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**Educational Endowments' Investment Returns
Averaged 11.7% in FY2013;
Strong Improvement over FY2012's -0.3%**

January 28, 2014 - Data gathered from 835 U.S. colleges and universities for the 2013 NACUBO-Commonfund Study of Endowments® (NCSE) show that these institutions' endowments returned an average of 11.7 percent (net of fees) for the 2013 fiscal year (July 1, 2012 – June 30, 2013). The FY2013 return represents a strong recovery from the -0.3 percent return reported by Study participants for FY2012.

Endowments remain a significant source of support for higher education. Participating institutions reported that an average of 8.8 percent of their operating budget is funded by their endowment, ranging from a high of 16.2 percent for institutions with assets over \$1 billion to a low of 2.5 percent for institutions with assets under \$25 million. Many institutions use their endowment income to fund financial aid and other programs for students and faculty.

Domestic equities generated the highest average return in FY2013, at 20.6 percent, followed by international equities, at 14.6 percent. Alternative strategies returned 8.3 percent, fixed income returned 1.7 percent and short-term securities/cash/other returned 1.2 percent. (All returns are reported net of fees.)

Among the various alternative investment strategies, distressed debt produced the highest return, at 14.8 percent, followed by 10.5 percent for marketable alternatives (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives). Private equity (LBOs, mezzanine, M&A funds and international private equity) returned 9.1 percent, while private equity real estate (non-campus) returned 8.5 percent and venture capital returned 6.1 percent. Commodities and managed futures returned -6.1 percent, the year's only investment strategy to report a negative return.

Study data are reported by endowment size and by type of institution. There are six endowment size groupings, ranging from institutions with endowment assets under \$25 million to those with assets in excess of \$1 billion. The range of FY2013 returns across these size cohorts was a very narrow 60 basis points, from a high of 12.0 percent for institutions with assets between \$501 million and \$1 billion to a low of 11.4 percent for institutions with assets between \$25 and \$50 million. This degree of compression is relatively unusual; by comparison, in the FY2012 Study, the spread of returns from highest to lowest was 180 basis points and in FY2011 it was 250 basis points.

2013 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average Return by Asset Class for Fiscal Year 2013

<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
	835	82	70	261	166	125	131
Average FY2013 total return	11.7	11.7	12.0	11.9	11.5	11.4	11.7
Domestic equities	20.6	21.3	21.5	20.7	20.3	19.2	20.6
Fixed income	1.7	1.4	0.5	1.7	2.0	2.3	1.9
International equities	14.6	14.9	15.6	14.4	14.7	14.9	13.1
Alternative strategies	8.3	10.6	11.0	9.1	7.4	6.5	4.8
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	9.1	12.5	9.8	7.3	8.9	11.8	♦
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	10.5	11.9	13.1	10.5	9.9	8.2	8.2
<i>Venture capital</i>	6.1	9.7	3.6	5.4	3.9	♦	♦
<i>Private equity real estate (non-campus)</i>	8.5	8.8	9.9	9.6	4.6	8.1	♦
<i>Energy and natural resources</i>	4.7	5.5	6.8	3.9	3.8	0.3	♦
<i>Commodities and managed futures</i>	-6.1	-8.3	-6.1	-6.7	-5.0	-4.3	-6.4
<i>Distressed debt</i>	14.8	18.0	17.8	12.9	13.3	♦	♦
Short-term securities/cash/other	1.2	0.8	0.9	1.8	0.7	0.7	1.2
Short-term securities/cash	0.3	0.6	0.2	0.4	0.2	0.4	0.1
Other	5.3	♦	♦	6.0	3.0	♦	5.9

♦ sample size too small to analyze

The annual NCSE analyzes return data and a broad range of related information gathered from private and public U.S. colleges and universities and institution-related support 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. The 835 institutions participating in this year's Study represented \$448.6 billion in endowment assets as of June 30, 2013.

Longer-term returns

Participating institutions' trailing three-year returns averaged 10.2 percent and, like the FY2013 returns, were separated by just 60 basis points from high to low. Trailing five-

2013 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average One-, Three-, Five- and 10-Year Net Returns for Fiscal Years 2012 and 2013

