University of Notre Dame du Lac, IN

New Issue: Moody's assigns Aaa to University of Notre Dame du Lac, IN's Series 2017 Revenue Bonds; outlook stable

Summary Rating Rationale
Moody's Investors Service has assigned a Aaa to University of Notre Dame du Lac, IN's planned $400 million Taxable Fixed Rate Bonds, Series 2017, with a planned 2048 maturity. Moody's maintains Aaa ratings on $814 million of debt and a P-1 on the Standard Commercial Paper Notes based on Standby Bond Purchase Agreements (SBPAs) from P-1 rated banks to support the tender features in the event of a failed remarketing.

University of Notre Dame's (Notre Dame's) Aaa rating incorporates its exceptional strategic position as a premier, academically selective Catholic research university with a strong national brand. Robust financial reserves with excellent unrestricted liquidity support debt and operations. Further balance sheet reserve growth is expected from Notre Dame's remarkable fundraising prowess combined with consistently strong operations reflecting prudent financial management.

Offsetting these strengths are fierce competition for academically well-qualified students, moderately high reliance on endowment earnings for operations, debt structure comprised of bullet maturities, and moderate capital plans.

Exhibit 1
Robust and growing balance sheet reserves, largely spendable

June 30 fiscal year end
Source: Moody's Investors Service
Credit Strengths

» Very strong national student demand as a premier, highly selective large Catholic research university

» Robust balance sheet resources and liquidity, with spendable cash and investments of about $9 billion and unrestricted monthly liquidity of $2.9 billion, or 954 days cash

» Consistently strong operating surpluses driven by prudent financial management

» Active investment management function contributes to high performance and exceptional long-term investment returns

» Strong fundraising bolsters balance sheet growth and funding capital projects, with $428 million of three-year average gift revenues

Credit Challenges

» Intense national competition for the most talented students with the other leading and well-endowed universities

» Moderate capital plans, renewal and maintenance projects partially debt funded

» Vulnerability to impact of investment losses and drag on endowment spending from its moderately high 36% reliance on investment income for operating revenues

» Most debt in long-dated bullet maturities, underscoring the need for active asset-liability management

Rating Outlook

The stable outlook reflects expected strong national student demand, strong and growing balance sheet reserves, strong cash flow generation and manageable debt plans.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Weakened balance sheet reserves or liquidity, particularly if combined with significant debt issuance

» Deterioration of operations and cash flow generation to levels inconsistent with Aaa rating

» Weakened philanthropic support

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
### Key Indicators

#### Exhibit 2

**UNIVERSITY OF NOTRE DAME DU LAC, IN**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Total FTE Enrollment</td>
<td>12,001</td>
<td>11,980</td>
<td>12,055</td>
<td>12,178</td>
<td>12,255</td>
<td>12,326</td>
<td>11,205</td>
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<tr>
<td>Operating Revenue ($000)</td>
<td>1,013,565</td>
<td>1,077,826</td>
<td>1,169,846</td>
<td>1,247,319</td>
<td>1,326,537</td>
<td>1,379,219</td>
<td>1,803,364</td>
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<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>3.1</td>
<td>6.3</td>
<td>8.5</td>
<td>6.6</td>
<td>6.4</td>
<td>4.0</td>
<td>5.9</td>
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<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>7,721,180</td>
<td>8,172,818</td>
<td>9,514,437</td>
<td>10,270,591</td>
<td>9,920,407</td>
<td>10,970,623</td>
<td>9,920,407</td>
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<tr>
<td>Total Debt ($000)</td>
<td>895,061</td>
<td>885,550</td>
<td>804,883</td>
<td>922,135</td>
<td>1,011,335</td>
<td>1,359,597</td>
<td>1,617,221</td>
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<tr>
<td>Spendable Cash &amp; Investments to Total Debt (x)</td>
<td>7.1</td>
<td>7.6</td>
<td>9.9</td>
<td>9.3</td>
<td>8.0</td>
<td>6.6</td>
<td>6.1</td>
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<tr>
<td>Spendable Cash &amp; Investments to Operating Expenses (x)</td>
<td>6.8</td>
<td>7.0</td>
<td>7.9</td>
<td>8.1</td>
<td>7.3</td>
<td>7.7</td>
<td>7.2</td>
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<tr>
<td>Monthly Days Cash on Hand (x)</td>
<td>303</td>
<td>513</td>
<td>549</td>
<td>729</td>
<td>726</td>
<td>954</td>
<td>726</td>
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<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>15.0</td>
<td>19.2</td>
<td>21.3</td>
<td>22.6</td>
<td>23.8</td>
<td>23.0</td>
<td>20.6</td>
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<tr>
<td>Total Debt to Cash Flow (x)</td>
<td>5.9</td>
<td>4.3</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
<td>4.3</td>
<td>4.8</td>
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<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>4.7</td>
<td>6.0</td>
<td>8.5</td>
<td>8.6</td>
<td>9.2</td>
<td>8.4</td>
<td>3.7</td>
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</table>

