ANNUAL ENDOWMENT LETTER 2020

RUTGERS

University Finance and Administration

INTRODUCTION

In the Summer of 2016, the Investment Office commenced management of endowment assets with oversight from the university's Joint Committee on Investments ("JCOI") and senior administration. This was the first time in Rutgers University's long and storied history that assets such as these were to be managed in-house, coinciding closely with our joining the Big Ten and reaching the $1 billion mark. Since then, we have been working to build a team, culture, and portfolio of which the university community at large can be proud and that can achieve the lofty risk-adjusted returns we seek out, as well as the high standards we expect of ourselves. In this, our first letter, we provide some facts about the Endowment and its portfolio, discuss philosophy, and provide additional information regarding topics we believe to be of interest.

THE "ENDOWMENT"

An often-used term, we'd like to provide more detail on the contents and usesof such assets. As of June 30, 2020, Endowment assets totaled a little over $1.48 billion, with the largest portion of those assets being invested through the university's Long-Term Investment Pool ("LTIP") (approximately $1.36 billion). Throughout the remainder of this letter, all references will be focused on the management of the Long-Term Investment Pool.

From an investment standpoint, we view the $1.36 billion as one pool of capital. However, it is much more nuanced than that. The LTIP, like the other separately managed pools, is in fact over 2,500 individual endowment funds created by donors or other entities to pay for scholarships, endowed chairs, research, etc. and support a variety of causes. These funds are primarily raised by the Rutgers University Foundation. Our investment results and each individual fund's annual payout or spend contributes to long-term growth while providing current support for their cause. Today, our annual payout is 4% of a 13-quarter market value average, expected to be around $50 million in FY 2021.


Franklin J. Marryott
Reading Room

OBJECTIVES & APPROACH

Our objectives are clear – support the current and future needs of the university in perpetuity. It is our hope and expectation that each endowment will be around for much longer than we are. Therefore, our focus is on delivering long-term performance through identifying and investing in growth assets while thinking in decades and not fiscal years. We try to demonstrate this philosophy by constantly reminding ourselves of the following:

LONG-TERM APPROACH:

The university's infinite time horizon is our competitive advantage. This allows for market volatility to be viewed as an opportunity, not a risk.

CULTURE/REPUTATION:

Integrity, open-mindedness, humility, and alignment matter not only for the investment staff, but for the investment managers with whom we are entrusting the university's capital.

FLEXIBILITY:

Intellectual curiosity and the commitment to change is a fundamental part of individual and organizational development.

DIVERSIFICATION:

A proper asset allocation framework is the primary contributor to investment success, expected to generate superior risk-adjusted returns compared to undiversified portfolios.

LIQUIDITY:

A meaningful percentage of a well-balanced, diversified portfolio is comprised of illiquid assets. However, ensuring sufficient liquidity in all scenarios is crucial.

To emphasize this thought process, we’ve included a few snippets from a memo we circulated internally at the end of March 2020:

As you are all well-aware, over the last few months financial markets have been challenged, and more importantly, the health of populations around the globe have been compromised due to the spread of COVID-19. In this brief note, we'd like to reiterate our long-term investment philosophy, as well as share our plans regarding portfolio positioning and liquidity, while rounding out the discussion with our thoughts on opportunities beginning to present themselves amidst the market turmoil.

In times such as these, the importance of supporting the university's near-term needs has never been more evident. Success in our mind is continuing to fund great causes such as scholarships and cutting-edge research, while keeping our eyes on long-term growth which will hopefully fund these endeavors in perpetuity. Last year we paid out close to $50 million to support such causes...

WE ARE LONG TERM INVESTORS. In good times this phrase is used almost haphazardly and probably taken too lightly. It is important that now more than ever we acknowledge that we really mean it. It is our job through prudent asset allocation and portfolio construction, proper liquidity management, and a rational, process-driven approach to position ourselves in order to capitalize on moments like the one we are currently facing. A long-term mindset that can handle and cut through short-term noise should be rewarded generously over time. As a team, we continue to practice what we've been preaching since Day 1: have an open mind, be intellectually curious, stay even-keeled...

