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Educational Endowments' Investment Returns

Decline Sharply to 2.4% in FY2015; 10-Year Returns Fall to 6.3%

Institutions Increase Endowment Spending Despite Lower Returns

(Wilton, CT, January 27, 2016) - Data gathered from 812 U.S. colleges and universities for the 2015 NACUBO-Commonfund Study of Endowments® (NCSE) show that participating institutions' endowments returned an average of 2.4 percent (net of fees) for the 2015 fiscal year (July 1, 2014 – June 30, 2015) compared with 15.5 percent for the 2014 fiscal year. This year's return was the lowest since the -0.3 percent reported for FY2012 and contributed to a decline in long-term 10-year average annual returns, to 6.3 percent from last year's 7.1 percent. This year's long-term return figure is well below the median 7.5 percent that most endowments report they need to earn in order to maintain their purchasing power after spending, inflation and investment management costs.

Despite the decline in investment gains, 78 percent of Study respondents reported spending more in dollars from their endowments this year. Among institutions increasing their dollar spending, the median increase was a substantial 8.8 percent, well above inflation.

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The 812 institutions in this year's Study represented \$529.0 billion in endowment assets. While the average endowment was about \$651.5 million, more than half the Study participants had endowments that were below \$115 million.

FY2015 Returns by Asset Class

FY2015 investment returns for all of the investment categories followed in the Study were lower than in the previous fiscal year. Domestic equities generated the highest return, at 6.4 percent, a figure well below last year's 22.8 percent. Other comparative reported returns for the two fiscal years were: alternative strategies, 1.1 percent in FY2015 versus 12.7 percent in FY2014; fixed income (domestic and foreign bonds), 0.2 percent versus 5.1 percent; international equities, -2.1 percent versus 19.2 percent; and short-term securities/cash/other, 0.0 percent versus 1.9 percent. (All returns are reported net of fees.)

Examining reported FY2015 returns for the various alternative investment strategies, venture capital again provided the highest return, at 15.1 percent, compared with 23.3 percent a year ago. Private equity real estate (non-campus) returned 9.9 percent, down from 12.6 percent in FY2014. Private equity (LBOs, mezzanine, M&A funds and international private equity) followed at 9.3 percent compared with 16.5 percent in FY2014. Distressed debt produced a 5.4 percent return, down from the previous year's 13.2 percent. Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives) returned 2.7 percent versus FY2014's 9.9 percent. Two strategies yielded negative returns: commodities and managed futures had a return of -17.7 percent compared with a 7.9 percent gain in FY2014, and energy and natural resources returned -13.3 percent against 15.3 percent last year.

Study data are broken down into six endowment size categories, ranging from institutions with total endowment assets under \$25 million to those with assets in excess of \$1 billion. From high to low, the spread of FY2015 returns across the size cohorts was 240 basis points (2.4 percentage points), 110 basis points higher than last year. The highest average return, 4.3 percent, was reported by institutions with assets over \$1 billion while returns for the other size categories ranged from 1.9 percent to 2.8 percent. Returns generally were correlated with endowment size with the exception of the smallest size category, which reported average returns of 2.3 percent.

2015 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average Return by Asset Class for Fiscal Year 2015

<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
	812	94	77	261	167	117	96
Average FY2015 total return	2.4	4.3	2.8	2.0	2.0	1.9	2.3
Domestic equities	6.4	7.0	7.8	5.8	6.7	5.9	6.5
Fixed income	0.2	0.5	0.3	0.2	0.0	0.1	0.7
International equities	-2.1	-0.9	-1.5	-2.2	-2.5	-2.4	-2.7
Alternative strategies	1.1	6.5	3.2	2.5	-1.6	-1.6	-6.5
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	9.3	11.8	10.4	8.1	7.9	8.7	*
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	2.7	3.3	2.8	2.7	3.3	1.7	-0.5
<i>Venture capital</i>	15.1	21.6	18.2	10.5	14.3	*	*
<i>Private equity real estate (non-campus)</i>	9.9	13.4	12.2	8.3	9.5	5.7	*
<i>Energy and natural resources</i>	-13.3	-12.5	-15.4	-11.6	-11.9	-16.6	*
<i>Commodities and managed futures</i>	-17.7	-13.2	-15.8	-18.4	-20.0	-15.6	*
<i>Distressed debt</i>	5.4	3.6	5.4	5.8	7.6	6.1	*
Short-term securities/cash/other	0.0	0.1	-0.3	0.0	0.1	0.0	-0.3
Short-term securities/cash	0.1	0.1	0.2	0.0	0.1	0.1	0.2
Other	-0.5	*	-2.4	0.1	1.1	*	*

