ENDOWMENT PERFORMANCE

MSU COMMON INVESTMENT FUND (CIF) REPORT AND COMPARATIVE ENDOWMENT PERFORMANCE

The MSU Endowment was valued at $3.4 billion as of June 30, the end of the 2019/20 fiscal year. Over the past ten years, the endowment produced more than $1.052 billion to fund student scholarships, endowed professor support, program support and cover other annual university expenses.

For the fiscal year ending June 30, we returned 5.1 percent and our long-term performance has continued to allow us to meet our funding obligations to the university.

COMMON INVESTMENT FUND (CIF)
AVERAGE ANNUAL RETURNS AS OF JUNE 30, 2020

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>1 Year</th>
<th>3 Years Annualized</th>
<th>5 Years Annualized</th>
<th>10 Years Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIF Total Return</td>
<td>5.1%</td>
<td>8.0%</td>
<td>6.9%</td>
<td>8.3%</td>
</tr>
<tr>
<td>CIF Policy</td>
<td>0.5%</td>
<td>5.1%</td>
<td>5.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Simple (70% MSCI ACWI/30% BBG BC Agg) 1</td>
<td>4.5%</td>
<td>6.2%</td>
<td>6.1%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Simple (80% MSCI ACWI/20% BBG BC Agg) 2</td>
<td>3.8%</td>
<td>6.2%</td>
<td>6.2%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

INVESTMENT OBJECTIVES OF THE CIF

1. Achieve a total rate of return sufficient to generate the amount annually made available for spending by the MSU programs supported by endowment funds.
2. Provide a modest increase in the inflation-adjusted value.
3. Achieve the desired return while assuming only moderate risk.

ENDOWMENT SPENDING POLICY

The programmatic spending rate currently stands at 4.4 percent of a 20-quarter average of the market value of those funds invested in the CIF. The spending rate is reviewed annually against the projected long-term CIF returns and has remained 4.4 percent since the 2018/19 fiscal year. The rate is intended to protect against inflation and provide a modest increase for endowment growth.

Reasonable and appropriate investment fees will continue to be charged against the endowment. On December 10, 2010, the MSU Board of Trustees amended the endowment spending policy to authorize annual assessments of up to 1 percent of the market value of these
endowments in the CIF for reasonable and appropriate endowment stewardship costs, including fundraising. Based on recommendations of the Investment Advisory Subcommittee, an endowment stewardship charge of .59 percent of the available 1 percent was implemented in the 2011/12 fiscal year, and the charge remained unchanged through the 2015/16 fiscal year. The stewardship charge was reduced to .55 percent beginning in the 2016/17 fiscal year and to .50 percent for the 2018/19 fiscal year. A rate of .50 percent will remain for the 2020/21 fiscal year.

Returns above the programmatic spending rate and investment and stewardship charges are retained to grow the endowment and hedge against inflation. Based on MSU’s investment performance, a $100,000 endowment established July 1, 2000, now has a market value of approximately $148,195 as of June 30, 2020, after having provided programmatic spending distributions of $127,123 over the 20-year period.

**ASSET ALLOCATION**

MSU seeks to achieve its investment objectives by diversifying across major assets classes as well as within each asset class. The investment policy, approved by MSU’s Board of Trustees, outlines the asset allocation. Approximately 218 different investment vehicles are now used to invest the funds.

**MSU COMMON INVESTMENT FUND ASSET ALLOCATION**

as of June 30, 2020

- **32.4%** Global Equities
- **2.8%** Emerging Markets Equity
- **2.3%** Hedge Funds
- **20.1%** Fixed Income
- **8.1%** Private Investments
- **1.4%** Private Real Assets
- **32.9%** Private Real Estate

**Global Equities**
Marketable equity securities of companies located anywhere in the world, including the U.S.

**Emerging Markets Equity**
Marketable equity securities in emerging markets.

**Hedge Funds**
Strategies designed to achieve positive absolute returns with less correlation to broad market trends.

**Fixed Income**
Fixed income securities and currencies.

**Private Investments**
Distressed, private equity and venture capital investments.

**Private Real Assets**
Natural resource investments such as oil, gas, timber and mineral oriented assets that are not publicly traded.

**Private Real Estate**
Real estate investments that are not publicly traded.
ENDOWMENT SIZE AND COMPARISON

TOTAL ENDOWMENT MARKET VALUE (MSU & MSU FOUNDATION)

as of June 30, 2020  Source: As reported annually to CAE as part of VSE annual survey.
Includes total value of the Common Investment Fund and endowment dollars held by the MSU Foundation

ENDOWMENT MARKET VALUE

as of June 30, 2020  Source: Council for Advancement and Support of Education
BENCHMARK RETURNS

TABLE 1: ANNUAL RETURN

MSU Common Investment Fund and Key Economic Indicators

Annualized return MSU common investment fund vs. key economic indicators.

<table>
<thead>
<tr>
<th></th>
<th>MSU CIF</th>
<th>70/30 1</th>
<th>CPI-U 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>21.3%</td>
<td>22.4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>2012</td>
<td>-3.2%</td>
<td>-1.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2013</td>
<td>12.1%</td>
<td>11.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2014</td>
<td>17.1%</td>
<td>17.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2015</td>
<td>3.7%</td>
<td>1.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2016</td>
<td>-4.3%</td>
<td>-0.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2017</td>
<td>16.2%</td>
<td>12.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2018</td>
<td>11.1%</td>
<td>7.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2019</td>
<td>7.9%</td>
<td>6.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2020</td>
<td>5.1%</td>
<td>4.5%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

The CIF 10-year annualized return was 8.3%, the 70/30 10-year annualized return was 7.8% and the CPI-U 10-year annualized return was 1.8%. For quarter by quarter investment return information and copies of MSU's investment policies, please visit the MSU Investment Office website.

FOR MORE INFORMATION

For more information on the investment performance of MSU's CIF and related endowments, please contact Sean Harwood, director of finance and endowments, in University Advancement at (517) 884-1042.

If you would like more information on establishing a new endowment through a gift to MSU, please contact Marti Heil, vice president for University Advancement, at (517) 884-1000, or contact the development officer in the unit you wish to support.

FOOTNOTES:

1 70% Morgan Stanley Capital International All Country World Index / 30% BBG Barclays US Aggregate Bond Index
2 80% Morgan Stanley Capital International All Country World Index / 20% BBG Barclays US Aggregate Bond Index
3 CPI-U = Consumer Price Index for All Urban Consumers (Annual Average)