MITIMCo

Massachusetts Institute of Technology

Investment Management Company

OUR MISSION IS TO DELIVER OUTSTANDING LONG-TERM INVESTMENT RETURNS FOR MIT. WE CULTIVATE AN ECOSYSTEM OF ENDURING PARTNERSHIPS TO SUSTAIN MIT'S PURSUIT OF WORLD-CLASS EDUCATION, CUTTING-EDGE RESEARCH, AND GROUNDBREAKING INNOVATION.

CONTACT US: IF YOU OR SOMEONE YOU KNOW WOULD BE A GOOD FIT FOR PARTNERSHIP WITH MIT, PLEASE EMAIL US AT SETH.ALEXANDER@MITIMCO.MIT.EDU. NO FIRM IS TOO SMALL, TOO YOUNG, OR TOO "NON-INSTITUTIONAL."

The MIT Investment Management Company supports MIT through the returns generated from investing MIT's endowment in a small number of investment managers worldwide with whom we aim to establish long-term partnerships. Here are a few things you might not know about us that could make us an attractive long-term partner to your firm:

We actively seek out opportunities that most others avoid. For example, we love to engage with firms without any institutional investors, firms with unusually long time horizons, firms with small amounts of AUM, firms pursuing niche market sectors, and one- and two-person investment shops.

We enjoy partnering with firms early. Investing early in a firm's evolution allows us to enjoy stronger and longer-duration partnerships. We have historically invested in firms with as little as $5 million of assets under management. We also have put managers in business on numerous occasions, and do so without asking for any ownership in the firm.

We share your long time horizon. With a time horizon measured in decades if not centuries, MIT can endure inevitable short-term market fluctuations and wait patiently for the long-term realization of value.

We work hard to be great partners. While we recognize that investment managers will be the primary drivers of our partnerships' success, we hope we can contribute in small ways by seeking to be great partners. We have helped our managers by being a stable source of capital, by acting as a sounding board for organizational and structural decisions, by introducing new managers to experienced managers, by sharing reading recommendations, and by linking managers to knowledgeable experts within our network.

Your hard work would support MIT. MIT's endowment supports cutting-edge research, innovative education, entrepreneurialism and a host of other activities that provide service to society. Please keep going to read more about a few of the many activities investment returns help support at MIT as well as our investment principles and due diligence process, or visit our website at mitimco.org.

MIT's Mission

The mission of MIT is to advance knowledge and educate students in science, technology, and other areas of scholarship that will best serve the nation and the world in the 21st century.

The returns achieved by our investment manager partners directly advance MIT's mission by supporting a broad range of activities. We describe a small selection of these activities here:

Entrepreneurialism

Through MIT's Deshpande Center (which teaches faculty and researchers to form companies and commercialize technology), innovation contests, venture mentoring, corporate collaborations, and technology licensing, the Institute encourages faculty, students, and alumni to translate work in the academic setting into improvements in everyday life by starting new initiatives and setting up new companies. A recent study by the Kauffman Foundation of Entrepreneurialism estimated that active companies founded by MIT alumni employ approximately 3.3 million people and generate annual sales of $2 trillion globally.

Service to Society

MIT is strongly committed to public service. The Abdul Latif Jameel Poverty Action Lab (J-PAL) is one example of the impact MIT would like to have in the arena of public service. Founded in 2003 by faculty in MIT's Department of Economics, J-PAL's goal is to reduce poverty by ensuring that policy is based on scientific evidence. The lab runs randomized evaluations of poverty programs in over 30 countries, builds capacity of others to run these evaluations, and works to disseminate results and promote the scale-up of effective policies. Working on issues as diverse as boosting girls' attendance at school, improving the output of farmers in Sub-Saharan Africa, and overcoming racial bias in employment in the U.S., the lab's objective is to provide policy makers with clear scientific results that will enable them to improve the effectiveness of programs designed to combat poverty.

