NACUBO-Commonfund Study of Endowments

Topline Results

January 2017
Topline Results of the 2016 NCSE

- Eighth year of partnership on the NCSE between NACUBO and Commonfund.
- 805 U.S. colleges and universities participated in the FY2016 survey (compared with 812 in FY2015).
- The U.S. institutions had $515.1 billion in total endowment assets (as of June 30, 2016).
  - Average endowment of U.S. institutions was $639.9 million, median was $116.2 million.
What Is An Endowment?

• A collection of funds that are used to support different aspects of university mission.
  • E.g., financial aid, research/endowed chairs, libraries.
  • Funds are used for long-term planning and growth.
  • Generally established by donor-restricted gifts.
• Funds are invested to generate current income for today’s students AND growth for future generations (“intergenerational equity”).
  • Most endowed fund managers seek a return of 7%-8% to achieve their intergenerational equity goal.
• Funds are generally not used for short-term emergency (“rainy day”) or other needs outside of the donor restrictions.
Average Annual Net Returns*
U.S. College and University Endowments | Fiscal Years 2007 to 2016

Figure 2.1  Average Annual Total Net Returns for Total Institutions for Fiscal Years 2007-2016

(numbers in percent %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>17.2</td>
</tr>
<tr>
<td>2008</td>
<td>-3.0</td>
</tr>
<tr>
<td>2009</td>
<td>-18.7</td>
</tr>
<tr>
<td>2010</td>
<td>11.9</td>
</tr>
<tr>
<td>2011</td>
<td>19.2</td>
</tr>
<tr>
<td>2012</td>
<td>-0.3</td>
</tr>
<tr>
<td>2013</td>
<td>11.7</td>
</tr>
<tr>
<td>2014</td>
<td>15.5</td>
</tr>
<tr>
<td>2015</td>
<td>2.4</td>
</tr>
<tr>
<td>2016</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

Total Institutions: 723 728 842 850 823 831 835 832 812 805

Source: Fiscal Years 2007-2008, NACUBO Endowment Study

* Net of fees.
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# Average Annual Returns* for One-, Three-, Five-, & Ten-Years

By Endowment Size | Fiscal Years 2015 & 2016

## Figure 2.2 Average One-, Three-, Five- and 10-Year Net Returns* for Fiscal Years 2015 and 2016

<table>
<thead>
<tr>
<th></th>
<th>Total Institutions</th>
<th>Over $1 Billion</th>
<th>$501 Million-$1 Billion</th>
<th>$101-$500 Million</th>
<th>$51-$100 Million</th>
<th>$25-$50 Million</th>
<th>Under $25 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'15 '16</td>
<td>'15 '16</td>
<td>'15 '16</td>
<td>'15 '16</td>
<td>'15 '16</td>
<td>'15 '16</td>
<td>'15 '16</td>
</tr>
<tr>
<td>Annual total net return</td>
<td>2.4 -1.9</td>
<td>4.3 -1.9</td>
<td>2.8 -2.2</td>
<td>2.0 -2.4</td>
<td>2.0 -1.8</td>
<td>1.9 -1.6</td>
<td>2.3 -1.0</td>
</tr>
<tr>
<td>3-year net return</td>
<td>9.9 5.2</td>
<td>10.8 6.0</td>
<td>10.2 5.4</td>
<td>9.7 4.9</td>
<td>9.4 5.1</td>
<td>9.9 5.2</td>
<td>9.9 5.5</td>
</tr>
<tr>
<td>5-year net return</td>
<td>9.8 5.4</td>
<td>10.4 6.1</td>
<td>9.9 5.7</td>
<td>9.5 5.1</td>
<td>9.4 5.0</td>
<td>9.8 5.3</td>
<td>10.6 5.8</td>
</tr>
<tr>
<td>10-year net return</td>
<td>6.3 5.0</td>
<td>7.2 5.7</td>
<td>6.7 5.3</td>
<td>6.2 4.8</td>
<td>5.9 4.7</td>
<td>5.6 4.7</td>
<td>6.0 5.0</td>
</tr>
</tbody>
</table>

*net of fees

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NACUBO | commonfund

2016 NCSE Topline Results
# Average One-Year Rate of Return*  
**By Asset Class | Fiscal Year 2016**

![Table: Average Return by Asset Class for Fiscal Year 2016](image)

*Net of fees.  
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### Allocations to Asset Classes*

**Fiscal Years 2014, 2015 & 2016**

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#### Figure 3.2 Asset Allocations* for Fiscal Years 2014, 2015 and 2016

