

INSEAD

The Business School
for the World®

Investing INSEAD's Endowment

Overview

Academic Year 2015 - 2016

Overview of the INSEAD Endowment

INSEAD's €186¹ 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 €175m¹ investment portfolio with a further €11m 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, who act on a voluntary basis and are 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 \$18 billion of assets, and employs 126 professionals in offices in London, Boston, New York, Singapore 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
Mirjam Staub-Bisang (Chair)	Founder and CEO, Independent Capital Group AG
Jaime Arguello	Chief Investment Officer, Architas
Stéphane Corsaletti	CEO, ABN AMRO Advisors & Neuflyze OBC Investissements
Bernard Dumas	INSEAD Chaired Professor of Finance
Jeremy Golding	Managing Partner, Golding Capital Partners
François Hériard Dubreuil	Chairman, Fondation INSEAD; Chairman, Orpar; Chairman, Rémy Cointreau; Chairman of the Executive Board, Andromède
Claude Janssen	Honorary Chairman, INSEAD
Ian Potter	Managing Partner, Lion City Capital
Todd Ruppert	Founder and CEO, RTR International Inc

¹INSEAD endowment valuations as of 31st August 2016.

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 including exposure to the private market 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.

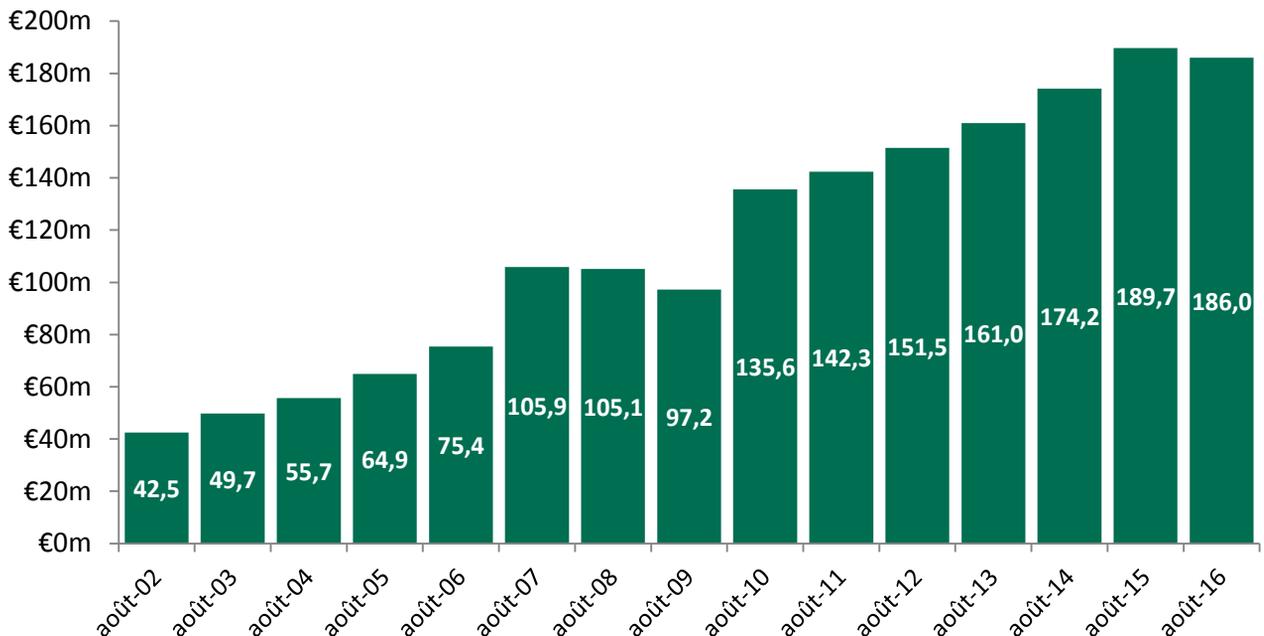
The endowment remains broadly diversified across a variety of asset classes including traditional allocations to equities and corporate credit, and allocations to alternative asset classes including hedge funds and the private market strategies including private debt, private equity and private equity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

The identification and selection of “best-in-class” investment managers is at the core of the investment

strategy and a key source of the endowment’s long term 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. 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. Low cost passive investment vehicles are used wherever there is insufficient confidence in active managers’ abilities to outperform by a significant multiple of their fees. As a core principle, the portfolio seeks to avoid paying fees on market exposure given that can be obtained cheaply via passive vehicles.

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 can 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 2016)



Note: Total endowment portfolio assets includes donations.

Investment Portfolio Overview

The asset allocation as of 31st August 2016 and the Long Term Strategic Asset Allocation Target of the €175 million investment portfolio are shown in **Figure 3** below.

As a long term growth portfolio, the strategic asset allocation target of the endowment (in the column to the furthest right of figure 3) is biased towards global equities, both public and private equity, with exposures to other asset classes which we believe will perform well in certain macroeconomic environments providing diversification benefits (e.g. fixed income in a deflationary environment).

INSEAD's Long Term Target Allocation has a 38% allocation to private market strategies including, Private Equity (incl. Venture Capital), Private Equity Real Estate and Private Debt. The large allocation to private markets is broadly in line with the allocations of the most sophisticated US educational endowments with the purpose of taking advantage of the school's long term time horizon to access the illiquidity premium inherent in these strategies. An enlarged target allocation to the private market asset classes was agreed by the EMC in October 2014. Since then, the allocation has been rising towards those targets gradually each year ensuring the portfolio retains vintage diversification.