World-class education

MIT offers students from diverse backgrounds incredible preparation in today's most advanced fields of study. To ensure MIT remains accessible, the Institute recruits and enrolls students without regard to their financial circumstances and offers robust financial aid packages. In recent years, MIT has provided over 60% of undergraduates with financial aid and covered over 50% of the overall cost of tuition and fees. With an MIT education, every student has an equal chance at success. Studies have shown that an MIT education is an economic equalizer with the initial financial circumstances of a student's family having no impact on the starting salary that student achieves upon leaving MIT.

One significant concern to the MIT community has been the limit on the number of students who are able to avail themselves of the traditional educational experience on campus. Recognizing the need to broaden the availability of education opportunities to more people, MIT launched Open CourseWare (OCW) in 2002 to provide free access to MIT course materials on line (www.ocw.mit.edu). To further extend this effort, MIT and Harvard joined forces in 2012 to create EdX (www.edX.org), a new technology platform that offers online versions of university courses. EdX features video lessons, quizzes, student-ranked questions and answers, and online laboratories. Over 7,000 students passed MIT's first EdX class (Introduction to Circuits and Electronics), approximately the same number of people who would take the course in person at MIT over forty years.

Cutting-edge research

MIT's faculty and students undertake massive efforts to help meet society's challenges. A very limited selection of current efforts at MIT include: autism studies, cancer eradication efforts, safer nuclear power, radio wave detection studies (to better understand the formation of the universe), advanced solar power projects, synthetic vocal cords (to help people with voice disorders caused by disease or other factors), a re-design of high performance computing architecture, water desalination efforts, more efficient drug manufacturing, wearable robotic prosthetic devices to help amputees, collision detection algorithms for the FAA, neutrino studies, improved cyber security, satellite tracking, better vaccine delivery methods, novel Alzheimer's treatments, and new methods of energy storing for the power grid.

Our Core Investment Principles:

Earn High Real Returns

Partner with Exceptional People

Invest with A Value Orientation

Focus on the Micro

Think Independently

Be Long Term

Learn from our Mistakes

Concentrate where Prudent

MIT's Investment Philosophy

The goal of our investment philosophy is to support current and future generations of MIT scholars with significant resources. To meet this goal, we have built our investment policy for the Endowment around several core principles. Each is described in more detail here.

We earn returns through long-term business ownership, the application of specialized skills, and the allocation of capital into market dislocations

On a long-term basis, we see three primary ways to earn high real rates of return. First, we want to partake in the long-term returns of high quality businesses. To the extent we can invest with managers who buy holdings at attractive prices in well-managed businesses with strong and sustainable competitive positions, good growth prospects, and high returns on capital, we can earn significant rates of return through the patient compounding of capital.

Second, we want to participate with exceptional people applying specialized skills to add value to assets. Examples of this would include real estate operators who buy and fix properties, venture capitalists who help start-up entrepreneurs grow businesses, energy firms that discover and extract commodity reserves, and private capital managers who buy and improve the operations of well established companies. In these cases, the investment returns consist of both the underlying intrinsic growth of the asset and the value added by applied expertise. In this way, even lower quality, low growth assets can offer substantial rates of return.

Third, we want to allocate capital into market dislocations. During periods of uncertainty or severe economic stress, markets often experience significant price declines. While price declines usually are rational responses to new information, certain securities may decline in price due to fear and other short-term concerns not relevant to long-term intrinsic value. In these circumstances, we have the opportunity to earn excellent returns by maintaining a long-time horizon and having the fortitude to buy when others are fleeing the market.

We partner with exceptional investment managers

We execute the vast majority of our investments through external third-party managers. To earn high returns, we may decide we want to invest in arenas as diverse as stocks in China, real estate in Rio de Janeiro, and start-up companies in Silicon Valley. Rather than attempt to hire in-house experts in all of these areas, we instead seek to identify the world's best investors in each area and partner with them. In this way, we are able to work with the people who have the best competitive advantages in executing their investments given their specialized insights and deep market knowledge. While it can be a long and difficult search to find these unusually talented external managers, we have the opportunity to earn very high rates of return over many years when we do.

> The hiring of an exceptional manager can impact the portfolio for decades as these managers compound capital through a variety of market conditions.

