

## Pioneering Investment Strategy Yields Leading Results

Notre Dame's many strengths, particularly as they relate to the student experience, are highlighted throughout this annual report. Yet another area of institutional commitment to excellence, on the administrative side, is investment management.

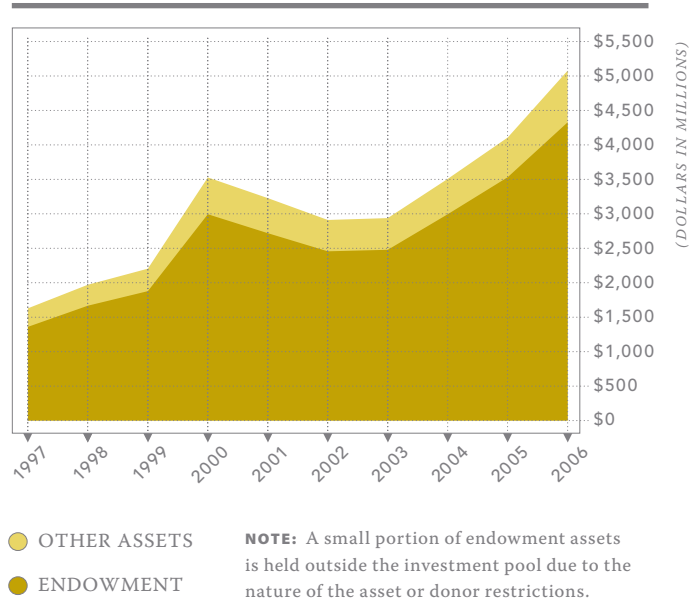
In a way, it has to be, particularly at a private institution like Notre Dame that is heavily reliant on private donations and growth of those funds. It is often said the finest schools are the ones with the largest endowments, and in fact there is a significant correlation between endowment size and the published rankings of colleges and universities.

*The investment return for the year, net of investment management charges, was 19.42 percent, ranking among the highest in the country for college and university endowments for the third consecutive year.*

Fueled by cumulative investment returns over the past three years in excess of 70 percent, the Notre Dame endowment experienced the most extraordinary period of growth in its history, and crossed the \$4 billion threshold for the first time in fiscal 2006.

Endowment market value at year-end was \$4.488 billion, up from \$3.691 billion at the end of fiscal 2005. Similarly, the total investment pool (which includes shorter-term funds) reached the \$5 billion milestone, growing from \$4.107 billion at the prior year-end to \$5.078 billion at June 30, 2006.

**Investment Pool Market Value [1997–2006]**  
Fiscal Years Ending June 30



*Strategy:*

Notre Dame’s asset allocation has changed markedly over the last decade. Reflective of the trend among institutional investors, the proportion of alternative investments doubled over that period from roughly one-third to two-thirds of the portfolio. Today, the University’s portfolio has one of the highest allocations to alternative investments in the endowment community. Alternative investments broadly speaking are investments other than traditional stocks and bonds, and include venture capital, buyouts, real assets, and a variety of hedge fund strategies.

The latest development in asset management is convergence, a blurring of the lines between asset classes. For example, many buy-side public equities managers now short stocks, a technique generally associated with hedge funds. Going forward, diversification will be achieved more from in-depth analysis of individual manager strategies and their correlations and less from traditional asset class distinctions.

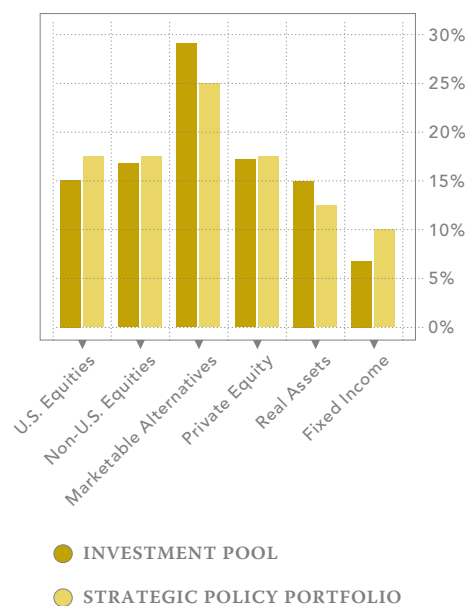
The investment return for the year, net of investment management charges, was 19.42 percent, ranking among the highest in the country for college and university endowments for the third consecutive year. Major contributors to investment performance were buyout funds, emerging markets, and real assets, particularly the energy sector.