*sample size too small to analyze

The annual NCSE analyzes return data and a broad range of related information gathered from U.S. colleges and universities, both public and private, as well as their supporting foundations. The size and scope of the Study make it the most comprehensive annual report on the investment management and governance practices and policies of institutions of higher education across the U.S.

Three-, Five-, and Ten-Year Returns

While one-year returns are important, many endowment managers use 10-year average annual returns as a target for long-range planning purposes. Trailing 10-year returns declined to an average of 6.3 percent from last year’s 7.1 percent. The highest average 10-year return came from the largest size category, at 7.2 percent, while institutions with assets between \$25 and \$50 million reported the lowest, at 5.6 percent. Trailing five-year returns averaged 9.8 percent compared with 11.7 percent in last year’s Study. Institutions with assets under \$25 million reported the highest return for the trailing five-year period, at 10.6 percent, while institutions with assets between \$51 and \$100 million reported the lowest average return, at 9.4 percent. Participating institutions’ trailing three-year returns averaged 9.9 percent, up from 9.0 percent last year. Institutions with assets over \$1 billion had the highest average return for this time frame, at 10.8 percent. The lowest average return for this period, 9.4 percent, was reported by institutions with assets between \$51 and \$100 million.

2015 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average One-, Three-, Five- and 10-Year Net Returns* for Fiscal Years 2014 and 2015

numbers in percent (%)	Total Institutions		Over \$1 Billion		\$501 Million-\$1 Billion		\$101-\$500 Million		\$51-\$100 Million		\$25-\$50 Million		Under \$25 Million	
	832	812	91	94	77	77	262	261	168	167	125	117	109	96
	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15	'14	'15
Annual total net return	15.5	2.4	16.5	4.3	15.8	2.8	15.5	2.0	15.2	2.0	15.2	1.9	15.5	2.3
3-year net return	9.0	9.9	9.5	10.8	9.1	10.2	8.9	9.7	8.7	9.4	8.9	9.9	9.4	9.9
5-year net return	11.7	9.8	12.1	10.4	11.8	9.9	11.8	9.5	11.4	9.4	11.4	9.8	12.0	10.6
10-year net return	7.1	6.3	8.2	7.2	7.3	6.7	7.1	6.2	6.5	5.9	6.5	5.6	6.6	6.0

*net of fees

“FY2015’s lower average 10-year return is a great concern,” NACUBO President and Chief Executive Officer John D. Walda said. “On average, institutions derive nearly 10 percent of their operating funds from their endowments. Lower returns may make it even tougher for colleges and universities to adequately fund financial aid, research, and other programs that are very reliant on endowment earnings and are vital to institutions’ missions. But it is important to note that even with the lower returns, institutions are clearly showing a tremendous commitment to supporting valuable programs with increased endowment dollars.”

William F. Jarvis, Executive Director of Commonfund Institute, reiterated those comments by pointing to institutions' long-term investment objectives. "Forty-nine percent of institutions participating in this year's Study have long-term return targets of 7.0 to 8.9 percent annually," Jarvis noted, adding, "In the seven years that Commonfund Institute and NACUBO have teamed to produce the NCSE, the highest trailing 10-year return was 7.1 percent in fiscal years 2013 and 2014, meaning that institutions have only touched the lower end of their targeted return range twice and have been well short of more ambitious objectives."

