

**FOR IMMEDIATE RELEASE**

Contact:

William F. Jarvis  
Executive Director  
Commonfund Institute  
203-563-5296  
william.jarvis@commonfund.org

Kenneth E. Redd  
Director, Research and Policy Analysis  
NACUBO  
202-861-2527  
kredd@nacubo.org

Kyle Kuhnel  
Kellen Company  
212-297-2117  
kkuhnel@kellencompany.com

Kellee Edmonds  
Director, Communications and Marketing  
NACUBO  
202-861-2549  
kedmonds@nacubo.org

**Educational Endowments Report -1.9% Return for FY2016  
as 10-Year Return Falls to 5.0%**

***Institutions Increase Endowment Spending Despite Lower Returns***

NEW YORK, NY, January 31, 2017—Data gathered from 805 U.S. colleges and universities for the 2016 NACUBO-Commonfund Study of Endowments® (NCSE) show that participating institutions' endowments returned an average of -1.9 percent (net of fees) for the 2016 fiscal year (July 1, 2015 – June 30, 2016).

This year's negative return, following the low 2.4 percent return reported for FY2015, contributed to a decline in long-term 10-year average annual returns to 5.0 percent from last year's 6.3 percent. As in fiscal 2015, this year's long-term return figure is well below the median 7.4 percent that most institutions report they need to earn in order to maintain their endowments' purchasing power after spending, inflation, and investment management costs.

Despite the decline in investment gains, 74 percent of Study respondents reported that they increased the dollars spent from their endowments this year to support their institution's mission. For these institutions, the median increase was a substantial 8.1 percent, well above the inflation rate.

“In spite of lower returns, colleges and universities continue to raise their endowment spending dollars to fund student financial aid, research, and other vital programs,” said NACUBO President and Chief Executive Officer John D. Walda. “These substantial increases in spending from endowments demonstrate the deep commitment colleges and universities have to student access and success. Nonetheless, this year's results are cause for concern. Continued below-average investment returns will undoubtedly make it much more difficult for colleges and universities to support their missions in the future.”

William F. Jarvis, Executive Director of Commonfund Institute, underscored those concerns. “Institutions are responding to these lower investment results by adjusting their average return expectations, which had become unrealistically high. At the governance level, the duty of boards and investment committees to balance current and longer-term demands, which is fundamental to the goal of maintaining equity among present and future generations of students, will be even more important in the next few years.”

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.

Collectively, the 805 schools that participated in the 2016 NCSE had \$515.1 billion in endowment assets. While the size of the average endowment was about \$639.9 million, nearly half of Study participants had endowments that were \$100 million or less.

### **FY2016 Returns by Asset Class**

The Study lists returns for five primary investment categories: U.S. equities, fixed income, non-U.S. equities, alternative investment strategies, and short-term securities/cash/other. Of these five categories, FY2016 investment returns were higher for two and lower for three compared with FY2015. The highest return came from fixed income, which returned 3.6 percent in FY2016 versus 0.2 percent for FY2015. The other positive return for fiscal 2016 was generated by short-term securities/cash/other, at 0.2 percent, compared with 0.0 percent in FY2015. Three categories had negative returns: U.S. equities returned -0.2 percent compared with 6.4 percent a year ago; non-U.S. equities had a -7.8 percent return versus -2.1 percent in FY2015; and alternative strategies had a -1.4 percent return compared with 1.1 percent last year.

Examining reported FY2016 returns for the various alternative investment strategies, private equity real estate (non-campus) provided the highest return, at 7.1 percent, although this was down from 9.9 percent a year ago. Private equity (LBOs, mezzanine, M&A funds and international private equity) followed with a 4.5 percent return, also down from last year's return of 9.3 percent. Last year's leader, venture capital, which had a return of 15.1 percent in fiscal 2015, declined to a return of 1.5 percent in FY2016. Returns for all other alternative strategies were negative. The poorest performer in FY2016 was commodities and managed futures, at -7.7 percent, up from -17.7 percent last year, followed by energy and natural resources, which returned -7.5 percent compared with -13.3 percent in FY2015. Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives) returned -4.0 percent versus 2.7 percent last year, while distressed debt returned -0.6 percent compared with 5.4 percent a year ago.

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. Average FY2016 returns were negative for institutions in all six categories. From high to low, the spread of returns across the size cohorts was just 140 basis points (1.4 percentage points)—a relatively narrow spread compared with many previous Studies and with last year's spread of 240 basis points (2.4 percentage points). This year's highest average return, at -1.0 percent, was reported by institutions with assets under \$25 million; the lowest average return, at -2.4 percent, was reported by institutions with assets between \$101 and \$500 million.

