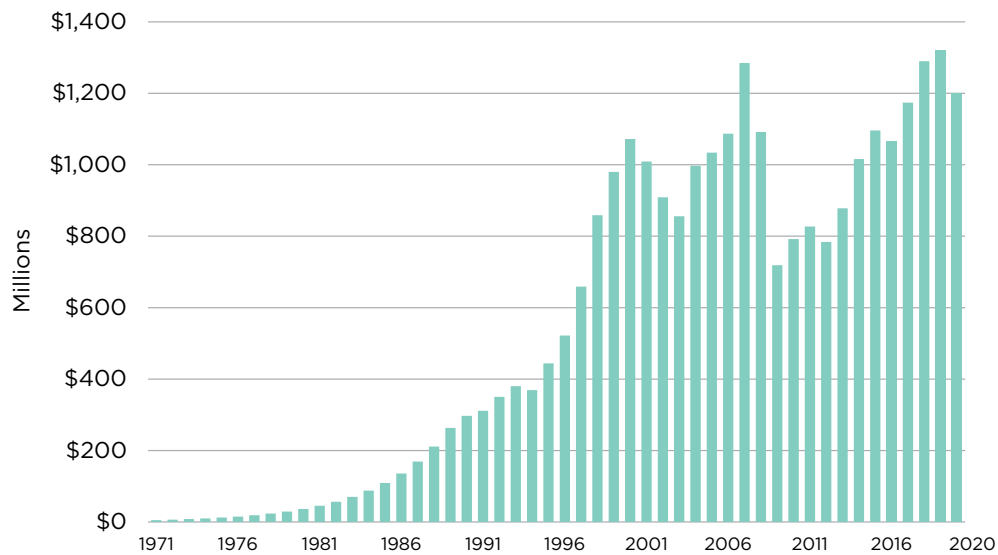


The purpose of Baylor College of Medicine's endowment is to provide support for our education, research, and patient care missions in perpetuity. Growth of the endowment over time has allowed increasing levels of support to students and faculty, building program and educational excellence.

Endowment assets total approximately \$1.2 billion as of June 30, 2020. The endowment consists of hundreds of accounts with a variety of purposes. Donors make endowed gifts funding general College expenses or specified purposes, such as scholarships, department chairs, research projects or other designated programmatic support. Although distinct in purpose and restrictions, all accounts are commingled in a single, large Managed Investment Pool ("MIP") to facilitate efficient management of the assets. The endowment's growth is highlighted below.

TOTAL VALUE OF ENDOWMENT



Within the MIP, each individual account holds a proportionate interest in the pool and is tracked with unit accounting, much like a mutual fund. Therefore, investment performance for each account is identical. Each receives its proportionate share of investment returns and bears its proportionate share of costs, such as management fees, custody fees, and consultant fees.

MANAGEMENT AND OVERSIGHT

The Investment Committee of Baylor College of Medicine's Board of Trustees is responsible for oversight of the endowment. The Committee sets investment policies and guidelines, determines asset allocation and sets the spending policy. Eight Trustees currently make up the Investment Committee, chaired by Christopher D. Wallis. The Investment Office, led by Chief Investment Officer William Walker, recommends policies and strategies for consideration by the Investment Committee, implements approved strategies and manages the day-to-day activities of the investment portfolio.

INVESTMENT GOALS FOR ENDOWED INSTITUTIONS

The College's Investment Committee recognizes that the twin goals of any endowed institution are:

■ Preserving the Purchasing Power of the Assets

Over time, this requires a return at least equal to the percent of assets spent each year, plus the inflation rate.

■ Providing Stable Support for Current Programs

These goals frequently conflict, as the current financial needs of an institution may discourage the saving and investment necessary to provide future generations with the same level of support (after inflation) being provided to the current generation. The primary focus of the Investment Committee is properly structuring the College's investments and endowment spending to balance the needs of both current and future generations of scholars, scientists, patients and teachers. The College's current annual spending from the endowment plus inflation, combine to create a target return of 6.5% to 7.5% for the portfolio. To meet or exceed this target over the long term, the Investment Committee has adopted certain key investment principles.

Key Investment Principles

■ Invest in Equity Assets

Equities have preserved the purchasing power of assets over the long term while bonds, although more stable than equities, have not.

■ Use Some Illiquid Assets

Long-term investors can take advantage of markets' preference for liquid investments by buying assets more cheaply in illiquid markets.

■ Broadly Diversify

Enhances stability and lowers risk without reducing returns.