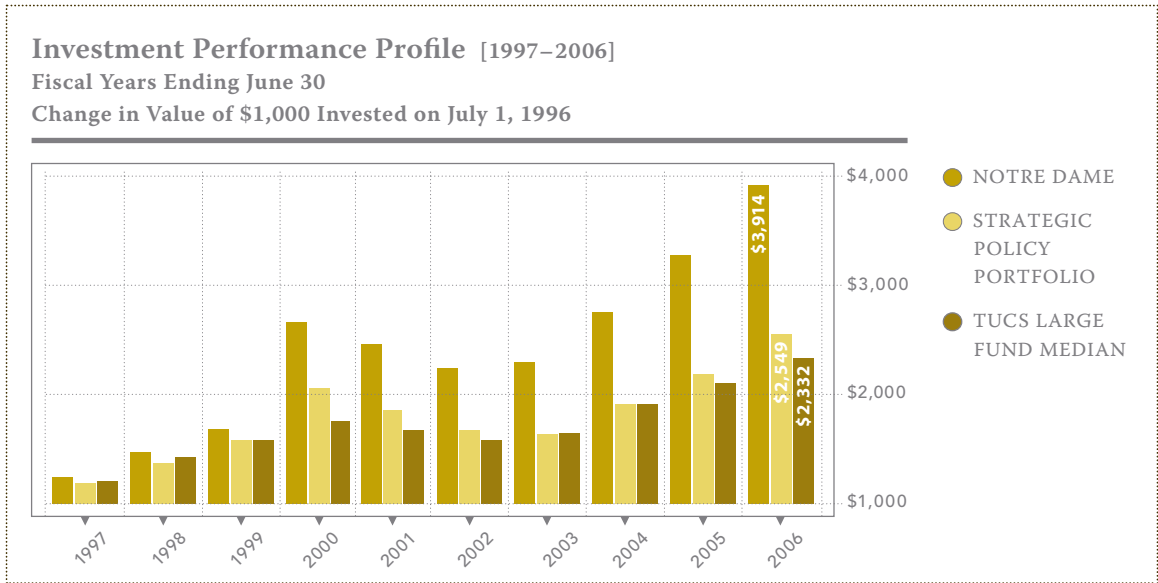
By comparison, the University’s Strategic Policy Portfolio (SPP), an internal benchmark consisting of a weighted average of various indices representative of the target investment

portfolio, returned 16.72 percent for the year. The Trust Universe Comparison Service (TUCS) Large Fund (greater than \$1 billion) Median return, a common benchmark of investment performance for large institutional investors generally, was 10.81 percent.



**Asset Allocation [June 30, 2006]**





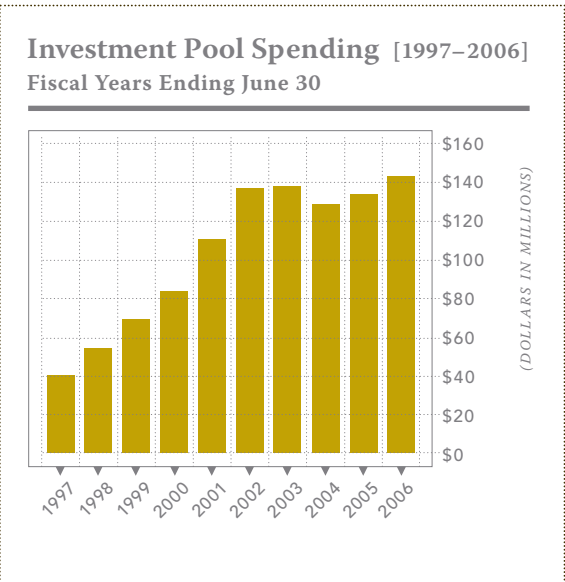
Of course, endowments are long-term investors, and sustained performance over time is the best way for endowed funds to meaningfully impact University life. For the 10-year period ended June 30, 2006, the investment pool’s annualized return was 14.62 percent, significantly outperforming the SPP return of 9.81 percent and the TUCS Large Fund Median return of 8.69 percent.