2016 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

**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 international 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

**Three-, Five-, and 10-Year Returns**

While one-year returns are important, many endowment managers use 10-year average annual returns for long-range planning purposes. The trailing 10-year returns declined to an average of 5.0 percent in FY2016, far below the 7.4 percent median target rate that institutions need to maintain their endowments' purchasing power. The highest average 10-year return came from the largest size category, at 5.7 percent, although that was a full 1.5 percentage points below last year's 10-year figure. Institutions with assets between \$51 and \$100 million and between \$25 and \$50 million reported the lowest average 10-year return, at 4.7 percent. For all Study participants, trailing three- and five-year returns fell sharply in FY2016 compared with FY2015.

Trailing five-year returns declined to an average of 5.4 percent compared with last year's 9.8 percent due to the elimination of FY2011's 19.2 percent return from the calculation, while trailing three-year returns averaged 5.2 percent versus 9.9 percent a year ago, reflecting the elimination of FY2013's 11.7 percent return. Viewed by size category, the largest institutions reported the highest returns for the trailing three- and five-year periods, at 6.0 percent and 6.1 percent, respectively. The lowest average five-year return, at 5.0 percent, was reported by institutions with assets between \$51 and \$100 million, while the lowest average three-year return, at 4.9 percent, was recorded by institutions with assets between \$101 and \$500 million.

2016 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

**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	
	812	805	94	91	77	75	261	264	167	163	117	121	96	91
	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16
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

**Asset Allocation**

Asset allocation among participating endowments changed very little over the course of the fiscal year. Participating endowments reported the following asset allocations:

**Asset Allocations\* for Fiscal Years 2015 and 2016**

Asset Class	Fiscal Year	
	2016	2015
U.S. equities	16%	16%
Fixed income	8%	9%
Non-U.S. equities	19%	19%

Alternative strategies	53%	52%
Short-term securities/cash/other	4%	4%

\*Dollar-weighted

One reason behind the relatively higher returns for institutions with assets below \$25 million was their large 24 percent allocation to fixed income, the fiscal year's highest-performing asset class. In contrast, institutions with assets over \$1 billion, which reported an average fixed income allocation of 7 percent, had average returns of -1.9 percent.

The allocation to alternative strategies was correlated with endowment size; for both U.S. equities and fixed income the reverse was true, with the allocation growing as endowment assets decline in size. The largest institutions in the Study reported an average 58 percent allocation to alternative strategies while that of the smallest size cohort averaged just 10 percent. Conversely, institutions with assets under \$25 million reported an average 44 percent allocation to U.S. equities versus 13 percent for institutions with assets over \$1 billion.

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 11 percent. Other allocations were: venture capital, energy and natural resources, and private equity real estate (non-campus), at 6 percent each; distressed debt, at 1 percent; and commodities and managed futures, at 1 percent.

**Detailed Asset Allocations\* 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>
U.S. equities	16	13	20	26	33	38	44
Fixed income	8	7	9	13	17	20	24
Non-U.S. equities	19	19	18	20	19	17	15
Alternative strategies	53	58	45	35	24	17	10
<i>Private equity (LBOs, mezzanine, M&amp;A funds and non-U.S. private equity)</i>	11	12	8	5	3	2	1
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	20	20	20	16	11	7	6
<i>Venture capital</i>	6	7	3	2	1	1	0
<i>Private equity real estate (non-campus)</i>	6	7	3	3	3	2	0
<i>Energy and natural resources</i>	6	7	4	3	2	2	1
<i>Commodities and managed futures</i>	1	1	1	1	1	1	1
<i>Distressed debt</i>	1	2	1	1	0	0	0
<i>Alternatives not broken out</i>	2	2	5	4	3	2	1
Short-term securities/cash/other	4	3	8	6	7	8	7
<i>Short-term securities/cash</i>	2	1	4	2	3	2	3
<i>Other</i>	1	1	4	3	3	5	4
<i>Short-term securities/cash not broken out</i>	1	1	0	1	1	1	0

\* dollar-weighted

**Spending Rates and New Gifts to Endowment**

The FY2016 effective spending rate for the 805 participating institutions averaged 4.3 percent, up slightly from 4.2 percent last year. The highest effective spending rate, at 4.4 percent, was reported by institutions with assets over \$1 billion and those with assets between \$51 and \$100 million. The lowest rate, at 3.8 percent, was reported by institutions with assets under \$25 million.

Seventy-four percent of participants reported increasing their endowment spending in dollar terms. Eighty-three percent of institutions with assets between \$501 million and \$1 billion and 82 percent of those with assets over \$1 billion increased spending in dollars; the lowest proportion of institutions increasing spending in dollars was 62 percent of the smallest size cohort. Among endowments that increased spending, the median increase was 8.1 percent, led by

institutions with assets between \$25 and \$50 million, where the median increase was 12.8 percent.