2017 Includes Series 2017 bonds and refunding
Total FTE Enrollment is for fall of indicated year
Source: Moody’s Investors Service

### Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

### Detailed Rating Considerations

**Market profile: prominent market leadership as academically selective, Catholic university driving strong student demand**

University of Notre Dame will enjoy strong national student demand driven by its market leadership as a premier academically selective, national Catholic research university. Fall 2017 enrollment of over 12,300 FTEs, with about 70% undergraduate, is up slightly since fall 2012. Notre Dame is increasingly selective, accepting less than 19% of applicants, but is the first choice for many applicants with 55% of accepted students enrolling. Already with a high share of students residing on campus, effective with the fall 2018 entering class, Notre Dame will require first-year, sophomore and juniors to live on campus, continuing its emphasis on the residential undergraduate experience.

Notre Dame shows steady net tuition revenue growth, notable given its policy of need-blind admission and commitment to fund unmet need. Net tuition per student of $26,092 for fiscal 2017 is up over 3% from the prior year and nearly 15% since fiscal 2012. The increase is driven by regular increases in tuition and student charges. Total tuition discount is rising slightly to 47% in fiscal 2017 from about 44% in fiscal 2012, increasingly funded from endowment as Notre Dame’s endowment grows from gifts and endowment investment returns.

The university has invested in its research activities, driving growth in awards. Notre Dame reported $130 million in research expenditures in fiscal 2017, up from $107 million in fiscal 2014. It reported nearly $140 million in awards in fiscal 2017, particularly noteworthy since Notre Dame has no medical school, often an important driver of institutional research activity.

**Operating performance: consistently strong operations and cash flow generation**

Notre Dame will continue to produce strong operations and cash flow driven by careful fiscal oversight and strong core revenue sources including gift revenue. For fiscal 2017 the university produced a three-year average operating margin over 15% and a strong core operating performance with an 8% operating margin excluding gifts. Cash flow is similarly strong, with a 23% operating cash flow margin for fiscal 2017.

Revenue sources are diverse, with revenues from student charges contributing 43% of fiscal 2017 operating revenues, almost double the 24% median for Aaa-rated private universities. This is largely due to its research activity that, although growing, at 10% of revenues is less than the 16% median. Investment income is the second largest revenue contributor at 36%, only slightly below the Aaa median of 40%. Gift revenues of 8% are comparable to the Aaa-median.
Wealth and liquidity: robust balance sheet reserves with strong liquidity
The University of Notre Dame has strong balance sheet resources and internal liquidity. Total cash and investments, excluding those funds managed for other religious organizations, grew to nearly $11 billion for fiscal 2017, amongst the largest endowments of private universities. The university manages about $1 billion for other religious organizations, including Saint Mary's College (A3 stable, located adjacent to campus). Notably most of the investments carry no permanent donor restrictions, with spendable cash and investments of $9 billion representing over 80% of the total.

Notre Dame has a strong internal investment management function, with a Chief Investment Officer overseeing 16 investment professionals. For the twelve month period ending 6/30/2017, it reported a 12.6% annual investment return, within the range of returns for most institutions. Five and ten-year returns have been consistently greater than benchmarks and many peer institutions. The investment portfolio is highly diversified, with target allocation of 40% in public equities, 30% private equity and 30% multi-strategy.

Notre Dame is a fundraising leader, with $428 million of average gift revenues for fiscals 2015 through 2017. In August 2017 the university publicly announced its "Proudly Notre Dame" campaign with $3.4 billion raised to date. Although the campaign is comprehensive, Notre Dame has announced the single highest priority is $1 billion for undergraduate student financial aid. In the prior campaign the university raised $2.0 billion against the $1.5 billion goal. That campaign showed nearly 68% alumni participation, reflecting Notre Dame's loyal and highly supportive alumni base.