Jarvis added that the use of risk management practices by endowments, which has been on the rise in recent years, continued to gain broader adoption in FY2015. The Study found that 62 percent of participating institutions employed risk limits in their portfolios, up strongly from 57 percent in FY2014 and the 50 percent reported two years ago. Sixty-six percent of survey participants said they use measures such as alpha and beta, up from 61 percent last year and 55 percent in FY2013. Fifty-one percent of respondents reported using stress testing or scenario analysis for their portfolios compared with 46 percent last year and 41 percent two years ago.

Asset Allocation

Asset allocation among participating endowments was little changed over the course of the fiscal year. Participating endowments reported the following asset allocation in FY2015:

Asset Allocations* for Fiscal Years 2014 and 2015

Asset Class	Fiscal Year	
	2015	2014
Domestic equities	16%	17%
Fixed income	9%	9%
International equities	19%	19%
Alternative strategies	52%	51%
Short-term securities/cash/other	4%	4%

*Dollar-weighted

2015 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Detailed Asset Allocations* for Fiscal Year 2015

<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
	812	94	77	261	167	117	96
Domestic equities	16	13	21	27	33	40	42
Fixed income	9	7	9	13	17	20	24
International equities	19	19	20	21	20	18	15
Alternative strategies	52	57	44	34	25	16	11
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	10	12	7	5	3	2	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	20	21	22	17	13	8	7
<i>Venture capital</i>	5	7	3	1	1	0	0
<i>Private equity real estate (non-campus)</i>	6	7	4	3	2	2	0
<i>Energy and natural resources</i>	6	6	4	3	2	1	1
<i>Commodities and managed futures</i>	1	1	1	1	1	1	1
<i>Distressed debt</i>	2	2	1	1	0	0	0
<i>Alternatives not broken out</i>	2	1	2	3	3	2	2
Short-term securities/cash/other	4	4	6	5	5	6	8
<i>Short-term securities/cash</i>	3	2	4	3	3	4	4
<i>Other</i>	1	1	2	2	1	2	3
<i>Short-term securities/cash not broken out</i>	0	1	0	0	1	0	1

*dollar-weighted

The largest institutions in the Study reported an average 57 percent allocation to alternative strategies while the smallest size cohorts averaged just 11 percent. The reverse was true for domestic equities, where institutions with assets under \$25 million reported an average 42 percent allocation versus 13 percent for institutions with assets over \$1 billion. The allocation to alternative strategies is correlated with endowment size; for both domestic equities and fixed income the reverse is true, with the allocation growing as endowment assets decline in size.

Among alternative strategies allocations for the Study population as a whole, the largest allocation, at 20 percent, was to marketable alternatives, followed by private equity at 10 percent. Other allocations were: energy and natural resources and private equity real estate (non-campus), at 6 percent each; venture capital, at 5 percent; distressed debt, at 2 percent; and commodities and managed futures, at 1 percent.

Spending Rates and New Gifts to Endowment

The FY2015 effective spending rate for the 812 participating institutions averaged 4.2 percent, down slightly from 4.4 percent last year and attributable to the lag effect created by strongly rising markets in FY2013 and FY2014 on the averaging method used by the great majority of institutions in calculating their spending. The effective spending rate varied from a high of 4.5 percent for institutions with assets under \$25 million to a low of 4.0 percent for institutions with assets between \$25 and \$50 million.

Although the effective spending rate declined moderately, a higher percentage of institutions reported increasing their endowment spending in dollar terms. Five of the six endowment size cohorts reported higher dollar spending in FY2015. Among the largest endowments that increased spending, the median increase was 7.1 percent, while among the schools with the smallest endowments the median increase was 12.4 percent.

Participating institutions reported that an average of 9.7 percent of their operating budget is funded by their endowment compared with 9.2 percent reported a year ago. The largest institutions, those with assets over \$1 billion, relied on the endowment to fund an average 16.5 percent of their operating budget in FY2015, while at institutions with assets under \$25 million the endowment funded just 4.7 percent of the operating budget.

