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NACUBO-  
Commonfund  
Study of  
Endowments

NCSE

## Topline Results

RETURNS AND INVESTMENT OBJECTIVES  
ASSET ALLOCATION | INVESTMENT POLICIES  
SOCIAL INVESTING | DEBT | FUND FLOWS  
RESOURCES MANAGEMENT GOVERNANCE

January 2017

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2016

## 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.

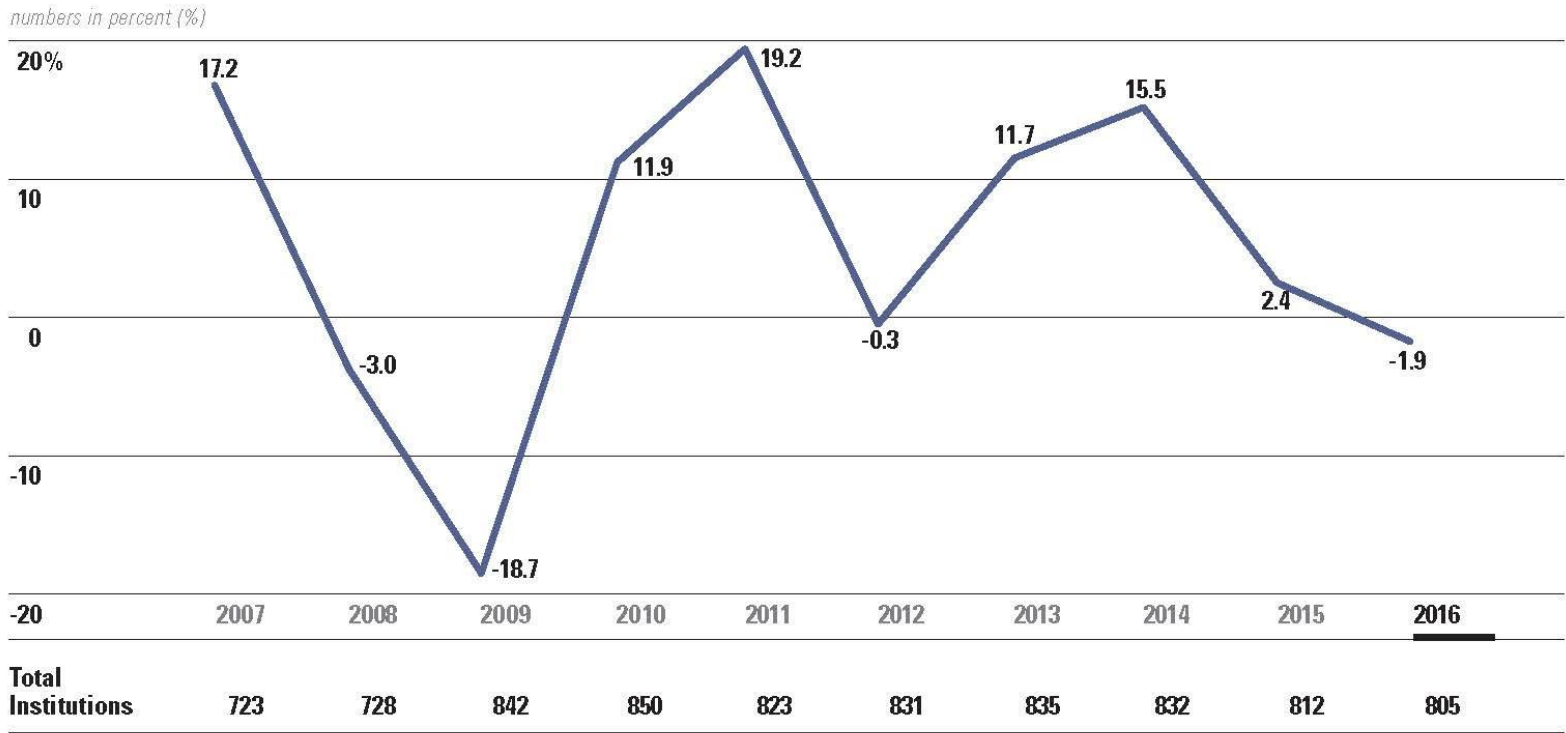
# What Is An Endowment?

- 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**



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

\* Net of fees.

Source: Fiscal years 2005 – 2007, NACUBO Endowment Study; Fiscal years 2008 – 2016, NACUBO-Commonfund Study of Endowments.

