Princeton University

Mid-Year Report for the Charitable Trusts & Pooled Income Funds Portfolios

Report Period: 1/1/2016 to 6/30/2016

Thank you for your generous support of Princeton through your charitable trust or pooled income fund. Your gift supports generations of students whose lives will be forever changed by their Princeton experience. To keep you up-to-date, we have developed this mid-year investment report on the charitable trust and pooled income fund portfolios. As in the past, if you are a charitable trust beneficiary, you will receive your annual investment report in early February. Additional information about the program will be made available on the University's website.

Performance as of June 30, 2016

TRUST PORTFOLIO	Typical Trust*+	Blended Benchmark+	65/35 Benchmark+
Calendar Year to Date	4.4%	4.8%	4.4%

* *Typical trust represents 85% equities/15% fixed income asset allocation*

\+ *Trust performance is net of investment management and trust administration fees. Benchmark returns are gross of fees.*

Performance Narrative

The first half of 2016 both started and ended on a volatile note. World equity markets experienced significant declines in the first six weeks of the year, subsequently rebounded, and then faced a sharp, though temporary, dislocation following the United Kingdom's referendum to leave the European Union. While most markets were able to rally back by early July, the economic backdrop remains fragile with expectations that global growth and interest rates will likely remain low. Commodity-related categories posted double-digit returns on rising oil prices, and gold and other precious metals rallied.

The typical trust realized a 4.4% gain (net of fees) for the calendar year-to-date period led by double-digit returns from emerging markets and resources—sectors that rebounded during the first half of 2016. The blended benchmark returned a similar gain of 4.8% (gross of fees) for the same period. The narrow difference in performance was driven in part by the portfolio's preference for value stocks within international developed equities (i.e., stocks trading at low multiples on traditional valuation metrics). Fixed income realized modest gains, underperforming its benchmark during the first half of 2016 because of the conservative positioning of the portfolio, positioning that we believe is prudent given the risk of loss if interest rates rise.

The Tiger Fund, Balanced Fund, and Income Fund generated investment returns (net of fees) of 3.3%, 3.9% and 3.1% respectively. Within the Balanced and Tiger funds, results were strong within US equities, as the portfolio is tilted towards quality stocks (i.e., companies with industry leading positions, consistently strong profitability, and low debt levels). These gains, however, were partially offset by losses within international equities.

Investment Approach & Strategy

A committee led by the Vice President for Finance and Treasury with representation from the offices of Asset Administration, Development, General Counsel, and PRINCO provides fiduciary oversight and hires expert investment managers for the program. Investment management services are provided by Grantham, Mayo, Van Otterloo & Co. (GMO) for the equity portion and by John W. Bristol & Co., Inc. (Bristol) for the fixed-income portion. The committee meets regularly to review the planned giving program in its support of charitable purposes including the review of general administration, long-term asset allocations, investment managers, and performance.

The approach of our investment manager for equities is to seek value for the long-term by employing both quantitative tools and fundamental research across an array of countries, sectors, and stocks. We believe this high level of diversity is the best course to preserve and create value over a variety of market conditions. For example, real assets provide a hedge against unexpected inflation to maintain purchasing power. International equities broaden our opportunity set and enable the portfolio to capitalize on global market dislocations, such as the short-term declines following the UK's referendum to leave the European Union. This provided an opportunity to purchase quality companies at attractive prices.

The standard asset allocation for the trust program is a *growth* strategy with 85% allocated to equities and 15% allocated to fixed income—a strategy that we believe best balances the interests of current income beneficiaries and charitable remainder beneficiaries of the trusts. The committee will consider the individual circumstances of the income and remainder beneficiaries in determining whether the trust may be invested in an alternative portfolio. The alternative portfolios are: *medium growth* (65% equities and 35% fixed income) or *balanced* (50% equities and 50% fixed income). The factors considered in determining the appropriate portfolio strategy include trust term, the beneficiary's overall risk profile, dependence on income, and sensitivity to income volatility and related factors.

Asset Classes & Allocations - Standard 85/15 Trust Portfolio

Asset Class	Asset Allocation Target Range	Actual Allocation As of 6/30/2016
US Equity	19%–45%	25%
International –Developed	19%–35%	30%
International–Emerging	8%–19%	19%
Real Assets	5%–25%	11%
Fixed Income	15%	15%

Pooled Income Funds

The three pooled income funds (Income, Balanced, and Tiger) provide a range of income and growth expectations and operate similar to a mutual fund, with gifts pooled and invested together. Within all three funds the oversight committee explicitly considers the anticipated income generated by the underlying investments when setting the asset allocation and selecting individual funds consistent with established investment goals. The Income Fund is invested 90–100% in fixed income and focuses on preservation of principal and stability of income. The Balanced Fund, which is closed to new donors, aims to achieve a balance between (1) total return and (2) preservation of principal, income generation, and stability of income, while employing a tax-efficient investment strategy. The fund utilizes a "balanced" asset allocation of 40% to 60% in equity investments and 40% to 60% in fixed income investments. The Tiger Fund is a growth oriented fund which seeks to preserve the purchasing power of the assets over a full market cycle, while also employing a tax-efficient investment strategy. The Tiger Fund is invested 75% to 95% in equities and 5% to 25% in fixed income investments.

We hope you find this new mid-year report helpful and informative. We welcome any feedback as we continue to enhance the communications and stewardship of the program.

Please contact the Office of Gift Planning with any questions about planned and life income gifts at Princeton at 609.258.6318 or 1746soc@princeton.edu or visit giving.princeton.edu/giftplanning.