fees is frequent monitoring of medium- and long-term net-of-fees investment performance results on an absolute basis and relative to benchmarks appropriate for the strategy.

Question 5.

If your endowment is required to file a Form 990 separately from your college or university's Form 990, please provide the endowment entity name(s) and Employment Identification Number.

N/A

Question 6.

How does your college or university determine what percentage of the endowment will be paid out each year? If any, what has been the target endowment payout as a percentage of the endowment's beginning balance each year? If that answer differs from the percentage paid out, please explain why. Please attach any payout policies or guidance.

Dartmouth uses a total return policy to determine the amount of endowment gains to be appropriated for use in a particular fiscal year. The total return distribution is designed to provide financial support to the current activities of Dartmouth and to protect the purchasing power of the endowment for future generations. The endowment distribution formula is used to calculate the amount of current year and prior year accumulated net investment return (total return) to be distributed for spending each fiscal year. The amount appropriated for spending each year is independent of the actual return for that year; therefore, the endowment distribution could amount to a relatively small percentage of gains in one particular year, but in another year that has investment losses, such as in fiscal 2009, the endowment is still able to distribute funds in support of Dartmouth's operations. The Board approves the formula and the amount to be appropriated from endowment each year.

Dartmouth's distribution formula is designed to moderate the potential volatility of endowment distributions during periods of large positive or negative investment returns. The formula uses the prior year's distribution amount, in order to reduce volatility in the annual support for operations, and the average quarterly market value of the endowment for the past year, in order to respond to significant increases or decreases in the endowment value, as the main drivers of the budgeted distribution amount. More specifically, the annual distribution is the sum of: 70% of the prior year distribution times an inflation factor (the Higher Education Price Index), plus

30% of the four quarter average calendar year market value times the long term payout target of 5.0%.

Question 7.

Does your college or university have policies regarding spending the endowment principal? Has your college or university ever spent endowment principal? If so, under what circumstances?

Dartmouth's policy is designed to comply with donor intent and with New Hampshire law. The Dartmouth policy does not permit the use of true-endowment fund principal. However, quasi-endowment principal may be used for the purpose specified by the donor in the case of a restricted quasi-endowment fund or, in the case of unrestricted quasi-endowment, in accordance with the designated purpose approved by Dartmouth.

Question 8.

How much and what percentage of the endowment's beginning balance has your college or university spent each year? How much and what percentage of the endowment's return on investment has your college or university spent each year?

The Dartmouth endowment distribution is a total return policy, whereby the amount distributed in a given year is not dependent on the amount of income and gains generated in that fiscal year. As the table below illustrates, in some years when there is significant positive net investment return, such as 2014, the distribution amount will be a lower percentage (21%) than years when there is less net investment return, such as 2012, when the distribution amounted to 98% of net investment return. In years when net investment return is negative, the endowment will still distribute total return to operations because it is distributing returns generated in prior fiscal years. Instead, the endowment investment allocation is intended to generate sufficient investment return (approximately 8.0% in the long term) to maintain the purchasing power of the endowment over time by at least exceeding inflation (long term assumption 3.0%); which leaves approximately 5.0% for distribution to operations over the long term. In any particular year, the distribution rate may be greater or less than 5.0% of the beginning endowment value but over time the distribution rate should approximate 5.0% under the Dartmouth distribution formula. As the table below illustrates, the average endowment distribution over three, five, ten, and twenty year periods have been: 5.0%, 5.3%, 5.4%, and 5.1%, respectively.

Table 5. Percent of Endowment and Endowment Returns Spent 1996-2015 (in millions)

| Fiscal Year | Distribution | Distribution % of Beginning Balance | Net Investment Return | Distribution Percentage of Investment Return in Fiscal Year |
|--------------------|---------------------|--|----------------------------------|--|
| 2015 | 214.2 | 4.8% | 349.9 | 61 % |
| 2014 | 188.5 | 5.0% | 777.5 | 24% |
| 2013 | 185.5 | 5.3% | 404.8 | 46% |
| 2012 | 182.9 | 5.4% | 197.3 | 93% |
| 2011 | 174.9 | 5.8% | 541.5 | 32% |
| 2010 | 204.5 | 7.2% | 298.3 | 69% |
| 2009 | 229.6 | 6.3% | (691.5) | N/A * |
| 2008 | 163.1 | 4.3% | 22.2 | 734% |
| 2007 | 165.6 | 5.4% | 732.8 | 23% |
| 2006 | 128.8 | 4.7% | 403.4 | 32% |
| 2005 | 121.5 | 5.0% | 345.9 | 35% |
| 2004 | 114.8 | 5.4% | 386.5 | 30% |
| 2003 | 118.9 | 5.4% | 38.6 | 308% |
| 2002 | 124.7 | 5.2% | (137.0) | N/A * |
| 2001 | 106.4 | 4.3% | (6.7) | N/A * |
| 2000 | 74.6 | 4.4% | 798.1 | 9% |
| 1999 | 68.5 | 4.5% | 215.9 | 32% |
| 1998 | 48.7 | 3.8% | 259.1 | 19% |
| 1997 | 45.3 | 4.2% | 191.8 | 24% |
| 1996 | 42.8 | 4.7% | 193.3 | 22% |

* The percentage is shown as "N/A" in these years because the endowment had negative return and yet the endowment was still able to distribute, since it was distributing from gains accumulated in prior years.

