

INSEAD

The Business School
for the World®

Investing INSEAD's Endowment

Overview

Academic Year 2014 - 2015

Overview of the INSEAD Endowment

INSEAD's €190¹ million endowment supports the school's mission and provides a permanent source of funds to build its competitive advantage. It allows INSEAD to plan, sustain and invest in faculty chairs, research projects, programmes, scholarships and facilities. A robust endowment is fundamental for INSEAD's growth; building it is a high priority for the school.

The INSEAD endowment is managed by the Endowment Management Committee originally formed in 1995, and has been advised by Partners Capital since the beginning of 2007. Partners Capital advise on the €177m¹ investment portfolio with a further €13m invested in directly held property, cash and other assets. The endowment remains well positioned for both capital preservation and long-term capital appreciation through a diversified multi-asset class investment strategy with the portfolio populated with allocations to specialist asset managers of the very highest quality, similar to those of leading educational endowments around the world.

Endowment Management Committee

Members of the Endowment Management Committee, listed below in **Figure 1**, have substantial financial and investment experience and are responsible for the management oversight and performance of the endowment. The Committee is supported by the finance team under Eric Ponsonnet, INSEAD's Director General of Administration.

Investment Advisor

INSEAD is advised by Partners Capital LLP, a private investment office which is one of the leading advisors to endowments and foundations globally. The firm currently advises on approximately \$17 billion of assets, and employs 120 professionals in offices in London, Boston, New York and Hong Kong across investment research, client management and operations. Additional information on Partners Capital can be found at www.partners-cap.com.

Figure 1: INSEAD Endowment Management Committee

Name	Current / Former Professional Experience
Rémy Best (Chairman)	Chairman, Fondation Mondiale INSEAD; Managing Partner, Pictet & Cie
Jaime Arguello	Director, Barclays Wealth
Stéphane Corsaletti	CEO, ABN AMRO Advisors & Neuflyze OBC Investissements
Bernard Dumas	INSEAD Chaired Professor of Finance
Michel Guillet	Co-Founder, BC Partners
François Hériard Dubreuil	Chairman, Fondation INSEAD; Chairman, Orpar; Chairman, Rémy Cointreau; Chairman of the Executive Board, Andromède
Claude Janssen	Honorary Chairman, INSEAD
Massimo Massa	Rothschild Chaired Professor of Banking, Professor of Finance, INSEAD
Ian Potter	Managing Partner, Lion City Capital
Todd Ruppert	Founder and CEO, RTR International Inc
Mirjam Staub-Bisang	Founder and CEO, Independent Capital Group AG

¹ INSEAD endowment valuations as of 31st August 2015.

Investment Strategy

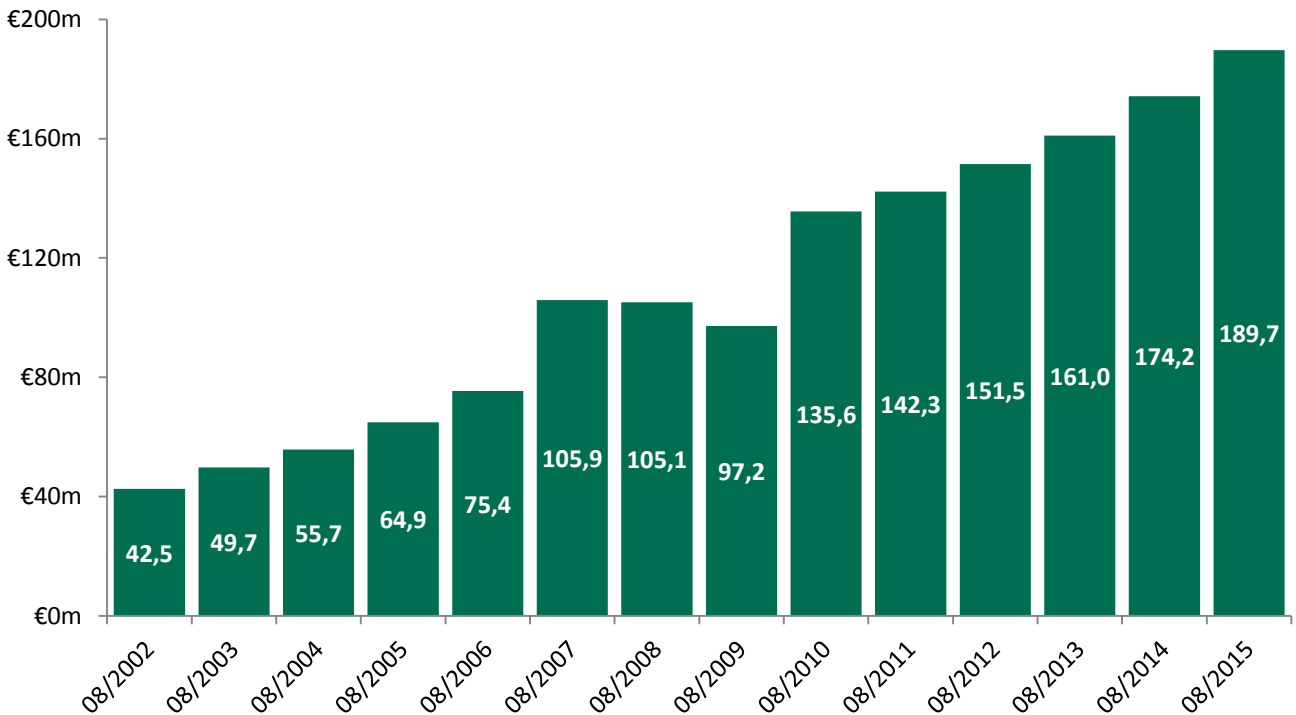
The core tenets of INSEAD’s investment strategy remain (1) to manage the portfolio to deliver long-term absolute returns without specific regard to income generation (2) to diversify the portfolio across multiple asset classes (3) to identify and select the most skilled asset managers within each asset class and (4) to take into account ethical, social and governance issues when deciding on investments. We believe that this combination will result in long-term outperformance of the INSEAD endowment relative to more traditional investment strategies.