The portfolio is currently overweight credit relative to the long term target allocation at the expense of European government bonds. The credit portfolio ranges from an actively managed short duration high yield bond fund to non-traditional strategies such as peer-to-peer lending. The credit portfolio also includes an allocation to private debt strategies including European structured credit, direct lending to European middle market businesses (with equity warrants) and an opportunistic, tactical investment in the high yield bonds of US energy companies which have rallied in 2016 along with the recovery of the oil price.

The portfolio also has an overweight allocation to public equities which compensates for the underweight allocation to private equity. The equity portfolio is invested in a combination of active managers with aligned fee structures who select stocks based on rigorous fundamental research and passive equity market tracker vehicles.

The endowment made commitments to a number of compelling private market opportunities in 2016 including a global non-performing loan manager, a European opportunistic real estate manager and a US focused specialist healthcare manager.

Figure 3: Investment Portfolio Asset Allocation excluding "Other Endowment Assets" (August 2016)

Asset Class	Portfolio Assets (€ million)	% of Current Portfolio	Long-Term Strategic Asset Allocation Target
Cash	2	1%	1%
Fixed Income	0	0%	5%
Credit incl. Private Debt (illiquid)	22	13%	5%
Global Equities	88	50%	42%
Absolute Return Hedge Funds	22	13%	11%
Real Assets	8	4%	3%
Private Equity (illiquid)	25	14%	23%
Private Equity Real Estate (illiquid)	8	5%	10%
TOTAL	175	100%	100%

Investment Portfolio Performance

From March 2007 to the end of August 2016, the investment portfolio has returned +41.5% (cumulatively) after deduction of all fees and expenses. This represents +8.9% cumulative outperformance versus the INSEAD Composite Benchmark, a custom benchmark reflecting the long term strategic asset allocation adopted by the investment committee, which has returned +32.6% 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 2016, the INSEAD investment portfolio declined -0.4% compared to the benchmark's return of +5.3%. This represents a partial giveback of the exceptional +11.2% outperformance of the portfolio in 2015. The portfolio's relative lag versus the benchmark was due to the performance of the underlying active managers, primarily in Q1 2016, which proved to be a challenging environment for actively managed strategies.

While mean reversion of performance is something that we expect, the speed and severity of the reversion in Q1 2016, after such strong outperformance the previous year, was extreme. We took the opportunity to re-evaluate each of the underlying positions in the portfolio, which, for the most part, reinforced our conviction in those investments. In many cases, we were pleased to see the managers using the bout of volatility in early 2016 to size up their higher conviction positions which has been rewarded with the 1.7% outperformance of the portfolio versus the benchmark in the three months since August 2016.

However, it also highlighted the need to further diversify the sources of alpha within the portfolio. Steps taken include additions to the insurance sector, US consumer loans and "value" biased equity managers.

Figure 4: INSEAD Endowment and Investment Portfolio Performance – Academic Year Performance (March 2007 – August 2016)

Academic Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Cumulative (Mar 07– Aug 16)
INSEAD Investment Portfolio Return ¹	+2.4%	-3.0%	-11.8%	+6.6%	+5.4%	+8.7%	+7.4%	+11.5%	+10.9%	-0.4%	+41.5%
INSEAD Endowment Return ²	+2.2%	-1.9%	-11.2%	+5.7%	+4.7%	+7.8%	+7.0%	+10.8%	+10.6%	-0.2%	+39.2%
INSEAD Composite Benchmark ³	+1.8%	-2.0%	-13.6%	+4.0%	+8.3%	+6.4%	+9.1%	+12.0%	-0.3%	+5.3%	+32.6%

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 2016 reflects performance from 1st September 2015 to 31st August 2016. 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 others 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

While global equity markets rose +6.8% in the 2016 academic year, this masks considerable volatility over this period including three meaningful equity market corrections. Concerns about the health of the Chinese economy following a depreciation of the Chinese Renminbi in August 2015 caused an -11% stock market correction. Renewed weakening of the Chinese Renminbi in January 2016 combined with concerns about US economic growth caused a -13% peak to trough decline in equity markets and one of the most challenging environments for active managers in recent history. Finally, the UK's decision to leave the European Union in June led to the third sharp equity market correction.

Against this volatile backdrop, the portfolio retained its value. However, it failed to keep pace with the INSEAD Composite Benchmark giving back roughly half of the 11.2% outperformance achieved in 2015, primarily due to underlying active managers failing to keep pace with passive indices. We re-assessed the underlying managers in the portfolio which confirmed our conviction in the majority. However, this episode was a reminder to ensure the portfolio has sufficient diversification of styles, strategies and geographies amongst underlying managers to diversify the potential sources of outperformance. On the margin, this has led to a number of additions to the portfolio, including allocations to the insurance sector which is uncorrelated to both the traditional asset class exposures and other managers.

Looking forward, while the global economy continues to face numerous challenges, not least heightened political risk, we expect moderate but sustainable global growth driven by the US. However, our expectations for forward looking asset class returns have steadily declined given the low growth environment, low interest rates and current valuations.

In light of the reduction in expected forward looking asset class returns, we have continued to increase the allocation to private market asset classes where we believe the potential for outperformance is greatest and aimed to reduce look-through fees in the portfolio through a combination of negotiations with underlying managers and allocations to lower cost strategies.

After serving as a member of the Endowment Management Committee for a number of years, I assumed the role of Chair in 2016 after Rémy Best stepped down from the position to focus on the INSEAD campaign.

It was with great pride that I accepted the appointment from the Board, which places a tremendous amount of trust in me. I, along with all members of the Endowment Management Committee, feel the full weight of that obligation and will work hard to justify the decision.

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.

Mirjam Staub-Bisang (MBA, 1999)

Chairman of the INSEAD Endowment Management Committee