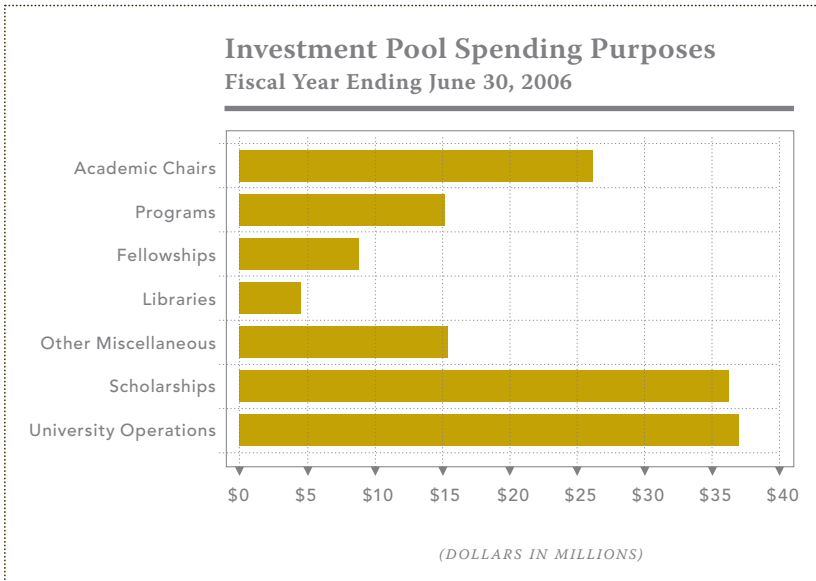
compared to the benchmarks result from strategic asset allocation decisions, and manager selection, which lies at the core of our work in the University’s Investment Office.

Looked at another way, the University’s investment management program added more than \$1.8 billion in market value to the investment pool over the 10 years ended June 30, 2006,

*Naturally, the importance of all this lies in the support provided to the University by spending from the investment pool, which over the last 10 years totaled \$1.04 billion*

The chart above shows the impact of these returns in dollar terms, depicting growth in value of a \$1,000 donation made 10 years ago at Notre Dame’s actual investment returns, compared to what growth of that gift would have been had investment performance equaled the returns on the SPP or the TUCS Large Fund Median. These value-added excess returns





compared to what the market value would have been if investment performance equaled the SPP returns over that period.

Naturally, the importance of all this lies in the support provided to the University by spending from the investment pool, which over the last 10 years totaled \$1.04 billion. These revenues to the University amounted to \$143 million in fiscal 2006, up from \$133 million in fiscal 2005, which equates to nearly \$12,500 per student.

The largest single component of spending in fiscal 2006 once again was financial aid (scholarships and fellowships), accounting for more than 31 percent of total spending. Overall, investment spending equaled nearly 20 percent of the University's total expenditures for the year, providing a crucial supplement to tuition and other operating revenues.

The milestones of the past year reported above are significant. Investment management is a dynamic business, however, and we must think ahead more than we look back. With growth comes the opportunity for even more

sophisticated portfolio construction strategies to enhance returns in a risk-controlled environment.

Because of its direct impact on academic life, the University's investment management program will be an important part of Notre Dame's future. Thus, we will remain committed to the highest standards of excellence in our profession, knowing that anything less is not good enough!

**Scott C. Malpass**  
*Vice President and  
Chief Investment Officer*



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## ENDOWED PROFESSORSHIPS ENHANCE TRADITION OF ACADEMIC EXCELLENCE

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While financial aid in the form of scholarships and fellowships remains the largest expenditure from the endowment, the funding of academic chairs accounts for a significant portion as well. The University now maintains over 200 endowed professorships and directorships, with each chairholder bringing immeasurable strength to Notre Dame's academic endeavor.