The endowment remains broadly diversified across a variety of asset classes including traditional allocations to equities and corporate credit, and allocations to alternative asset classes including hedge funds and private market strategies including private debt, private equity and private equity real estate. INSEAD also maintains an allocation to property through the ownership of school sites.

The identification and selection of “best-of-class” investment managers is at the core of the investment strategy and a key source of the endowment’s outperformance versus benchmarks. Investment managers are constantly reviewed and monitored by Partners Capital to ensure that endowment assets are being allocated to the highest-quality managers in each asset class, and to identify potential underperformance as early as possible. The total expense ratio of the portfolio is closely monitored to ensure that it is invested in only those managers whose performance justifies the fees.

In addition to the allocation to high quality asset managers, the portfolio also aims to generate outperformance through a small number of tactical asset allocation skews. These include overweight allocations to an asset class (e.g. overweight credit and underweight government bonds) or skews within an asset class (e.g. overweight European equities and underweight US equities).

Figure 2: Total Assets of the Endowment Portfolio (August 2002 – August 2015)



Note: Total endowment portfolio assets includes donations.

Investment Portfolio Overview

As of August 2015, the €177 million investment portfolio (excluding ‘Other Endowment Assets’) was invested across various asset classes. The allocation of the portfolio by asset class and the long term asset allocation targets are shown in **Figure 3**.

As a long-term growth portfolio, the strategic asset allocation targets of the endowment (in the column to the furthest right) are biased towards global equities, both public and private equity, with exposures to other asset classes which we believe will perform well in certain environments providing diversification benefits (e.g. fixed income in a deflationary environment). The portfolio’s target allocation was revised in October 2014. The major change involved increasing the allocation to private market strategies including Private Equity, Private Equity Real Estate and Private Debt. The new target asset allocation has a 38% allocation to private market strategies which is broadly in line with the allocations of the most sophisticated US educational endowments. Taking advantage of the school’s long term time horizon to access the illiquidity premium inherent in these strategies should serve to enhance portfolio returns to the benefit of the school.

The portfolio currently has an overweight allocation to credit relative to the long term target asset allocation. The credit portfolio ranges from an actively managed high yield bond manager to non-traditional debt markets such as peer-to-peer lending and structured credit. However, the credit portfolio is in the process of being migrated towards private debt strategies with initial allocations to European middle market direct lending and an opportunistic

investment in the high yield bonds of energy companies which have sold off following the dislocation in oil markets.

The portfolio also has an overweight allocation to public equities which compensates for the underweight allocation to private equity which is currently ramping up towards the new target. The equity portfolio is predominately invested in active managers who select stocks based on rigorous fundamental research.

These overweight allocations are compensated by underweight allocations to European government bonds. With yields at record low levels, the opportunity cost of holding high quality sovereign bonds is too high to justify inclusion in all but the worst case scenario for the global economy. Instead, the portfolio’s safety net is achieved primarily with allocations to absolute return hedge funds.

Finally, the portfolio is significantly underweight versus the new target allocations to the illiquid asset classes of Private Equity and Private Equity Real Estate. Given the importance of vintage to Private Equity fund returns, the new target allocation will be reached through new commitments to managers over the course of the next 3 to 5 years to ensure vintage diversification. In the last year, commitments were made to a number of compelling private market opportunities including a lower middle market buyout manager with a “buy and build” strategy, technology growth capital and non-performing loans sold by banks.

Figure 3: Investment Portfolio excluding “Other Endowment Assets” – Asset Allocation (August 2015)

Asset Class	Portfolio Assets (€ million)	% of Current Portfolio	Long-Term Strategic Target Allocation
Cash	4	2%	1%
Fixed Income	0	0%	5%
Credit incl. Private Debt (illiquid)	25	14%	5%
Global Equities	95	54%	42%
Absolute Return Hedge Funds	18	10%	11%
Real Assets	8	4%	3%
Private Equity (illiquid)	22	12%	23%
Private Equity Real Estate (illiquid)	5	3%	10%
TOTAL	177	100%	100%

Investment Portfolio Performance

From March 2007 to the end of August 2015, the investment portfolio has returned +42.0% (cumulatively) after deduction of fees and expenses. This represents +16.2% outperformance of the INSEAD Composite Benchmark, a custom benchmark reflecting the long-term strategic asset allocation adopted by the investment committee, which returned +25.8% over the same period. Annual return data for the INSEAD investment portfolio and the composite benchmark is summarised in **Figure 4**.