■ Adopt a Contrarian Approach

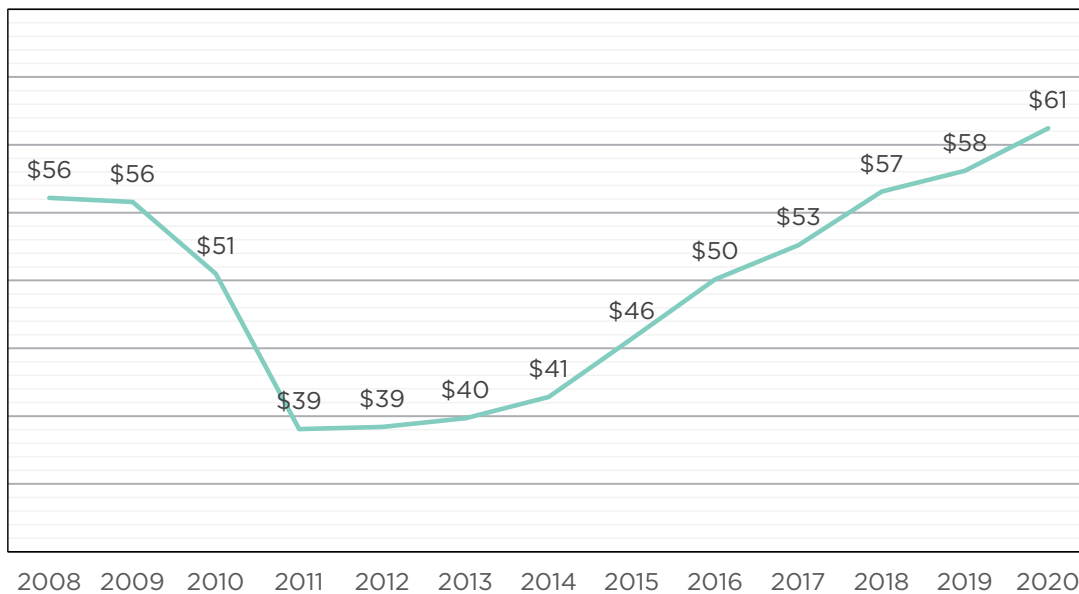
Investing in out-of-favor assets is difficult to do, but is a proven way to acquire long-term exposure, with a built-in margin of safety and/or to enhance returns.

The Investment Committee began implementing these principles by adopting an asset diversification program nearly two decades ago. As market conditions warrant, the MIP's target asset allocation has expanded to reach its current broad and balanced allocation. Asset allocation changes have been accompanied by successful money manager selections, resulting in substantial value added to the endowment, and a reduction in risk.

SPENDING POLICY

The current Endowment Spending Policy is to spend each year 5% of the trailing 28-quarter average asset value of each endowment account. Prior to a fiscal year, distributions are determined for each endowment so that departmental spending can be planned. Each month, one-twelfth of the annual distribution is transferred into a separate spending account associated with the individual endowment. If actual spending (for scholarships, research projects or chair stipends) is less than the amount distributed, then at the end of a quarter or year, the spending account balance is eligible for reinvestment in the MIP. The Investment Committee of the Board of Trustees determines the Endowment Spending Policy and approves the annual distribution amount for each endowment unit.

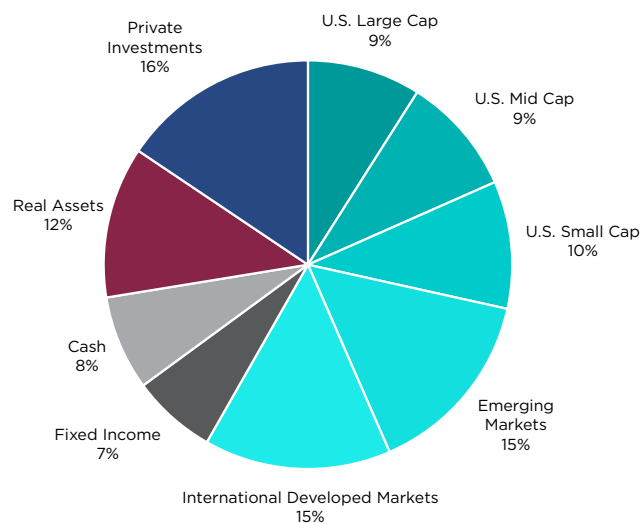
ANNUAL SPENDING DISTRIBUTIONS (\$M)



Currently, over thirty specialized external investment managers manage allocated amounts within various broad asset sectors as shown below.