The history of endowed professorships is intimately connected to the development of the western university. The earliest western European universities, beginning with the universities of Paris and Bologna and including Oxford and Cambridge, served as models for the American concept of a university. Not long after the first universities were founded, the notion of endowed chairs took root as a way of ensuring the permanence and distinction of faculty appointments.

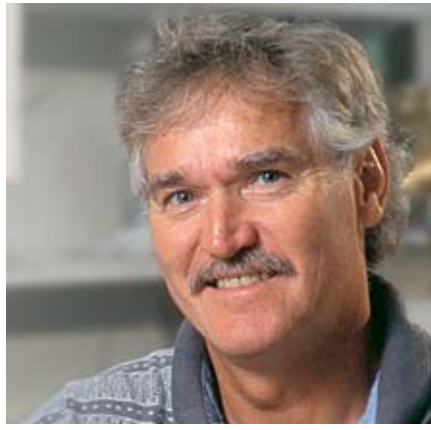
An individual who holds an endowed professorship at Notre Dame almost by definition embodies the highest standards of scholarship and ethics and contributes not only to his or her academic discipline through teaching and research, but also to the moral and intellectual growth of our students. Take, for example, Ikaros Bigi, the Grace-Rupley Chair in Physics, a physicist who is helping to uncover fundamental and heretofore unknown truths about the existence of our universe; the Rev. Virgilio Elizondo, the Notre Dame Chair in Pastoral and Hispanic Theology, whose extensive writings on Latino theology have promoted understanding and brought renewed attention to the Latino experience in the United States; or Susan Youens, the J. W. Van Gorkom Chair in Music, a Harvard-trained pianist whose research on the social implications of song has garnered four of the highly sought-after National Endowment for the Humanities Fellowships.

These and the many other faculty members who hold appointments in Arts and Letters, Business, Science, Engineering, Law, and Architecture continue to uphold the tradition of academic excellence for which Notre Dame is known. Through the generosity of our benefactors and the wisdom of our investment team, that tradition promises to grow ever stronger.



IMDAT AS

The James A. and Louise F. Nolen Chair in Architecture. A relatively new member of Notre Dame's faculty, Prof. As has a doctorate in design from Harvard Design School and studies emerging responsive architectural spaces from a socio-aesthetic perspective, focusing particularly on the application of these technologies in the development of hybrids of virtual and physical spaces. He also researches ways to creatively integrate augmented reality applications within real-world contexts, primarily for the preservation and study of significant buildings and artifacts in architectural history.



FRANK COLLINS

The George and Winifred Clark Chair in Biological Sciences, College of Science. As one of the key figures in the 2002 sequencing of the genome of *Anopheles gambiae*, the primary mosquito species that transmits *plasmodium falciparum* (the malaria parasite) to humans, Collins is marshaling researchers from all over the world to genetically engineer *Anopheles gambiae* and *plasmodium falciparum* in a way that finally cuts the link between pathogen, mosquito, and man. An accomplished author, Collins has had his research published in a number of scholarly publications, including *Science*, *Proceedings of the National Academy of Science*, and *Genetics*.



MAUREEN T. HALLINAN

The William P. and Hazel B. White Professor of Sociology, College of Arts and Letters. Prof. Hallinan's research on such topics as academic tracking and the effects of school characteristics on student achievement has been supported by the National Science Foundation, the National Institute of Child Health and Human Services, and the US Department of Education. She is presently the lead researcher on a study titled "Comparative Analysis of Best Practices in Public and Private Elementary and Secondary Schools," the only federally funded educational research project to compare Catholic and public school achievement.



ROGER HUANG

The Meyer Professor of Global Investment Management, Mendoza College of Business. Prof. Huang's areas of expertise are financial markets and international finance. In the last decade, he has focused his research in the area of the organization and operation of financial trading systems and has received numerous funding awards for his research projects. His articles have appeared in the *Journal of Finance*, the *Journal of Financial Economics*, the *Review of Financial Studies*, and the *Journal of Financial and Quantitative Analysis*, among many others.