<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	
	831	835	68	82	71	70	250	261	164	166	128	125	150	131
	'12	'13	'12	'13	'12	'13	'12	'13	'12	'13	'12	'13	'12	'13
Annual total net return	-0.3	11.7	0.8	11.7	0.4	12.0	-0.7	11.9	-1.0	11.5	-0.5	11.4	0.3	11.7
3-year net return	10.2	10.2	10.6	10.5	10.3	10.2	10.2	10.2	9.7	10.0	10.1	10.1	10.4	10.6
5-year net return	1.1	4.0	1.7	3.8	1.2	4.0	0.7	3.8	1.0	4.0	1.0	4.3	1.5	4.9
10-year net return	6.2	7.1	7.6	8.3	6.6	7.6	6.0	7.0	5.7	6.7	5.8	6.4	5.7	6.3

year returns averaged 4.0 percent, with the return spread widening to 110 basis points. Trailing 10-year returns averaged 7.1 percent, with an even wider 200-basis-point spread from high to low. Endowments with assets under \$25 million reported the highest average three-year return, at 10.6 percent, just 10 basis points higher than endowments with assets over \$1 billion. Endowments under \$25 million also reported the highest trailing five-year returns, at 4.9 percent. For the trailing 10-year period, endowments with assets over \$1 billion generated the highest average return, at 8.3 percent.

Commenting on the return data in a joint statement, Commonfund Institute Executive Director John S. Griswold observed, “The strong overall performance by endowments is encouraging at a time when the global economy continues its relatively slow recovery from the economic crisis of five years ago. This year’s investment results reflect in large measure the strength in publicly traded equities that has prevailed since early 2009. While larger endowments have performed better over the longer-term 10-year period, smaller endowments with higher allocations to domestic equities have done well in the shorter term – a result that has enabled them to continue to support their educational missions.” NACUBO President and Chief Executive Officer John D. Walda added, “Improved performance of endowments is great news to higher education and the students we serve. The performance of endowments this year potentially provides additional resources for

higher education institutions to use to support student scholarships and financial aid, teaching, research, libraries, and other vital programs.”

Asset Allocation

The final FY2013 NCSE data showed that participating institutions’ asset allocations remained quite stable from year to year. In particular, the final data indicated that participating institutions allocated 53 percent of their portfolios to alternative strategies—a decline of just one percentage point. This is a refinement from preliminary indications, announced in November, that educational endowments’ allocation to alternative strategies had declined to 47 percent of their total portfolio from 54 percent in FY2012. “In the final data, several large institutions reported significant increases in their allocations to private equity, which accounted for the difference. This relative pause in the decade-long growth of alternative strategy allocations will bear watching in future years,” Griswold said.

2013 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Detailed Asset Allocations* for Fiscal Year 2013

<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
	835	82	70	261	166	125	131
Domestic equities	16	13	20	27	33	36	43
Fixed income	10	8	11	15	20	22	26
International equities	18	17	19	19	20	17	14
Alternative strategies	53	59	45	34	23	20	11
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	12	15	8	6	2	2	1
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	20	20	21	17	10	10	6
<i>Venture capital</i>	4	5	3	2	1	1	0
<i>Private equity and real estate (non-campus)</i>	7	8	4	3	3	2	1
<i>Energy and natural resources</i>	5	6	4	3	1	1	1
<i>Commodities and managed futures</i>	2	2	1	1	2	2	1
<i>Distressed debt</i>	2	2	2	1	1	0	0
<i>Alternatives not broken out</i>	1	1	2	1	3	2	1
Short-term securities/cash/other	3	3	5	5	4	5	6
<i>Short-term securities/cash</i>	2	2	3	3	2	3	4
<i>Other</i>	1	1	2	2	2	2	2

*dollar-weighted

(Alternative strategies include marketable alternatives, such as hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives; private capital, including private equity, international private equity, global venture capital and energy and natural resources; distressed debt; and private equity real estate.)

Participating endowments reported the following average dollar-weighted asset allocations in FY2013 (with comparable FY2012 figures in parentheses):

Domestic equities: 16% (15%)

Fixed income: 10% (11%)

International equities: 18% (16%)

Alternative strategies: 53% (54%)

Short-term securities/cash/other: 3% (4%)

Among alternative strategies, the largest allocation, at 20 percent, was to marketable alternatives, followed by private equity at 12 percent. Other allocations were energy and natural resources, 5 percent; private equity real estate (non-campus), 7 percent; venture capital, 4 percent; and distressed debt, 2 percent.

Fund Flows

The FY2013 effective spending rate for the 835 institutions averaged 4.4 percent, up from 4.2 percent a year ago. The spending rate was correlated with the size of the six cohorts; the highest rate, of 4.8 percent, was reported by institutions with assets over \$1 billion while those with assets under \$25 million reported a rate of 4.1 percent. Fifty-one percent of Study respondents reported an increased effective spending rate, while 25 percent reported a decrease. “Colleges and universities typically have a spending policy that is set by an overseeing board,” Griswold said. “Most institutions seek a payout policy that provides some level of predictability in annual budgeting while also adhering to a principle of intergenerational equity—that is, ensuring that endowment funds can serve both current and future generations of students.”