In looking for investment managers, we seek exceptional people with a well-defined, investment process and superior investment judgment. We look for managers with a differentiated investment focus and a circle of competence matched by their abilities, resources, and personality. We focus on managers with strong leadership characteristics, motivations beyond money, and acute awareness of their strengths and weaknesses. We search for good partners willing to align themselves with their investors and act in their investors' best interest. We look for people with the highest standards of ethical behavior and strong reputations of fair dealings with others.

MIT will undertake direct investments only if we possess the necessary expertise and competitive advantages. For example, we manage a portfolio of real estate in Cambridge around the MIT campus. Because MIT owns a critical mass of land holdings in Cambridge and is a large driver of demand for real estate space, we have advantages in this arena that third parties cannot match. In this particular circumstance, it also is important for MIT to take direct control of these investments because our goal is not simply to seek the highest financial returns with the properties. While it is important for a real estate project to be financially viable for it to be sustainable, we also want to attract innovative companies to the Cambridge area and to create a lively interactive environment that benefits local residents, local businesses and the MIT community.

We maintain a value-oriented investment approach

MIT is a value investor with a focus on fundamental analysis. A value approach emphasizes the ability of investors to calculate the intrinsic value of assets by forecasting expected cash flows across a range of potential future outcomes. Value investors look to purchase investments at a significant discount to intrinsic value to account for the uncertainty inherent in any attempt to predict the future. Determining that a sufficient "margin of safety" exists between the price paid for an asset and a conservative projection of future value is the primary determinant for potential inclusion in the portfolio. Intrinsic value provides a framework around which value investors can act. Rather than being swayed by emotions, market sentiment, or short-term news, a thoughtful, deliberate value investor can assess if investments are priced below or above long-term intrinsic fair value and decide to buy or sell as appropriate.

Our approach leads us to prefer certain types of investment strategies. We prefer strategies in which managers are willing to hold cash if opportunities to buy assets at a compelling discount to intrinsic value are not available. We prefer strategies in which managers can easily articulate why their advantage in buying assets with a margin of safety is repeatable and sustainable over time. We prefer strategies with long-time horizons because it usually is easier to identify which assets and businesses will revert to their intrinsic value over the next few years rather than those likely to revert over the next few months. Finally, we prefer strategies in which investment managers have an analytical or behavioral advantage over other market participants in determining the intrinsic

value of a security. For example, an analytical advantage could arise from a manager's focus on a large specialized and complex market niche such as energy or from a focus on a small subsector of securities that most other investment managers ignore. A behavioral advantage could result from a manager's focus on long-term business value regardless of current market conditions.

Our approach causes us to avoid many types of investment strategies. We avoid strategies that are fully invested regardless of asset valuations. We avoid strategies that define success as beating a benchmark even if that benchmark loses money. We avoid short-term trading strategies that attempt to capture small pricing anomalies. We avoid strategies that depend on financial engineering to generate returns. We avoid purely momentum based strategies that buy and sell positions depending only on recent stock price or earnings trends. We avoid strategies that are too opaque or too complicated for us to understand.

We avoid strategies that focus on areas in which pricing is determined by sentiment such as works of fine art because we do not know how to calculate long-term intrinsic value if the assets do not produce cash flows.

A value orientation does not preclude high growth investments. On the contrary, growth potential is often the primary driver of long-term intrinsic value. For example, venture capital investments in companies such as Google, Facebook, and LinkedIn meet our value criteria when the expected value of their future cash flows is multiples of our entry valuation. Of course, once the growth potential in these companies is recognized by the market and asset pricing builds in overly rosy projections of the future, we want to allocate capital elsewhere.

Our approach leads us to be contrarian. As markets appreciate in price and reduce the margin of safety between asset pricing and future expected value, we want to reduce our exposure. We are not comfortable maintaining exposures at overly expensive valuations no matter how much longer we believe the euphoria might last. In contrast, when markets decline in price, investors become frightened, and press articles turn negative, our interest increases. While we will never blindly add exposure simply because prices have fallen or because other investors are fleeing, we believe that investment managers are much more likely to generate returns from finding bargains in the overlooked, underappreciated areas than attempting to time their way in and out of frothy, overheated arenas.