M. CATHLEEN KAVENY

The John P. Murphy Foundation Professor of Law, the Law School. A scholar who focuses on the relationship between law and morality, Prof. Kaveny has published over 50 articles on issues that lie at the intersection of law, morality, and religion in academic journals such as *The Hastings Center Report*, *Theological Studies*, and the *Law Quarterly Review*. She also regularly publishes in more popular venues, such as *Commonweal*, where she is on the masthead as a regular columnist. A faculty member since 1995, Prof. Kaveny has a joint appointment in the Department of Theology.



WOLFGANG POROD

The Frank M. Freimann Professor of Electrical Engineering, College of Engineering. A faculty member since 1986, Prof. Porod also is director of the Center for Nano Science and Technology and the co-inventor of the Quantum-Dot Cellular Automata (QCA), a transistorless approach to computing. Porod is a fellow of IEEE and has authored 270 publications and presentations. He serves on the advisory and program committees of several international meetings and is a reviewer of proposals to the National Science Foundation and NASA.

The Abrams Chair in Jewish Thought and Culture | The Walter H. Annenberg-Edmund P. Joyce Professor of American Studies and Journalism | The Edward H. Arnold Director of University Libraries | The Bayer Corporation Chair in Engineering | The John W. Berry Sr. Chair in Business | The Leonard C. Bettex Chair in Electrical Engineering | The Biolchini Family Chair in Law | The H. Clifford and Evelyn A. Brosey Chair in Electrical Engineering | The H. Clifford and Evelyn A. Brosey Chair in Engineering | The Thomas A. and James J. Bruder Chair in Administrative Leadership | The William T. and Helen Kuhn Carey Assistant Professor of Modern Communication | The Rev. John J. Cavanaugh, C.S.C., Chair in the Humanities (2) | The Clark Equipment Chair in Engineering | The George and Winifred Clark Chair in Biological Sciences | The George and Winifred Clark Chair in Chemistry | The John W. and Maude Clarke Chair in Finance | The Clynes Visiting Chair in Judicial Ethics | The Coleman Chair in Biological Sciences | The Eugene P. and Helen Conley Chair in Political Science | The Eugene P. and Helen Conley Chair in Sociology | The Robert Conway Director of the Medieval Institute | The Crowley-O'Brien Chair in Roman Catholic Theology | The William and Anna Jean Cushwa Director of the Cushwa Center for the Study of American Catholicism | The William and Cassie Daley Chair in Management | The Alfred C. DeCrane Jr. Chair in International Economics | The Packey J. Dee Chair in American Democracy | The Packey J. Dee Chair in Political

There are over 200 endowed chairs, directorships, and deanships at the University of Notre Dame:

Science | The Deloitte and Touche Chair in Accountancy | The Nancy Reeves Dreux Chair in Political Science (2) | The Nancy Reeves Dreux Chair in Psychology | The Vincent J. and Annamarie Micus Duncan Chair in Mathematics | The Matthew A. Fitzsi-