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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**

<i>numbers in percent (%)</i>	Total Institutions		Over \$1 Billion		\$501 Million-\$1 Billion		\$101-\$500 Million		\$51-\$100 Million		\$25-\$50 Million		Under \$25 Million	
	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16
	812	805	94	91	77	75	261	264	167	163	117	121	96	91
Annual total net return	2.4	-1.9	4.3	-1.9	2.8	-2.2	2.0	-2.4	2.0	-1.8	1.9	-1.6	2.3	-1.0
3-year net return	9.9	5.2	10.8	6.0	10.2	5.4	9.7	4.9	9.4	5.1	9.9	5.2	9.9	5.5
5-year net return	9.8	5.4	10.4	6.1	9.9	5.7	9.5	5.1	9.4	5.0	9.8	5.3	10.6	5.8
10-year net return	6.3	5.0	7.2	5.7	6.7	5.3	6.2	4.8	5.9	4.7	5.6	4.7	6.0	5.0

\*net of fees

# Average One-Year Rate of Return\*

## By Asset Class | Fiscal Year 2016

**Figure 2.6 Average Return by Asset Class for Fiscal Year 2016**

<i>numbers in percent (%)</i>	<b>Total Institutions</b>	<b>Over \$1 Billion</b>	<b>\$501 Million-\$1 Billion</b>	<b>\$101-\$500 Million</b>	<b>\$51-\$100 Million</b>	<b>\$25-\$50 Million</b>	<b>Under \$25 Million</b>
	<b>805</b>	<b>91</b>	<b>75</b>	<b>264</b>	<b>163</b>	<b>121</b>	<b>91</b>
Average FY2016 total return	-1.9	-1.9	-2.2	-2.4	-1.8	-1.6	-1.0
U.S. equities	-0.2	-2.1	-1.5	0.0	0.4	0.3	0.4
Fixed income	3.6	3.9	3.8	3.4	3.5	3.4	3.7
Non-U.S. equities	-7.8	-7.3	-8.0	-7.8	-8.4	-7.3	-6.7
Alternative strategies	-1.4	-1.1	-1.7	-0.9	-2.4	-1.5	-0.6
<i>Private equity (LBOs, mezzanine, M&amp;A funds and non-U.S. private equity)</i>	4.5	6.3	3.7	3.5	4.1	7.8	*
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	-4.0	-3.6	-3.9	-4.3	-4.0	-4.1	-3.6
<i>Venture capital</i>	1.5	1.0	1.6	1.1	3.0	*	*
<i>Private equity real estate (non-campus)</i>	7.1	10.8	6.9	6.3	5.6	6.3	*
<i>Energy and natural resources</i>	-7.5	-9.3	-6.8	-7.3	-7.7	-6.7	*
<i>Commodities and managed futures</i>	-7.7	-4.2	-9.9	-8.2	-7.5	-9.0	*
<i>Distressed debt</i>	-0.6	0.8	1.4	-1.5	-1.5	-3.3	*
Short-term securities/cash/other	0.2	0.5	0.0	0.1	0.3	0.1	0.1
Short-term securities/cash	0.1	0.0	0.0	0.1	0.4	0.1	0.2
Other	0.7	*	*	0.0	-0.5	-0.3	*

\*sample size too small to analyze.

\*Net of fees.

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# Allocations to Asset Classes\*

Fiscal Years 2014, 2015 & 2016

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

<i>numbers in percent (%)</i>	Total Institutions			Over \$1 Billion			\$501 Million-\$1 Billion			\$101-\$500 Million			\$51-\$100 Million			\$25-\$50 Million			Under \$25 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
	832	812	805	91	94	91	77	77	75	262	261	264	168	167	163	125	117	121	109	96	91
U.S. equities	17	16	16	13	13	13	20	21	20	27	27	26	31	33	33	38	40	38	43	42	44
Fixed income	9	9	8	8	7	7	10	9	9	14	13	13	18	17	17	19	20	20	26	24	24
Non-U.S. equities	19	19	19	18	19	19	20	20	18	21	21	20	21	20	19	18	18	17	14	15	15
Alternative strategies	51	52	53	57	57	58	44	44	45	33	34	35	24	25	24	18	16	17	10	11	10
Short-term securities/cash/other	4	4	4	4	4	3	6	6	8	5	5	6	6	5	7	7	6	8	7	8	7