In the academic year 2015, the INSEAD investment portfolio returned +10.9% outperforming the INSEAD Composite Benchmark which was down -0.3%. This strong outperformance has been achieved through a combination of performance of the underlying asset managers, tactical asset allocation tilts and the appreciation of the portfolio's unhedged US dollar exposure.

The portfolio benefited from the strong performance of the long only equity portfolio (42% allocation) which returned +5.5% in the academic year compared to the global equity market which was up +1.9% over the same period. The performance of hedged equities managers (13% allocation) was particularly impressive. The portfolio returned +13.0% despite having only half the risk of the global equity market. The backdrop of increasing dispersion of individual stock price performance provided a

fertile environment for the portfolio's active equity managers whose fundamental research was rewarded with significant outperformance versus the broad equity indices.

The illiquid portfolio of Private Equity and Private Equity Real Estate was also a key driver of performance returning +11.0% in the period. This was driven predominately by the Private Equity portfolio which returned +14.7%. This represented c. 1,300bps of outperformance versus the public equity markets over this period. The underlying managers took advantage of the buoyant equity and credit markets to exit positions at attractive valuations. In particular, the technology focused growth capital managers performed well over the last year. We expect the illiquid portfolio will continue to be a key driver of future performance.

The portfolio also benefitted from a number of tactical asset allocation skews. The zero allocation to commodities was particularly accretive given the asset class lost -42% in the year. The decision was made to underweight the asset class based on the fact that most commodities were over supplied, the spike in the correlation of commodities to other asset classes and the negative roll yields. Other trades included overweight allocations to Japanese and European equities which were accretive to returns.

Figure 4: INSEAD Endowment and Investment Portfolio Performance – Academic Year Performance (March 2007 – August 2015)

Academic Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	Cumulative (Mar 07– Aug 15)
INSEAD Investment Portfolio Return ¹	+2.4%	-3.0%	-11.8%	+6.6%	+5.4%	+8.7%	+7.4%	+11.5%	+10.9%	+42.0%
INSEAD Endowment Return ²	+2.2%	-1.9%	-11.2%	+5.7%	+4.7%	+7.8%	+7.0%	+10.8%	+10.6%	+39.3%
INSEAD Composite Benchmark ³	+1.8%	-2.0%	-13.6%	+4.0%	+8.3%	+6.4%	+9.1%	+12.0%	-0.3%	+25.8%

Note: The academic year starts on 1st September and finishes on 31st August. This is reflected in the table above. For example, the year labelled 2015 reflects performance from 1st September 2014 to 31st August 2015. The year labelled 2007 includes only March 2007 to 31st August 2007.

¹ INSEAD Investment Portfolio consists of the Partners Capital managed portfolio.

² The INSEAD Endowment consists of both the Partners Capital managed portfolio and all other assets including direct property, cash and other assets.

³ The INSEAD Composite Benchmark is a custom benchmark comprised of asset class indices (e.g. MSCI World NR LC for the equity allocation or State Street Private Equity Index for the private equity allocation) and weighted to reflect the long-term strategic asset allocation adopted by the committee.

Concluding Remarks

The performance of risk assets was muted over the course of the last year with global equities rising +1.9%. Despite the uninspiring market performance, we are pleased to report that the portfolio grew +10.9% through a combination of outperformance of our underlying asset managers, tactical asset allocation tilts and strong performance from our private markets investments. This equates to growth in the size of the endowment of €15.5m over the year.

After five years of virtually uninterrupted appreciation of risk assets, the last year marked a return of volatility, most recently, a c. -15% equity market drawdown in Q3 2015 driven by fears about the strength of the Chinese economy and the future course of the US Federal Reserve monetary policy.

While volatility levels may have risen, we believe that longer term global economic activity will continue to grow moderately led by continued expansion in the US and recovery in the Euro area aided by accommodative global central bank policies. Coupled with low inflation, historically, this type of environment has been favourable for equity market returns. However, given the current level of asset class valuations, we expect returns to be more muted in the future. Therefore, to generate sufficient returns to grow the size of the endowment in real terms net of our spending, we will look to our underlying asset managers to exploit the increased volatility and dispersion in markets and take advantage of our long term time horizon to harvest the illiquidity premium inherent in the private market asset classes.

I am grateful to the members of the Endowment Management Committee who have devoted their time and insight towards the management of the INSEAD portfolio.

Finally, I thank all the donors for their kind contributions to the endowment. These contributions have been pivotal to the growth of the endowment assets which in turn is of paramount importance to the future success of INSEAD.

Rémy Best (MBA, 1993)

Chairman of the INSEAD Endowment Management Committee