The median total of new gifts to endowment was \$2.7 million, an increase from last year's \$2.5 million, while the average total of new gifts was \$10.0 million compared with last year's \$10.1 million. Forty-five percent of participating institutions reported an increase in gifts to endowment in FY2015, unchanged year over year. Thirty-eight percent reported a decrease in gifts, also unchanged.

Debt

Of the 812 Study participants, 610 said they held long-term debt. Among these 610 institutions, the average total debt stood at \$219.1 million as of June 30, 2015, compared with \$217.5 million a year earlier. Median debt rose slightly to \$58.2 million from \$55.2 million. Thirty percent of Study participants reported increasing debt in FY2015, a two-percentage-point decrease over the course of the year. Sixty-five percent reported a decrease, up from 62 percent in last year's Study.

Staffing, Outsourcing and Consultant Use

Endowments reported an average of 1.7 full-time equivalent (FTE) employees devoted to the investment management function in FY2015, essentially unchanged from an average of 1.6 FTEs a year ago. Endowments with assets over \$1 billion had the largest average staff size, at 9.1 FTEs, while endowments with assets between \$501 million and \$1 billion reported an average of 2.5 FTEs. Endowments in the other size cohorts reported an average of less than one full-time equivalent devoted to investment management.

Forty-three percent of Study respondents said they have substantially outsourced their investment management function, unchanged year over year. While the use of outsourcing has been increasing for a number of years, this year may indicate a pause in this trend. Eighty-four percent of the Study population reported using a consultant for various services related to investment management, a moderate increase over last year's 82 percent.

Responsible Investing Criteria

Of the 812 Study participants, 15 percent said they seek to include in their portfolios investments ranking high on environmental, social and governance (ESG) criteria, a one-percentage-point increase year over year. Twenty-five percent said they exclude or screen out investments that are inconsistent with the institution's mission, unchanged from the previous Study, while 16 percent said that they allocate a portion of the endowment to investments that further the institution's mission, a small increase over the 15 percent that did so last year. Just 7 percent of institutions said that their board had voted to exclude responsible investing considerations, up slightly from 6 percent last year, while 76 percent of respondents said their board had not taken such an action, also a one-percentage-point increase. Seven percent said they were considering changing their investment policy to include integration of ESG practices in their investment process, unchanged from last year, while 70 percent said they were not doing so, compared with last year's 69 percent.

NCSE Leaders

NCSE Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2015. Compared with the Study universe return of 2.4 percent, the top decile reported an average return (net of fees) of 7.8 percent and the top quartile reported an average net return of 5.8 percent.

The top decile reported 10-year trailing returns of 7.9 percent, while the top quartile reported 7.3 percent. For the same period, the Study population overall reported an average annual return of 6.3 percent. For the trailing five-year period, respective returns were 11.1 percent, 10.9 percent and 9.8 percent. For the trailing three years, the top decile reported an average annual return of 11.7 percent while the top quartile was just behind with an average annual return of 11.4 percent versus a 9.9 percent average return for the Study universe.

As was the case last year, the NCSE Leaders had a smaller allocation to the highest performing asset class, domestic equities. Compared with an overall allocation of 16 percent, the top decile allocated 11 percent to domestic equities while the top quartile allocated 13 percent. All three categories had roughly equal allocations to the poorest performer, international equities. NCSE Leaders had the largest allocations to alternative strategies—an average of 61 percent for the top decile and 58 percent for the top quartile against 52 percent for Study participants overall.

As has frequently been true in the past, the largest and most-diversified endowments were over-represented among the NCSE Leaders. Institutions with assets over \$1 billion represented 12 percent of the Study population, but 36 percent of the top decile and 24 percent of the top quartile.

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.

About Commonfund

The Common Fund for Nonprofit Organizations (“Commonfund”) was founded in 1971 as a nonprofit asset management firm with a grant from the Ford Foundation. Commonfund and its affiliates today manage customized investment programs for endowments, foundations and public pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, Commonfund and its affiliates 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 and an affiliate of Commonfund. For additional information about Commonfund, please visit 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® (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

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