<table>
<thead>
<tr>
<th>numbers in percent (%)</th>
<th>Total Institutions</th>
<th>Over $1 Billion</th>
<th>$501 Million - $1 Billion</th>
<th>$101-$500 Million</th>
<th>$51-$100 Million</th>
<th>$25-$50 Million</th>
<th>Under $25 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
<td>'14 '15 '16</td>
</tr>
<tr>
<td>U.S. equities</td>
<td>17 16 16</td>
<td>13 13 13</td>
<td>20 21 20</td>
<td>27 27 26</td>
<td>31 33 38</td>
<td>38 40 38</td>
<td>43 42 44</td>
</tr>
<tr>
<td>Fixed income</td>
<td>9 9 8</td>
<td>8 8 7</td>
<td>10 10 10</td>
<td>14 14 13</td>
<td>18 18 17</td>
<td>18 18 17</td>
<td>26 24 24</td>
</tr>
<tr>
<td>Non-U.S. equities</td>
<td>19 19 19</td>
<td>18 19 19</td>
<td>20 20 18</td>
<td>21 21 21</td>
<td>21 20 19</td>
<td>18 18 17</td>
<td>14 15 15</td>
</tr>
<tr>
<td>Alternative strategies</td>
<td>51 52 53</td>
<td>57 57 58</td>
<td>44 44 45</td>
<td>33 34 35</td>
<td>24 25 24</td>
<td>38 38 38</td>
<td>10 11 10</td>
</tr>
<tr>
<td>Short-term securities/cash/other</td>
<td>4 4 4</td>
<td>4 4 4</td>
<td>3 3 3</td>
<td>6 6 8</td>
<td>5 5 5</td>
<td>6 6 7</td>
<td>7 7 8</td>
</tr>
</tbody>
</table>

* dollar-weighted

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**Alternative strategies include:** Private Equity (LBOs, mezzanine, M&A funds, and international private equity); Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven, and derivatives); Venture capital; Private equity real estate (non-campus); Energy and natural resources (oil, gas, timber, commodities and managed futures); and Distressed Debt.

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## Percent of Endowments with YOY Increase in Spending Dollars
Fiscal Year 2016

### Figure 5.7  Changes to Spending Dollars for Fiscal Year 2016

<table>
<thead>
<tr>
<th></th>
<th>Total Institutions</th>
<th>Over $1 Billion</th>
<th>$501 Million– $1 Billion</th>
<th>$101–$500 Million</th>
<th>$51–$100 Million</th>
<th>$25–$50 Million</th>
<th>Under $25 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased spending dollars</td>
<td>74</td>
<td>82</td>
<td>83</td>
<td>79</td>
<td>73</td>
<td>65</td>
<td>62</td>
</tr>
<tr>
<td>Median percent increase</td>
<td>8.1</td>
<td>7.7</td>
<td>6.8</td>
<td>7.7</td>
<td>8.2</td>
<td>12.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Decreased spending dollars</td>
<td>16</td>
<td>6</td>
<td>6</td>
<td>16</td>
<td>20</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Median percent decrease</td>
<td>8.6</td>
<td>3.9</td>
<td>4.1</td>
<td>5.3</td>
<td>8.2</td>
<td>9.4</td>
<td>17.9</td>
</tr>
<tr>
<td>No change</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>*</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>No answer/uncertain</td>
<td>9</td>
<td>12</td>
<td>11</td>
<td>5</td>
<td>7</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

*sample size too small to analyze.
Average Annual Effective Spending Rates*
Fiscal Years 2007 to 2016

Figure 5.1  Average Annual Effective Spending Rates* for Total Institutions for Fiscal Years 2007-2016

Numbers in percent (%)
5.0%

*equal-weighted
Source: Fiscal Years 2007-2008, NACUBO Endowment Study

The effective spending rate is the percentage of the beginning market value of the endowment that is made available annually for spending on student financial aid, faculty research, maintenance of facilities, and other campus operations, as determined and defined by each institution. The rate is calculated net of any fees or expenses for managing and administering the endowment.


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Summary – Key Results of the 2016 NCSE

- Much lower returns, but increased endowment spending dollars.

- The average 10-year annual return of 5.0% is far below institutions’ median long-term target rate of 7.4%.

- Asset allocations remained stable despite turbulent market conditions.

- Lower returns reflect the fiscal constraints and other challenges that many schools are facing.
What the 2016 Results Mean for Higher Education Institutions

- Endowments remain essential to college and university long-term planning.

- The average 10-year annual endowment return of 5.0% is below institutions’ median long-term target rate of 7.4%.
  - This may make it harder for schools to increase endowment spending dollars in the future.

- Many schools continue to struggle, in spite of raising their endowment spending dollars.
  - Student enrollments have been falling in recent years and are expected to continue to decline.
  - Increased pressure from policy makers to freeze or cut tuition while maintaining access and affordability.

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Research Partners

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The National Association of College and University Business Officers (NACUBO) is a membership organization representing more than 2,100 colleges and universities across the country.
NACUBO specifically represents chief business and financial officers through advocacy efforts, community service and professional development activities. The association’s mission is to advance the economic viability and business practices of higher education institutions in fulfillment of their academic missions. For more information, please visit www.nacubo.org.

About Commonfund
Commonfund was founded in 1971 as an independent nonprofit asset management firm with a grant from the Ford Foundation. Commonfund today manages customized investment programs for endowments, foundations and public pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, we provide extensive investment flexibility using independent investment sub-advisers for discretionary outsourcing engagements, single strategies and multi-asset solutions. Investment programs incorporate active and passive strategies in equities and fixed income, hedge funds, real assets and private capital. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

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