> We believe in independent thinking and are willing to have significant exposure to individual securities and strategies that behave nothing like peers or broad benchmarks.

We have confidence in independent thinking

We believe in independent thinking and seek to build our portfolio without regard to peer positioning or benchmark weightings. This stance is not oblivious to the reality that MIT competes with other institutions for faculty and student talent. Nor does it ignore the fact that occasional comparisons to a passively-managed benchmark can be an important measure of investment effectiveness over the long term. However, worrying about the consequences of deviating from other investors or indexes would limit our ability to make the meaningful investments that provide the best way to produce high returns. We believe this stance to be a significant potential differentiation for us as most investors are forced to stay close to peers and benchmarks given that they are subjected to frequent relative return comparisons. In practical terms this principle means that MIT is willing to have significant exposure to securities and strategies that behave nothing like peers or broad benchmarks and that our returns may deviate significantly from others.

We focus our time on microeconomic situations

We spend significant time understanding microeconomic situations. Our focus on microeconomic situations consists of reviewing and understanding the underwriting of specific investments at the asset or company level. These activities improve our capability to underwrite investment managers, inform our capital allocation decisions, and help us identify potential tactical opportunities.

We believe the focus on microeconomics is the best way for us to generate compelling returns over time. In microeconomic situations, we have the opportunity to build an advantage over other capital allocators. Because there are many thousands of micro-opportunities worldwide, we can selectively focus and understand more about a subset of these than other investors. With this knowledge, we have the opportunity to identify significant and compelling opportunities that other market participants miss or misunderstand.

Of course, we do not ignore macroeconomic factors as they play a key role in determining investment outcomes. Here, however, our approach is very different. We view it as very difficult and perhaps impossible for us to generate an edge forecasting macroeconomic events. As a result, we undertake no primary macroeconomic research. Instead, we seek to construct our portfolio with diversification and margin of safety in mind so that our portfolio will be resilient and perform well under a variety of macroeconomic conditions. To remain aware of macroeconomic downside scenarios that could overwhelm our microeconomic work, we stress test the portfolio on a periodic basis to estimate the impact of extreme events. Where the impact on the portfolio is unbearably large or significant positions appear unusually vulnerable, we look to moderate exposures or add new positions to mitigate these possible impacts. One of our favorite managers summed up this philosophy very well when he said: "we invest bottom-up and worry top-down."

We concentrate our investments as much as is prudent while maintaining a risk framework to create the resilient portfolio necessary to survive in an uncertain world

Our investment process is designed to pressure capital into our best ideas. Not surprisingly, we have discovered exceptional investment ideas to be extremely rare. As a result, when we find them, we want to invest a significant amount of money.

To ensure that we do not become over-concentrated and expose MIT to overly adverse outcomes, we maintain a risk framework designed to ensure our bottom-up bets do not aggregate into imprudent overall exposures. The risk framework is focused on six metrics: currency exposure, geographic

exposure, leverage, liquidity, manager concentration, and potential drawdown. We track currency and geographic exposure to ensure we are not overly exposed to a single monetary regime or political system. We track leverage to ensure that we do not accept undue re-financing risk or interest rate risk. We track liquidity to ensure we have sufficient liquid assets on hand to meet

> Exceptional investment opportunities are rare, so we believe in taking full advantage of those we find. This means that when the stars align and we find an opportunity that can absorb meaningful dollars, we must be prepared to concentrate our capital. At the same time, many if not most exceptional investment opportunities are highly capacity constrained, and we are more than happy to maintain smaller relationships in these cases.

the spending needs of the Institute. We track manager concentration to ensure that we are not unduly exposed to fraud or other idiosyncratic events. We track our expected drawdown exposure under various stress scenarios to understand the impact investment volatility could have on the flow of funds provided to the Institute's operating budget.

We view mistakes as the inevitable result of an innovative investment process

Successful innovation requires the willingness to make mistakes. By definition, growth and learning require us to expand our circle of competence into areas we have never tried before.