IMPROVEMENTS

Since the creation of the Investment Office in 2016, we have made too many changes to list. From procuring investment analytics software to altering how we utilize consultant resources and relationships, the Investment Office has taken considerable steps to bolster our in-house capabilities. However, we would like to highlight a few noteworthy changes:

TEAM:

From a team of one in July 2016, we are now four individuals, including a Director of Operations, an Investment Analyst, and an Administrative Assistant who doubles as one of the best utility infielders we could have found (á la Chone Figgins or Ben Zobrist for the baseball fans out there). We've also had an impressive group of interns since the beginning of 2017, with 15 in total and seven currently.

TRANSPARENCY:

Every step of the way we've tried to improve communication, whether that's with the JCOI or through speaking on campus, in classes, or at business school events. From a committee standpoint, we immediately began to provide comprehensive pipelines of potential future investments and rationale regarding portfolio construction to create dialogues regarding the evolution of the portfolio and to minimize surprises for members. Separately, we've recently launched investment.rutgers.edu which provides a detailed overview of the Investment Office.

ASSET ALLOCATION:

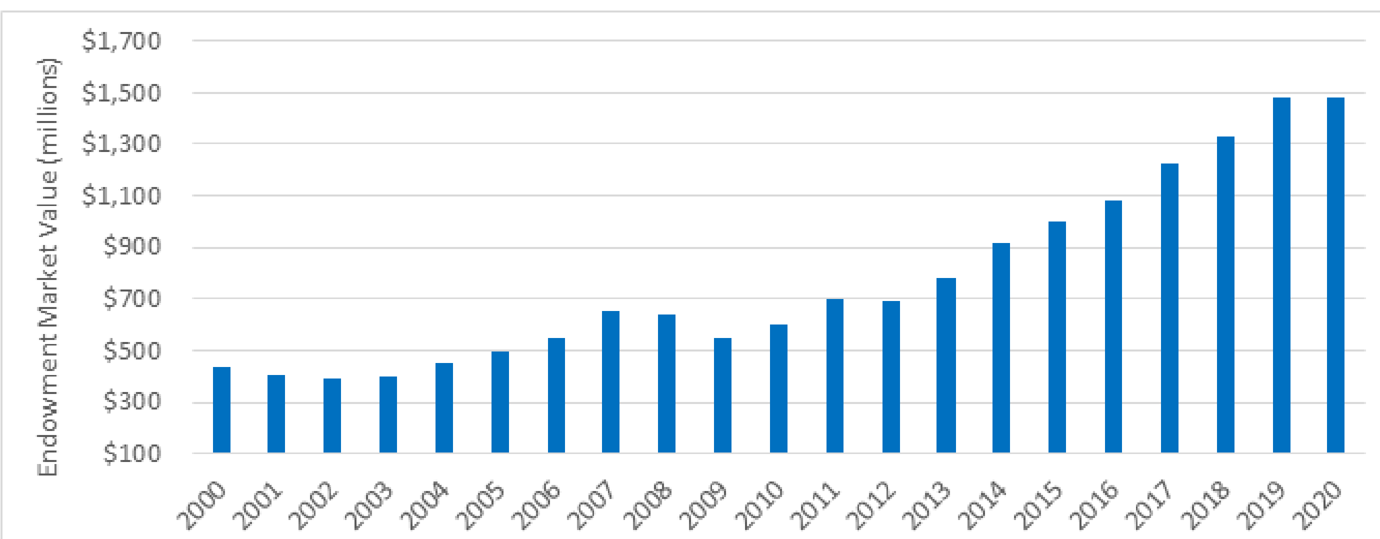
Over the past four years, we've taken several steps to align more closely with our long-term goals by increasing allocations to asset classes/strategies that are less liquid and have higher return expectations while retooling other areas of the portfolio and drastically changing the way we view them. Here are a few examples:

- <u>Enhancing Asset Allocation Structure</u>: To allow for greater flexibility, we have changed the structure of our asset allocation. These changes help mitigate the need to fill "buckets" (i.e., forcing ourselves to invest in overly specific categories of assets because the policy mandates it). The biggest such change was our removal of Real Assets (primarily companies involved in the extraction and/or exploration of fossil fuels) as an asset allocation category in FY 2019. The decision to remove Real Assets as a specific category was derived from our investment philosophy in which we did not believe a dedicated and consistent target allocation to commodity prices was needed.

- <u>Increasing Private Market Exposures</u>: Since 2016, we've increased the LTIP's private equity exposure from 10% to close to 20%. We've also increased the allocations to other private asset classes. This was a decision based on forward-looking outperformance expectations driven by the illiquidity premium and the level of control that private managers exhibit over their holdings.