Continuing the gradual increase in endowment giving that has accompanied the economic recovery, 51 percent of participating institutions reported an increase in gifts, while 30 percent reported a decrease in gifts. Among institutions reporting an increase, the median increase was 55.8 percent; for those reporting a decrease, the median decrease was 33.9 percent. The median total of new gifts to endowment was \$2.3 million, while the average gift was \$9.4 million, a marked increase from FY2012’s average of \$8.0 million.

“Despite the improvements in investment returns over the past year, colleges and universities are in a period of rethinking their budget-setting strategies and priorities,” Walda added. “We have gone through a great period of volatility in the financial markets over the past ten years, along with deep cutbacks in government funding for higher

education and declines in enrollment and tuition revenue at some schools. Thus, the strong performance of endowments this year, while gratifying, must be put in context of continuing stress on tuition, state government appropriations, and other revenue sources.”

Debt

Among the 638 Study respondents reporting that they carry debt, average total debt stood at \$204.3 million as of June 30, 2013, up from \$187.5 million the prior year. Median debt was virtually unchanged, at \$56.3 million compared with \$56.7 million a year ago.

Thirty-one percent of Study participants reported that their institutions increased the level of debt in FY2013 versus 62 percent reporting a decrease.

Staffing, Outsourcing and Consultant Use

Endowments reported an average of 1.6 full-time equivalent employees (FTEs) devoted to the investment management function in FY2013, unchanged year over year.

Endowments with assets over \$1 billion had the largest average staff size, at 9.7 FTEs, while all three cohorts with endowment assets of \$100 million less reported less than one-half of an FTE devoted to investment management. Forty percent of Study respondents said they have substantially outsourced the investment management function, up from 38 percent the prior year. Eighty-five percent of the Study population reported using a consultant for various services related to investment management.

Risk Management

In a new area of inquiry, the Study found that 50 percent of participating institutions employ risk limits in their portfolios, while 28 percent said they do not. Seventy-two percent of this group use volatility calculations, such as standard deviation, and 55 percent use measures such as alpha and beta. Forty-one percent of all Study respondents reported using stress testing or scenario analysis for their portfolios.

Environmental, Social and Governance Investing Criteria

Of the 835 Study participants, 18 percent said they apply environmental, social or governance (ESG) criteria to portfolio holdings. Of the 157 institutions with some form

of ESG policy, 58.6 percent of their portfolio reflects the use of negative screens. Forty-eight percent of these institutions vote proxies consistent with their ESG criteria; 70 percent of these institutions report that ESG investing is a formal institutional policy.

Endowment Leaders

Endowment Leaders comprise the top decile and top quartile of the Study universe measured by one-year investment return for FY2013. Compared with the Study universe return of 11.7 percent, the top decile reported an average return (net of fees) of 16.4 percent and the top quartile reported an average return (net) of 14.7 percent.

For the trailing three years, the top decile reported an average annual return of 12.1 percent while the top quartile realized an average annual return of 11.7 percent versus the 10.2 percent return for the Study universe. For the trailing five-year period, respective returns were 5.6 percent, 5.2 percent and 4.0 percent. Both the top decile and top quartile reported 10-year trailing returns of 7.5 percent, while the Study population overall reported an average return of 7.1 percent.

The Leaders' strong one-year returns benefited from double-digit returns in the public equity markets and their large allocations to domestic equities—28 percent for the top decile and 22 percent for the top quartile versus 16 percent for the Study universe. While their fixed income and international equity allocations were relatively similar to all Study participants, Leaders had smaller allocations to alternative strategies—40 percent and 46 percent, respectively, for the top decile and top quartile compared with 53 percent for Study participants overall.

About NACUBO

NACUBO is a membership organization representing more than 2,500 colleges, universities and higher education service providers across the country and around the world. 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 additional information, please visit www.nacubo.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. In addition to teaming with NACUBO to produce the NCSE, Commonfund Institute provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research and publications, including the Higher Education Price Index (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

About Commonfund

Founded in 1971, Commonfund is devoted to enhancing the financial resources of long-term investors including nonprofit institutions, corporate pension plans and family offices through superior fund management, investment advice and treasury operations. Directly or through its subsidiaries Commonfund Capital and Commonfund Asset Management Company - Commonfund manages nearly \$25 billion for about 1,400 clients. Commonfund, together with its subsidiary companion organizations, offers highly flexible investment solutions in four strategic areas: Private Capital, Hedge Fund Strategies, Holistic Outsourced OCIO and Multi-Asset Programs. All securities are distributed through Commonfund Securities, Inc. For additional information about Commonfund, please visit www.commonfund.org.

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