mons Chair in Psychology | The Frank M. Freimann Chair in Electrical and Computer Engineering | The Frank M. Freimann Chair in Electrical Engineering | The Frank M. Freimann Chair in Engineering (2) | The Frank M. Freimann Chair in Physics (2) | The Ludmilla F., Stephen J. and Robert T. Galla Associate Professor of Biological Sciences | The David E. Gallo Chair in Business Ethics | The Martin J. Gillen Chair in Biological Sciences | The Martin J. Gillen Dean of the Mendoza College of Business | The Martin J. Gillen Director of the Environmental Research Center | The Joe and Jane Giovanini Chair in Management | The John and Barbara Glynn Family Chair in Literature | The Michael P. Grace II Associate Professor of Art | The Michael P. Grace II Chair in Medieval Studies | The Michael P. Grace II Associate Professor of Latin American Studies | The Grace-Rupley Chair in Chemistry | The Grace-Rupley Chair in Physics | The Dorothy G. Griffin Associate Professor of Early Modern European History | The Bernard J. Hank Chair in Finance | The Viola D. Hank Associate Professor of Accountancy | The Viola D. Hank Associate Professor of Finance | The Viola D. Hank Associate Professor of Management | The Viola D. Hank Chair in Aerospace and Mechanical Engineering (2) | The William J. Hank Family Chair in Mathematics | The Leo and Arlene Hawk Director of the Center for Social Concerns | The Ray W. and Kenneth G. Herrick Chair in Marketing | The Rev. Theodore M. Hesburgh, C.S.C., Chair in Arts and Letters | The Emil T. Hofman Chair in Physics | The Catherine F. Huisiking Chair in Theology (2) | The Charles L. Huisiking Chair in Chemistry and Biochemistry | The Charles L. Huisiking Chair in Mathematics | The Rev. Edmund P. Joyce, C.S.C., Chair in Anthropology | The Rev. Edmund P. Joyce, C.S.C., Chair in German Language and Literature | The Jordan H. Kapson Chair in Jewish Studies | The Keating-Crawford Chair in Chemical Engineering | The Helen Kellogg Chair in Political Science | The William R. Kenan Jr. Chair in English | The William R. Kenan Jr. Chair in Sociology (2) | The Rev. Howard J. Kenna, C.S.C., Memorial Chair in Mathematics (2) | The Rev. Howard J. Kenna, C.S.C., Memorial Director of the Zebrafish Research Center | The Donald and Marilyn Keough Chair in Irish Studies (2) | The Donald R. Keough Family Chair in Irish Studies | The Paul G. Kimball Chair in Arts and Letters | The Kleiderer-Pezold Chair in Biochemistry | The Carl E. Koch Chair in Economics | The Carl E. Koch Assistant Professor of History | The Howard J. and Geraldine F. Korth Chair in Strategic Management | The KPMG Chair in Accountancy | The Rees and Carol LaBar Director of the Office of Academic Services for Student-Athletes | The Judd and Mary Lou Leighton Director for the Performing Arts | The Leo E. and Patti Ruth Linbeck Chair in Engineering | The Vincent and Rose Lizzadro Chair in Accountancy | The Clare Boothe Luce Program Assistant Professor of Chemistry and Biochemistry | The Clare Boothe Luce Program Assistant Professor of Civil Engineering and Geological Sciences | The Clare Boothe Luce Program Professor in Biology | The Clare Boothe Luce Program Professor in Civil Engineering and Geological Sciences | The Henry R. Luce Professorship in Religion, Conflict, and Peacebuilding | The Aurora and Thomas Marquez Chair in Information