LIQUIDITY
Liquidity is excellent, with $2.9 billion of unrestricted monthly liquidity or 954 days. Monthly liquidity to demand debt (including draws on its bank lines) is strong at over 1100%, mitigating the debt structure comprised largely of long-dated bullet maturities with relatively lower principal amortization in early years.

Leverage: manageable leverage with conservative debt policy
University of Notre Dame’s manageable leverage will continue due to its strong balance sheet cushion and careful debt utilization. Including the series 2017 bonds, spendable cash and investments cushion pro forma debt 6.6 times, a strong cushion and above the 6.1 times Aaa-median. Debt to cash flow is also moderate at 4.3 times.

The university is fairly conservative in its debt policy, a key underpinning of the Aaa rating. Notre Dame is working through its substantial capital plans, with much funded from gifts, operating cash flow and debt proceeds. Proceeds from the series 2017 will complete much of the capital projects. The university currently plans to issue about $100-$150 million of new money debt in about three years to fund infrastructure and facilities renewal projects. The current capital and financing plans are manageable given expected balance sheet growth from fundraising and operating cash flow.

DEBT STRUCTURE
With the series 2017, about 82% of Notre Dame's pro forma debt is fixed rate, with most having bullet maturities. Notre Dame's commercial paper can be issued as Taxable or Tax-Exempt Standard Commercial Paper or Taxable or Tax-Exempt Extendible Municipal Commercial Paper (EMCP) up to a maximum $200 million total issuance. Standard Commercial Paper Notes are secured by a standby credit agreement issued by JPMorgan Chase Bank, N.A, terminating on March 1, 2019. Extendible Municipal Commercial Paper is supported by Notre Dame’s market access and its unrestricted liquidity. Extendible Municipal Commercial Paper notes have an original maturity of 1 to 90 days and Notre Dame can extend the maturity up to 270 days from the original date of issuance. No note may mature later than December 1, 2035.

DEBT-RELATED DERIVATIVES
Notre Dame is counterparty in $355 million notional of forward starting fixed rate swaps. $200 million of these swaps have an effective start date of March 1, 2018, but the university expects to terminate those on the sale date of the Series 2017 bond issue. Notre Dame expects to receive a cash payment from the counterparties of approximately of $30 million. The remaining $155 million of forward starting swaps have an effective start date of March 1, 2018, but it is anticipated these swaps will be restructured to extend the effective start date to March 1, 2021. Given its ample financial resources, strong cash flow, and sophisticated management, the risks associated with these arrangements are manageable within the Aaa rating.
PENSIONS AND OPEB
Notre Dame has manageable exposure to post-retirement benefits, with related expenses accounting for about 4% of fiscal 2017 operating expenses. It offers a DC, DB and post-retirement medical benefits (OPEB). At June 30, 2017 Notre Dame reported an $84 million unfunded pension liability and a $50 million OPEB liability. Effective December 31, 2017 the DB plan is closed to new participants and current plan participants were given a one-time opportunity to remain in the plan or move to the DC plan.

Governance and management: strong planning, budgeting & oversight contribute to exceptional strategic position
Notre Dame’s strong senior leadership team and its oversight of planning and budgeting while maintaining its mission contributes to the university’s exceptional strategic position. The board has a framework of investment in its academic programs, research activity, and capital projects. Already committed to sustainability, the university has launched new efforts to amplify Pope Francis’ recent environmental commitment, including working with the City of South Bend to construct a hydroelectric facility. The board continues to broaden Notre Dame’s already expansive global footprint through its gateways, centers and offices.

Legal Security
All of Notre Dame’s debt and commercial paper are unsecured general obligations of the university and on parity.

Use of Proceeds
Proceeds from the Series 2017 bonds will fund capital projects on Notre Dame's campus, refund its tax-exempt Series 2009 bonds issued through St. Joseph County and pay issuance costs.

Obigor Profile
Located in South Bend, Indiana, University of Notre Dame was founded in 1842 by the Congregation of Holy Cross. It is a large private Catholic university, with a residential undergraduate program with graduate and professional programs. For fiscal 2017 the university had $1.4 billion of operating revenues with over 12,300 full-time equivalent students.

Methodology
The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

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<th>Issue</th>
<th>Rating</th>
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