- <u>Increasing Emerging Market Exposure</u>: At the end of July 2016, the LTIP's allocation to Emerging Market public equity was sub-4%, today it is 11.5%. This has been done intentionally, and mostly at the expense of International Developed equity, to focus more assets on higher growth economies that are transforming/modernizing with less efficient capital markets.

- <u>Endowment Market Value</u>: **As seen in the chart below, university endowment assets have seen tremendous growth over the past decade fueled by both investment returns and contributions from generous donors. The LTIP has grown nicely with assets at the end of FY20 of $1.36 billion compared to $954 million in FY16.**



$1.48B

OVERALL ENDOWMENT ASSETS

FY20

(LTIP $1.36B)

$1.1B

OVERALL ENDOWMENT ASSETS

FY16

(LTIP $954M)

CURRENT PORTFOLIO

To execute our dual mandate of supporting the university in the near term while growing for the long term, we have constructed a diversified portfolio of public and private assets that include strategies such as private equity, diversifying strategies, global public equities, government bonds, and corporate credit mandates. A snapshot of the LTIP is below:

Asset Allocation	Current	Long-Term Targets
Growth Assets	73.0%	74%
Public Equities	42.8%	38%
Domestic	19.2%	18%
International Developed	12.1%	10%
Emerging Markets	11.5%	10%
Private Equity	18.5%	20.0%
Real Estate	6.6%	7.5%
Opportunistic Credit	5.2%	8.0%
Diversifying Strategies	15.3%	17.5%
Hedged	13.6%	10.0%
Private	1.7%	7.5%
Liquidity	11.8%	9%
Fixed Income	8.6%	9.0%
Cash	3.2%	0.0%
TOTAL	100%	100%

LIQUIDITY

As long-term investors, we view liquidity, or lack thereof, as one of our biggest risks. Our goal is simple – generate the highest risk-adjusted returns to fund our near-term liabilities (annual payout and capital commitments) and grow for the long term without putting ourselves in the position to be a forced seller in challenging markets. If we can execute on this, then we will have put ourselves in position to play offense and deploy capital in times of uncertainty and market volatility. Today, the liquidity bucket (i.e., cash & fixed income) represents about 11% of the LTIP, which should enable us to effectively execute the objectives above.

PERFORMANCE

Many things have been labeled unprecedented this year, and rightfully so. However, the wild swings in equity markets have been remarkable. As an example, on March 20, the LTIP's estimated fiscal year-to-date return was -11.36%, but we ended the fiscal year basically flat. On a calendar year basis, our return on March 20 was almost -16% but, as of August 31, we were essentially flat for the calendar year. In the 3rd quarter of calendar year 2020 alone, the S&P 500, NASDAQ, and MSCI All-Country World Index posted returns of +8.93%, +11.23%, and +8.24% respectively. The market continues to shrug off headwinds, with the backing of unprecedented monetary policy and investors' appetite for fast-growing technology and software companies. We will continue adhering to our asset allocation framework by employing a diversified portfolio, upgrading our manager roster when possible, and investing in areas with long-term growth trends.

	Fiscal Year	3-Year	5-Year	10-Year
Rutgers University - LTIP as of 6/30/20	0.2%	**4.8%**	**5.3%**	**7.5%**
Targeted Weighted Benchmark	0.9%	**5.1%**	**5.2%**	**7.4%**

RECENT ACTIVITY

This year we took several important steps forward regarding asset allocation, upgrading the portfolio, sticking to our long-term plans, and playing offense in the midst of market turmoil. We made several new investments, rebalanced aggressively within our diversifying strategies and equities portfolios, and completed our first co-investment transaction. We reduced the LTIP's overweights in public equities while adding to emerging markets, improved the diversification and quality of our hedge fund (diversifying strategies) portfolio, did the same within fixed income and, due to the unfortunate circumstances surrounding COVID-19 and related market turmoil, we began to deploy capital in new opportunities across credit markets. Although there are still many things to improve, we believe that FY20 was a pivotal moment for the direction of the portfolio and our strongest year yet.

OPPORTUNITIES AHEAD

When it comes to the pipeline, we are trying to take a "business as usual" approach to what we've already been working on. We were excited about our pipeline prior to COVID-19 and we continue to be today. These opportunities range from technology/software and biotech to renewable energy and emerging markets. We believe these areas will be growth drivers for the foreseeable future and we will continue our efforts in uncovering new opportunities and managers in and around these themes. Additionally, over the next year, we hope to continue upgrading our manager roster, more effectively diversify our existing portfolios, and allocate considerable time and effort to identify and uncover emerging managers.