Theory and Computer Technology | The Rex and Alice A. Martin Chair in Business Ethics | The Henry Massman Chair in Civil Engineering | The Henry Massman Chair in Civil Engineering and Geological Sciences | The Joseph A. Matson Dean of the Notre Dame Law School | The John N. Matthews Chair in Law | The Francis A. McAnaney Chair in History (2) | The John and Margaret McAndrews Chair in Mathematics | The Matthew H. McCloskey Dean of the College of Engineering | The Ted H. McCourtney Chair in Computer Science and Engineering | The Andrew J. McKenna Family Chair in Psychology | The McMahan-Hank Chair in Philosophy | The McMahan-Hank Visiting Chair in Philosophy | The McMeel Family Chair in Shakespeare Studies | The Melchor Visiting Chair in Engineering | The Kenneth R. Meyer Chair in Global Investment Management | The Francesco Montana Chair in Architecture | The Joseph Morahan Director of the College Seminar Program | The Robert M. Moran Chair in Engineering | The John P. Murphy Foundation Chair in Law | The Aloysius and Eleanor Nathe Chair in Marketing Strategy | The Navari Family Chair in Life Sciences | The Rev. Julius A. Nieuwland, C.S.C., Chair in Science | The William Alexander Nolan Director in Family Business Enterprise | The James A. and Louise F. Nolen Assistant Professor of Architecture | The Notre Dame Alumni/Andersen Chair in Accountancy | The Notre Dame Assistant Professor of Chinese | The Notre Dame Associate Professor of Marketing | The Notre Dame Chair in Applied Mathematics | The Notre Dame Chair in Catholic Education | The Notre Dame Chair in English (3) | The Notre Dame Chair in Film and Culture | The Notre Dame Chair in Finance | The Notre Dame Chair in Pastoral and Hispanic Theology | The Notre Dame Chair in Philosophy | The Notre Dame Chair in Philosophy and Literature | The Notre Dame Chair in Psychology | The Rev. John A. O'Brien Chair in Catholic Theology | The Rev. John A. O'Brien Chair in Philosophy (2) | The Rev. John A. O'Brien Chair in Theology (4) | The Rev. John A. O'Brien Senior Research Chair in Philosophy | The Patrick B. O'Donnell Chair in Irish Studies | The Thomas J. and Kathleen M. O'Donnell Chair in Irish Language and Literature | The John Cardinal O'Hara Chair in Philosophy | The John Cardinal O'Hara Chair in Theology | The O'Malley Director of the University Writing Program | The Arthur F. and Mary J. O'Neil Director in International Business Ethics | The Arthur F. and Mary J. O'Neil Director of the Institute for Ethical Business Worldwide | The O'Neill Family Chair in Philosophy | The Nancy O'Neill Associate Professor of Anthropology | The William J. and Dorothy K. O'Neill Associate Professor of Psychology | The William J. and Dorothy K. O'Neill Chair in Economics | The William J. and Dorothy K. O'Neill Chair in Law | The I. A. O'Shaughnessy Dean of the College of Arts and Letters | The John F. O'Shaughnessy Associate Professor of Family Enterprise | The John and Jean Oesterle Chair in Thomistic Studies | The Albert J. Ravarino Family Director in Dante and Italian Studies | The John M. Regan Jr. Director of the Joan B. Kroc Institute for International Peace Studies | The Joseph and Elizabeth Robbie Chair in Political Science | The Thomas J. and Robert T. Rolfs Assistant Professor of Political Science | The Rooney Family Assistant Professor of Engineering | The Rooney Family Director of the Rome Studies Program | The Francis and Kathleen Rooney Associate Professor of Architecture | The Roth-Gibson Chair in Aerospace and Mechanical Engineering | The Jim and Colleen Ryan Director of ACE Educational Outreach | The Ryan Producing Artistic Director of Summer Shakespeare | The John T. "Jack" Ryan Chair in Business Ethics | The Julian Samora Chair in Latino Studies | The Gilbert F. Schaefer Chair in Economics | The Paul J. Schierl/Fort Howard Corporation Chair in Legal Ethics | The Arthur J. Schmitt Chair in Chemical Engineering | The Dr. Scholl Associate Professor of Romance Languages and Literatures | The Dr. Scholl Chair in International Affairs | The Schubmehl-Prein Family Chair in Computer Science and Engineering | The Franklin D. Schurz Chair in Management | The Eli J. and Helen Shaheen Chair in Classics | The Robert and Marion Short Chair in Law | The George N. Shuster Chair in Philosophy | The Ray and Milann Siegfried Chair in Entrepreneurial Studies | The Ray and Milann Siegfried Director of the Gigot Center for Entrepreneurial Studies | The C. R. Smith Chair in Finance | The C. R. Smith Director of the Institute for Ethical Business Worldwide | The Smurfit Director of the Keough-Naughton Notre Dame Study Centre, Ireland | The Edward Frederick Sorin Society Chair | The Sorin Chair in Law | The Richard G. Starmann Sr. Research Chair in Peace Studies in the Joan B. Kroc Institute for International Peace Studies | The Andrew V. Tackes Chair in History (2) | The Tisch Family Associate Professor of Theology | The J. W. Van Gorkom Chair in Music | The Walter Associate Professor of Theology | The Walther Cancer Institute Associate Professor of Biological Sciences | The William K. Warren Foundation Chair in Psychology | The William K. Warren Foundation Chair in Science | The William K. Warren Foundation Chair in Theology | The William K. Warren Foundation Dean of the College of Science | The W. Harold and Martha Welch Visiting Chair in American Studies | The William P. and Hazel B. White Chair in English | The William P. and Hazel B. White Director of the Center for Ethics and Culture | The William P. and Hazel B. White Chair in Sociology | The Rev. John A. Zahm, C.S.C., Chair in Mathematics | The Rev. John A. Zahm, C.S.C., Chair in Radiation Chemistry