\*dollar-weighted

\*\*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**

<i>numbers in percent (%)</i>	<b>Total Institutions</b>	<b>Over \$1 Billion</b>	<b>\$501 Million-\$1 Billion</b>	<b>\$101-\$500 Million</b>	<b>\$51-\$100 Million</b>	<b>\$25-\$50 Million</b>	<b>Under \$25 Million</b>
	<b>805</b>	<b>91</b>	<b>75</b>	<b>264</b>	<b>163</b>	<b>121</b>	<b>91</b>
Increased spending dollars	<b>74</b>	<b>82</b>	<b>83</b>	<b>79</b>	<b>73</b>	<b>65</b>	<b>62</b>
<i>Median percent increase</i>	<b>8.1</b>	<b>7.7</b>	<b>6.8</b>	<b>7.7</b>	<b>8.2</b>	<b>12.8</b>	<b>12.5</b>
Decreased spending dollars	<b>16</b>	<b>6</b>	<b>6</b>	<b>16</b>	<b>20</b>	<b>20</b>	<b>25</b>
<i>Median percent decrease</i>	<b>8.6</b>	<b>3.9</b>	<b>4.1</b>	<b>5.3</b>	<b>8.2</b>	<b>9.4</b>	<b>17.9</b>
No change	<b>1</b>	<b>0</b>	<b>0</b>	<b>*</b>	<b>0</b>	<b>3</b>	<b>1</b>
No answer/uncertain	<b>9</b>	<b>12</b>	<b>11</b>	<b>5</b>	<b>7</b>	<b>12</b>	<b>12</b>

\*sample size too small to analyze

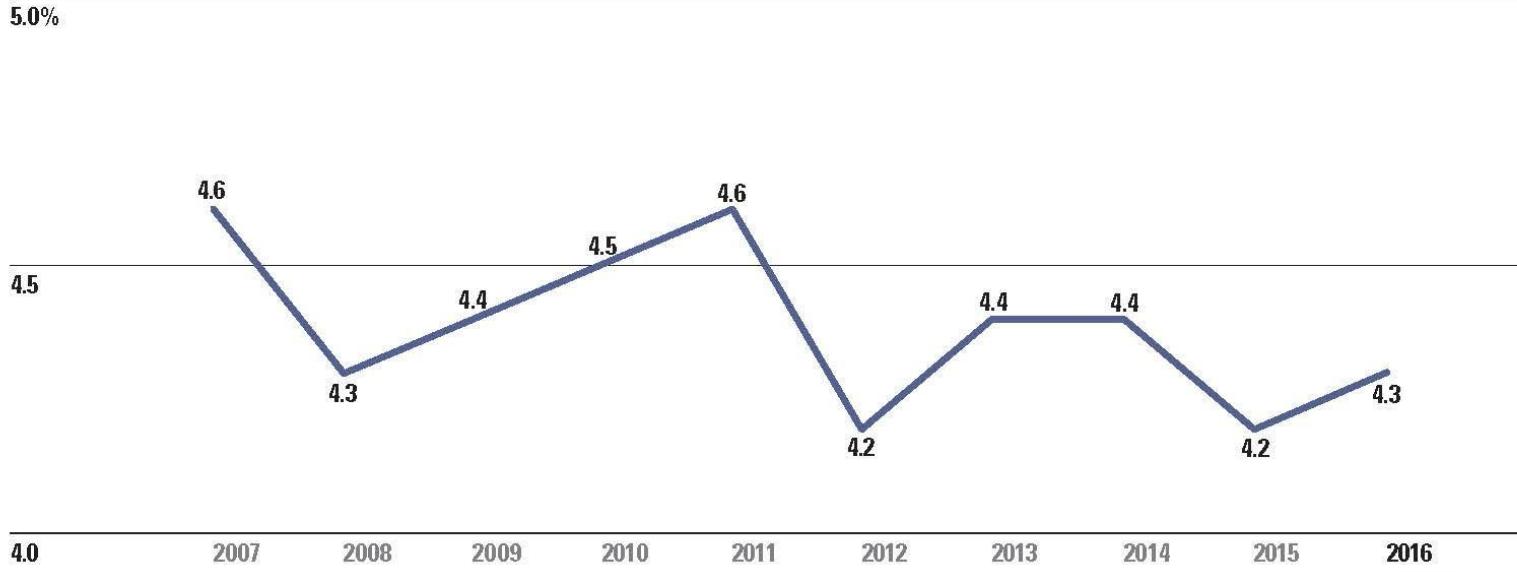


# Average Annual Effective Spending Rates\*

## Fiscal Years 2007 to 2016

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

numbers in percent (%)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total Institutions</b>	776	772	842	850	823	831	835	832	812	805

\*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.

Source: Fiscal years 2005 – 2007, NACUBO Endowment Study; Fiscal years 2008 – 2016, NACUBO-Commonfund Study of Endowments.

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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.

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# 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

## About NACUBO

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](http://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](http://www.commonfund.org).

## About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research such as the NACUBO–Commonfund Study of Endowments; publications including the Commonfund Higher Education Price Index<sup>®</sup> (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

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