Participating institutions reported that an average 9.7 percent of their operating budget is funded by their endowment, unchanged year over year. The largest institutions, with assets over \$1 billion, relied on the endowment to fund an average 15.9 percent of their operating budget in FY2016, while at institutions with assets under \$25 million the endowment funded just 4.6 percent of the operating budget.

The median total of new gifts to endowment was \$2.8 million in FY2016, a modest increase from last year's \$2.7 million, while the average total of new gifts was \$12.9 million, compared with last year's \$10.0 million. Forty-four percent of participating institutions reported an increase in gifts to endowment in FY2016, down one percentage point year over year. Forty-eight percent reported a decrease in gifts, up from last year's 38 percent that experienced a decline.

## **Debt**

Of the 805 Study participants, 594 said they held long-term debt. Among these institutions, the average total debt stood at \$230.2 million as of June 30, 2016, compared with \$219.1 million a year earlier. Median debt rose to \$61.5 million from \$58.2 million. Thirty percent of Study participants reported increasing debt in FY2016, the same proportion as last year. Sixty-six percent reported a decrease, just above the 65 percent reported in last year's Study.

## **Staffing, Outsourcing and Consultant Use**

Endowments reported an average of 1.8 full-time equivalent (FTE) employees devoted to the investment management function in FY2016, compared with 1.7 FTEs a year ago. Endowments with assets over \$1 billion had the largest average staff size, at 11.0 FTEs, while endowments with assets between \$501 million and \$1 billion reported an average of 2.6 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. Eighty-four percent of the Study



population reported using a consultant for various services related to investment management, also unchanged.

### **Responsible Investing Criteria**

Of the 805 Study participants, 17 percent said they seek to include in their portfolios investments ranking high on environmental, social and governance (ESG) criteria, a two-percentage-point increase year over year. Twenty-seven percent said they exclude or screen out investments that are inconsistent with the institution's mission, also up two percentage points from the previous Study, while 17 percent said that they allocate a portion of the endowment to investments that further the institution's mission compared with 16 percent that did so last year. Just 7 percent of institutions said that their board had voted to exclude responsible investing considerations, unchanged year over year, while 78 percent of respondents said their board had not taken such an action, a two-percentage-point increase. Eight percent said they were considering changing their investment policy to include integration of ESG practices in their investment process, up from 7 percent, while 69 percent said they were not doing so, compared with last year's 70 percent.

### **NCSE Leaders**

NCSE Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2016. Compared with the Study universe return of -1.9 percent, the top decile reported an average return (net of fees) of 2.7 percent and the top quartile reported an average net return of 1.0 percent.

The top decile reported 10-year trailing returns of 5.4 percent, while the top quartile reported 5.3 percent. For the same period, the Study population overall reported an average annual return of 5.0 percent. For the trailing five-year period, respective returns were 6.6 percent, 6.2 percent and 5.4 percent. For the trailing three years, the top decile reported an average annual return of 6.6 percent while the top quartile reported an average annual return of 6.3 percent versus a 5.2 percent average return for the Study universe.

As was the case in the two previous Studies, the Leaders had a smaller allocation to the highest performing asset class, which this year was fixed income. Compared with an overall allocation of 8 percent, the top decile allocated 6 percent to fixed income while the top quartile allocated 7 percent. Leaders' returns were helped by having moderately smaller allocations to the

poorest performer, non-U.S. equities; while Study respondents overall reported a 19 percent allocation, the top decile reported a 16 percent allocation while the top quartile had a 17 percent allocation. Leaders had the largest allocations to alternative strategies—an average of 62 percent for the top decile and 59 percent for the top quartile against 53 percent for Study participants overall. (Note: Asset allocation throughout the Study is dollar-weighted, meaning that larger institutions' allocations to alternative strategies will weigh more heavily than those of smaller institutions, which generally have larger allocations to liquid securities, such as fixed income.)

In a departure from many previous Studies, the three smaller size cohorts accounted for a clear majority of the top decile—a total of 65 percent. Among the top quartile, the two largest size cohorts totaled 14 percent of this population, while the other four size categories comprised the remaining 86 percent, with all four of them accounting for either 21 or 22 percent of the total.

#### **About NACUBO**

The National Association of College and University Business Officers (NACUBO), founded in 1962, is a nonprofit professional organization representing chief administrative and financial officers at more than 2,100 colleges and universities across the country. NACUBO's mission is to advance the economic viability, business practices and support for higher education institutions in fulfillment of their missions. For more information, 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. Together with or through its affiliates, 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 portfolios, Commonfund provides 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.

###