INTERN PROGRAM

When the university Investment Office was formed in July of 2016, one of the team's goals was to implement an internship program for Rutgers University students. The objectives are to:

- **provide students with an opportunity to learn about institutional investing and various investment strategies;**
- **find students with a passion for learning and investing; and**
- **allow these students to grow and contribute as team members by encouraging successful interns to work with us until they graduate.**

By providing longer-term internships, students have the ability to understand the nuances of the industry and our process. In time, this provides the Investment Office with a valuable resource of highly knowledgeable team members who are able to take on difficult projects and tasks.

Our first intern, Misha Nehring, class of 2018, began working with us in January 2017. We were introduced to Misha after forming a relationship with the university's Road to Wall Street (RTWS) program. It serves to prepare Rutgers students for jobs on Wall Street, while enhancing our reputation as a target school. In the nine years since the program started, it has done just that. The majority of our interns and potential candidates come from the RTWS program and from its sister organization, the student-run Little Investment Bankers of Rutgers Club (LIBOR). Misha is now an Associate at Permira, a global private equity firm, and continues to mentor current Rutgers students.

Since inception, we have employed 15 interns and have seven on staff currently, our largest cohort to date. The team consists of one senior, four juniors, and two sophomores. Diversifying by class year fosters mentoring among interns and facilitates continuity and institutional memory. It also allows for a two-way audition where students decide if investment management is a career path they truly are interested in and for us to determine candidate quality. This typically happens each summer when more senior students leave for internships on Wall Street or elsewhere, which is encouraged as an important resume builder.

Our interns take on everything from the mundane tasks of saving documents and entering investment-related information into a database, to meeting with investment managers, performing research and analysis on investment opportunities, and writing investment memos. We try to make the internship worthwhile for them and us. The valuable skills and insights students gain will help make them more attractive job candidates in the future, and further our and the university's reputation. For example, at least once a year, we facilitate a visit for our interns with an industry partner or a firm that we have a close relationship with at their offices.

This summer, our 2020 intern cohort met with several investment professionals at Wellington Management, one of the world's oldest asset management firms, headquartered in Boston. Due to the COVID-19 pandemic, the office visit was changed to a series of video conferences with various members of the Wellington team. Despite the unorthodox meeting setup, the interns were able to participate, ask questions, and demonstrate their intellectual curiosity seamlessly. The series of video conferences began with "a day in the life" of various senior members of Wellington. The interns were able to gain a better understanding and perspective of what a role in asset management entails. In the second video conference, the interns were able to meet and connect with several Wellington employees who are members of the Rutgers alumni community. The opportunity to network and build relationships with alumni can never start too soon. In the last set of video meetings, our interns were able to learn more about investment valuation, fundamental research analysis, and Environmental, Social, and Governance/Climate Change initiatives. These investment tools and topics offered the interns an early introduction into the real world topics they might encounter in a career in finance. Networking and the skills learned on the job bring to life things our interns only read about, giving them a definitive advantage as they move forward.

As the program endures, we hope to continue bringing together students who are not only passionate about investing but also diverse in perspective, thought, and educational focus, and reflect our student body. To date, we have had five Honors College students, a Rutgers Future Scholar, and students with majors from finance to engineering to computer science. Although we feel the program has been a success thus far, we believe there is much more to accomplish. We will strive to continually find ways to get better and improve outcomes for our student interns and are guided by our long-term ambition of creating a reputation of producing qualified interns and potential employees to the industry. It is our aspiration for those students to look back on their experience at Rutgers as a positive one and want to pay it forward for the next generation.

CURRENT INTERNS

Thomas Babiak – Joined May 2020

Thomas is a junior in the Honors College at Rutgers University majoring in finance and economics. During his sophomore year, Thomas interned at Fiera Capital on the firm's product strategy team. Last summer, he worked within Valley National Bank's corporate finance division. On campus, Thomas is heavily involved in the Student Managed Investment Fund, the College Federal Reserve Challenge Team, the Road to Wall Street program, and the Outdoors Club. Next semester, Thomas will serve as co-director of the Bender Trust Stock Pitch Competition, the largest annual stock pitch competition at Rutgers.