> Successful innovation requires the willingness to make mistakes, which we view as the cost human beings pay to develop judgement and expertise. Rather than eradicating all mistakes, we seek to make them net present value positive by committing to openly admitting, recording, analyzing, and discussing our errors.

We view mistakes as the cost human beings pay to develop judgment and expertise. As a result, the pursuit of a mistake free environment is counterproductive.

Of course, not all mistakes are created equal. Bad mistakes are those that result from sloppy thinking, lack of effort, poorly designed decision-making processes, and careless execution. These kinds of mistakes teach us only that we have developed a poor foundation for success. Good mistakes, on the other hand, are those that result from a thoughtful and carefully considered stretching of our capabilities. These kinds of mistakes teach us interesting new lessons and prepare us for greater achievement.

To be valuable, mistakes must be made net present value positive.[1] To make mistakes net present value positive, we commit to openly admitting, recording, analyzing, and discussing our errors so that we may learn from them. We can further increase the net present value of a mistake by sizing forays into new areas with small dollars or by waiting for an unusual margin of safety that offers an extra cushion against unknown factors. Once we have developed better judgment and further expertise, we can act more boldly in bigger size.

We maintain a long time horizon

MIT maintains a long-term investment horizon. Most market participants are forced to show results over short time horizons to stay in business. As a result, we have a vastly reduced level of competition for ideas that take many years to realize and we regularly invest in opportunities that take time to mature. An excellent example is MIT's biotechnology stocks. While many investors trade these stocks based on news flow, we prefer to take long-term positions in companies that are well-positioned to create innovative new products. Many of these companies are cash flow negative and require significant patience to hold through the discovery process and regulatory approval cycle but can pay off handsomely in the long-term.

[1] We borrowed this nice turn of phrase from an investor letter written by a London-based stock picker.

Our Due Diligence Process

We aim to establish investment management relationships that last decades. As a result, we do a lot of work upfront before entering into a new partnership with a manager. We generally have a number of in-person meetings and make reference calls. Our goal is to achieve a deep understanding of the manager's investment philosophy and practices, business structure, vision for the firm, and temperament in order to identify and underwrite the competitive advantages that allow sustained outperformance and to make ourselves aware of potential weaknesses.

Since exceptional judgment is crucial to virtually all investment strategies, a critical element of our due diligence process is to evaluate historical decision points. At the end of our investment process, we produce an internal investment memo that outlines the evidence we have obtained that show the manager is an exceptional investor, as well as the critical risks and issues we want to monitor going forward.

We try very hard to use the manager's time as efficiently as possible by reviewing any written materials the manager might have, preparing agendas for meetings and calls beforehand, and doing our own research on a manager's portfolio holdings. The more transparency we have on the firm's current and historical positions and investment decisions, the better we can prepare and the more easily we can focus on the critical questions during our interactions with the manager. We maintain deep respect for the need to keep the information we receive from a manager strictly confidential.

Our due diligence process is designed to help us avoid the common pitfalls of institutional decision making while still taking advantage of the benefits of the full range of perspectives and opinions across the team. We incorporate numerous check points and have broad discussions throughout the due diligence process to provide plenty of opportunities to catch mistakes or oversights and to enable us to keep the bar for manager selection consistently high across our portfolio. However, each manager is primarily underwritten by a small group of two to three staff members, and the ultimate investment decision is made by this group in conjunction with our Chief Investment Officer.

Once we have made an investment, we work hard to play a supportive but non-obtrusive role. While we must continue to follow and interact with the manager in order to monitor organizational developments and watch for changes in the competitive advantages we underwrote, we are happy to tailor the nature of the relationship and frequency of contact to the specific manager. In certain circumstances, we are comfortable developing relationships where we are always available but interact formally as little as once per year to allow managers to concentrate on their work. Our primary goal is to build a trusted relationship with shared and open communications and to find ways to be great partners to our investment managers.

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MITIMCo

Our Board of Directors

One significant competitive advantage we possess is our Board of Directors. Through its large and accomplished alumni base and the many friends of the Institute who want to help our mission, MIT is able to assemble a superb investment committee. We focus our discussions with the Board on important long-term strategic and policy issues rather than individual investment outcomes.

Current Directors:

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