BCM CURRENT ASSET ALLOCATION

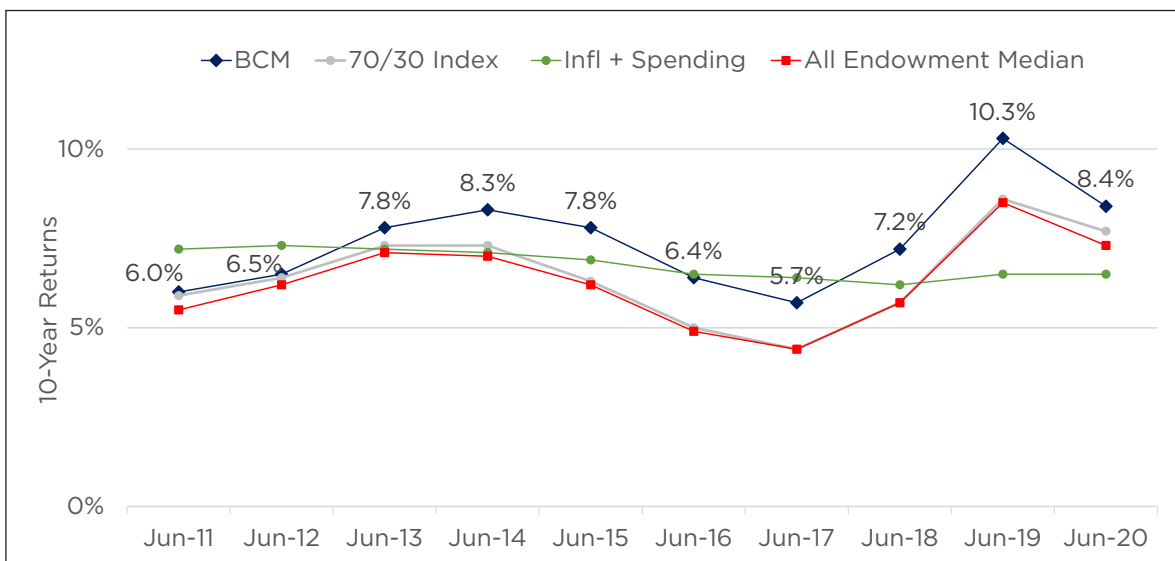
(AS OF JUNE 30, 2020)



PERFORMANCE

Endowments’ perpetual nature requires an ultralong time horizon for investment considerations—decades not just years or market cycles. Focusing on the long-term, the College sets strategic asset allocation targets, develops diversification strategies, selects external managers, and develops appropriate benchmarks. We use modern portfolio tools, such as Capital Asset Pricing Models, to test our investment strategies, and to help marry the portfolio with an appropriate annual spending policy. Multiple risk reduction strategies are employed to mitigate the annual budget impact from short-term market volatility. We regularly measure the results of investment decisions—tracking returns for the total portfolio, as well as its various segments, and benchmarking results to peer endowments and to the overall securities markets.

TEN-YEAR ANNUALIZED RETURNS



Note: All Endowment Median from annual NACUBO Study of Endowments

The chart above compares BCM’s long-term returns with three standard benchmarks—Inflation + Spending, All Endowments Median return and a market composite return consisting of 70% MSCI World Equity Index and 30% Bloomberg US Aggregate Bond Index. Each data point on the chart (and the table below) represents a ten-year period ending June 30th, the College’s fiscal year end. Over the last decade, BCM’s ten-year returns have consistently outperformed all three benchmarks.

BCM TEN-YEAR RETURN PERCENTILE RANKING VS ALL ENDOWMENTS

Year	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Percentile Ranking	top 31%	top 35%	top 23%	top 14%	top 10%	top 12%	top 14%	top 10%	top 5%	top 17%

BCM’s ten-year returns have consistently placed us in the top quartile of all US endowments.

Volatility of Return

By adopting equity-heavy portfolios for long-term return benefits, investors must accept higher variability in short-term absolute and relative returns. Consequently, the College's one-year returns have been considerably more variable than its ten-year returns. Over the last five fiscal years, one-year returns have ranged from +13.1% to -3.6% (table at the right) while ten-year returns ranged from +5.7% to +10.3%. For BCM, accepting higher annual return volatility is an appropriate trade-off to gain higher long-term returns.

ONE-YEAR RETURNS

Jun-16	-0.9%
Jun-17	13.1%
Jun-18	10.2%
Jun-19	5.8%
Jun-20	-3.6%

At Baylor College of Medicine our focus is always on generating the long-term returns needed to meet the endowment's basic goals.

LEVELS OF ENDOWMENT

Minimum levels to establish a named endowment

Lectureship	\$150,000
M.S. Scholarship	\$150,000
M.D. Scholarship	\$150,000
Doctor of Nursing Practice Scholarship	\$150,000
Physician Assistant Scholarship	\$150,000
Ph.D. Scholarship	\$400,000
M.D./Ph.D. Scholarship	\$400,000
Faculty Scholar	\$500,000
Presidential M.D. Scholarship	\$650,000
Fellowship	\$750,000
Professorship	\$1 million
Chair	\$2 million
Distinguished Chair	\$3 million
Presidential Chair	\$4 million
Laboratory*	\$5-10 million
Academic Department/Division*	\$10-25 million
Centers/Institute*	\$10-75 million

The minimum level to establish a separate named endowment fund is \$100,000. Contributions at any level may be added to established endowments.

**Based on size and complexity*