Sanjana Belthur – Joined May 2020

Sanjana is a junior at the Business School majoring in finance and minoring in political science, philosophy, and economics. Last summer, she was a finance intern at Integra Life Sciences, a medical instrument manufacturing company. She is involved in many organizations on campus including the Rutgers Business Governing Association, the Rutgers University Programming Association, and Rutgers University Women in Business (RUWIB). Through RUWIB, Sanjana had the opportunity to become an ambassador for the Forte Foundation, which aims to launch more women into leadership positions. Sanjana is the Junior Leadership Vice President and Public Relations Chair of Alpha Phi Omega, a national fraternity dedicated to leadership, fellowship, and service.

Christopher Davanzo – Joined May 2020

Chris is a sophomore in the Rutgers Business School honors program. He plans on majoring in both finance and supply chain management. Prior to joining the endowment, Chris worked in a tax accounting firm filing returns for those in his area and learning the basics of personal accounting/tax. During his first semester, he participated and placed first of 32 teams in the Bender Trust equity research competition. Now, Chris is involved with many Rutgers finance organizations, such as the Student Managed Investment Fund, the Road to Wall Street program, Little Investment Bankers of Rutgers, and RU Valuating.

Larry Livshits – Joined January 2021

Larry is a sophomore in the Honors College at the Camden campus. He is majoring in finance and minoring in economics and plans to graduate a year early. Larry is heavily involved on campus through the Learning Center as a Peer Tutor as well as being a member of the Student Finance Association (SFA).

Nam Lu – Joined December 2018

Nam is a senior in the Honors College at Rutgers University studying economics, computer science, and statistics. This summer, he interned at Credit Suisse in their Mergers & Acquisitions group, where he will be returning full-time upon graduation. He previously worked as a Corporate Development intern for Conduent and as a Mainframe Engineering intern for Prudential. At Rutgers, Nam serves as Vice President for the Little Investment Bankers of Rutgers club and Senior Analyst for the Student Managed Fund. Nam is a member of the Cap & Skull Senior Honor Society.

Shree Raghavan – Joined May 2019

Shree is a junior at Rutgers Business School majoring in finance. She began interning with the Endowment her freshman year, and most recently interned at Wells Fargo through Girls Who Invest. Apart from school, she is involved with the Institute for Domestic and International Affairs (a Model-UN campus organization), is an analyst in the Rutgers Student Managed Fund, and is part of the Little Investment Bankers of Rutgers E-Board.

Nicole Salas – Joined January 2021

Nicole is a sophomore at Rutgers Business School-Newark. She plans to major in Supply Chain Management with a concentration in Management Science and Information Systems. On campus, Nicole is actively involved with the Association of Latino Professionals for America. Her freshman year, she served as the Director of Event Operations and now serves as the Vice President of Events for the Rutgers Newark Chapter. As VP of Events, she hosted ALPFA-RUN's first-ever Black Lives Matter in Corporate America Panel RBS-Newark. Nicole is also a member of the Road to Wall Street's 10th cohort.

ALUMNI OF INTERNSHIP PROGRAM

- **Neilank Avani**, Financial Technology Partners
- **Natalia J. Bak**, Citigroup
- **Amol Lotia**, Credit Suisse
- **Misha Nehring**, Permira
- **Amira M. Sparks**, Prudential Financial

CONCLUSION

In closing, we would like to reiterate our commitment to the university and achieving the highest risk-adjusted returns possible. The last few months have focused us even more on the important part we play in the long-term success of the university.

We would like to take this opportunity to thank the JCOI members (past and present), the administration, and everyone who came before us for putting us in the position to take the next steps we've discussed throughout. The JCOI has had unbelievable continuity over the last four years, which – combined with the transparency and early communication we've tried to foster – clearly benefited the endowment when it mattered most during the spring. Committee members sparked discussions, lent advice, and challenged and supported the team as we tried to navigate the market turmoil. We believe this led to clear-headed decisions that should contribute to the success of the endowment for years to come.

Lastly, as we began to acclimate to our work-from-home setup in early March of 2020, from time to time we had a "Theme of the Day" to help stay motivated. One of them was as an ode to the university's men's and women's basketball teams and their unbelievable seasons, which ended too early in 2020. Our theme was in reference to defense and being caught out of position: ACTIVE HANDS, DON'T LEAVE YOUR FEET, STAY BALANCED. It seemed appropriate. Here's to being back at the RAC sometime soon!

Thank you,
Rutgers Investment Office Team


RUTGERS
University Finance
and Administration