Question 9.

What percentage of your endowment does your college or university devote to financial aid for student tuition? How much for other forms of student financial aid? Please specify the types of non-tuition financial aid provided.

The percentages of endowment distribution that is restricted by donors to financial aid for FY 2013-2015 are presented in the table below. Scholarships funded by Dartmouth are funded by distributions from restricted endowment funds as well as by unrestricted resources of Dartmouth, including unrestricted endowments and unrestricted gifts. Total scholarship expenses funded by Dartmouth in fiscal years 2015, 2014, and 2013 amounted to \$80.1 million, \$78.0 million and \$76.3 million, respectively, but only 42 to 44% of these scholarships were funded from restricted endowments; the rest were funded from unrestricted funding sources.

Table 6. Percentage of Total Endowment Distribution Restricted to Financial Aid 2013-2015

| Fiscal Year | % |
|--------------------|----------|
| 2015 | 20.6% |
| 2014 | 20.6% |
| 2013 | 21.2% |

Question 10.

Does your college or university have policies regarding whether it is allowed to accept funds restricted to a specific purpose? Has your college or university ever declined a donation because it was restricted to a certain purpose? If so, please describe those specific scenarios in which your school rejected a donation.

⇒ *Does your college or university have policies regarding whether it is allowed to accept funds restricted to a specific purpose?*

Dartmouth regularly accepts gifts for restricted purposes, including scholarship funds, professorships, facilities, space within buildings, curricular and program funds, and on a smaller scale, memorial structures (e.g., a bench or tree), and other current use funds for restricted purposes (e.g., arts and athletics).

Various policies and procedures address potential restrictions. Language in gift agreements, formal statements of understanding, and written correspondence are vehicles by which gifts may be restricted to a specific purpose.

Excessive or narrow restrictions on the use of the income and purpose that are difficult to administer, implement and/or monitor must be approved by the Executive Vice President or CFO in advance of the College's acceptance of the gift. In some cases approval from the College Gift Acceptance Committee may also be needed. Examples of donor restrictions that require prior approval include narrowly defined purposes that are anticipated to create utilization problems, purposes not identified as fund-raising priorities, and restrictions that require special monitoring.

⇒ *Has your college or university ever declined a donation because it was restricted to a certain purpose? If so, please describe those specific scenarios in which your school rejected a donation.*

It has been more than 20 years since Dartmouth has had to make a decision to decline outright a gift as offered due to the donor's proposed restrictions. Rather, Dartmouth works with potential donors to redirect their interests toward priorities of the institution.

Dartmouth's Gift Acceptance Policy describes circumstances in which it may be appropriate to decline a gift. Examples include gifts that may require the College to incur excessive costs and gifts which would involve discrimination in violation of law or College policy.

Question 11.

How much and what percentages of your college or university's endowment is invested in real property (not including REITs or other publicly-traded securities)? Please list and describe your college or university's real estate holdings, including real estate held by the college or university, the endowment, and all related entities. If the college or university has made any Payments in Lieu of Taxes, please provide the date and amount of the payment.

A portion of Dartmouth's endowment is invested directly in commercial and residential rental properties, institutional housing, graduate housing and land in the area surrounding Hanover, NH (exclusive of REITs, public securities and other private real estate fund investments). The percent of the endowment invested in these property types for FY2013-2015 is presented in the table below.

Table 7. Direct Real Estate Holdings Value 2013-2015 (in millions)

| Fiscal Year | Fair Market Value of endowment owned real estate | %of the endowment |
|--------------------|---|--------------------------|
| 2015 | \$126.9 | 2.7% |
| 2014 | \$128.3 | 2.9% |
| 2013 | \$121.9 | 3.3% |

In addition to the above noted real estate investment assets, the College owns \$970 million (net book value after depreciation) in land, buildings, equipment and construction in progress.

While not making payments in lieu of taxes, Dartmouth makes many contributions to Hanover, NH and surrounding communities. In addition, Dartmouth made payments to Dartmouth Hitchcock Medical Center for property taxes to the City of Lebanon for space that the Geisel School of Medicine occupies at the Medical Center facility in Lebanon, NH. For fiscal years 2015, 2014, and 2013 the amounts were \$206,000, \$211,000, and \$209,000 respectively.

For fiscal years 2015, 2014, and 2013 Dartmouth College paid \$8,422,000, \$8,116,000, and \$7,777,000, respectively, in real estate taxes to the Town of Hanover and a few surrounding towns on property owned including those pursuant to RSA 72:23 (IV) (making colleges taxable on the value of dormitories, dining rooms and kitchens in excess of \$150,000).

⇒ ***Real Estate Holdings Include***

Rental commercial, rental housing, undergraduate housing, graduate housing, institutional housing, support services, administrative, academic, athletics, student life, campus grounds, parking lots/garages, land.

Question 12.

Does your college or university grant naming rights to donors based on certain donation levels? If so, please describe the naming rights program, including how much and what percentage of any naming rights donations your college or university has used for tuition assistance.

⇒ *Does your college or university grant naming rights to donors based on certain donation levels?*

Dartmouth policy provides for the naming of facilities (including space in buildings), professorships and scholarships, in honor of donors or others, based on specific funding levels. Gift opportunities are created to support the current priorities of the institution and undergo regular review and revision.

⇒ *Naming rights program and donation use.*

Current funding levels are:

Endowed Professorship Funds

- \$2,500,000 for a named Professorship
- \$5,000,000 for a named Distinguished Professorship
- \$10,000,000 for a named Deanship

Endowed Scholarship Funds

Donors may create a named endowment fund specific to supporting students financial aid needs, i.e. tuition, room, board, books, and miscellaneous expenses.

- *An endowed scholarship fund* named for the donor can be established with a minimum gift of \$50,000
- With a minimum gift of \$250,000, an *endowed named scholarship fund* will partially meet the average need of a named scholar
- With a minimum gift of \$500,000, an *endowed named scholarship fund* will more fully meet the average need of a named scholar

Annual Current Use Scholarships:

- *A named current use scholar* can be selected with an annual gift of \$30,000 to the Dartmouth College Fund and designated for the Dartmouth College Fund Scholar Program

The levels for other named gifted opportunities, such as facilities and other capital gifts, are determined as part of building plans.

Of Dartmouth's 1,616 endowed scholarships, 80% are designated for the undergraduates at the College, the remaining for the three graduate schools: engineering, business and medicine.

During 2013-2015, \$54.7 million has been given for scholarship funds, representing 8.3% of total giving for those years.

Question 13.

What conflict of interest policies does your college or university have in place to address financial interest in endowment investments (excluding potential conflicts of interest among and between governing boards, trustees, executives, internal employees tasked with overseeing the endowment, and external asset managers of endowment assets)? How do you vet board members' potential conflicts of interest? What are your policies if a conflict arises with a member of the board of trustees?

In accordance with New Hampshire state law (RSA 7:19-a), Dartmouth College policy requires approval by a two-thirds majority of the disinterested members of Dartmouth's Board of Trustees, after full disclosure of the material facts and discussion by the Board, for all financial transactions exceeding \$500 in value, including endowment investments, between the College and a trustee, officer, immediate family member of a trustee or officer, or an entity in which a trustee, officer, or immediate family member of a trustee or officer is a proprietor, partner, employee or officer. To approve the transaction, the Board of Trustees must determine that the transaction is for goods or services purchased in the ordinary course of the College's business, for the actual or reasonable value thereof or a discounted value, and that the transaction is fair and in the best interests of the College. If the value of the transaction is \$5,000 or more, New Hampshire law also requires that the College file a notice of the transaction with the New Hampshire Director of Charitable Trusts and publish notice of the transaction in a newspaper of general circulation.

With specific regard to endowment investments, Dartmouth has adopted further requirements for investments in funds managed or owned by trustees, non-trustee investment committee members, staff members of the College Investment Office, officers or key employees of the College as defined by Internal Revenue Service Form 990, or immediate family members of any of the above persons. For such investments, College policy requires evaluation of the proposed investment under standards no less rigorous than the standards applied to investments not involving related parties, approval by the disinterested members of the audit committee of the board, and approval by a two-thirds majority of the disinterested members of the Board Investment Committee, in addition to the statutory requirement of approval by a two-thirds majority of the disinterested members of the full Board of Trustees, as described above.

It should also be noted that, pursuant to Dartmouth's general conflict of interest policy, all trustees, officers, and department heads are required to complete and submit to the College's General Counsel an annual disclosure form listing all financial transactions between the College and the individual (or any business in which the individual or a family member has a controlling interest) that have occurred during the previous fiscal year or that the individual expects to occur during the current fiscal year. Endowment investments are included in these disclosures.