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**Educational Endowments Earned**

**Investment Returns Averaging 11.9% in FY2010**

*Longer-term returns remain lower, reflecting legacy of market downturn*

NEW YORK, January 27, 2011—Data gathered from 850 U.S. colleges, universities and affiliated foundations participating in the 2010 NACUBO-Commonfund Study of Endowments® (NCSE) show that these institutions' endowments returned an average of 11.9 percent (net of fees) for the 2010 fiscal year (July 1, 2009 – June 30, 2010). This represented a sharp improvement over the average -18.7 percent return (net of fees) reported in last year's Study for fiscal year 2009.

- more -

2010 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add One

The Study showed that the average annual three-year return for all institutions was -4.2 percent. The corresponding five-year return figure was 3.0 percent, while for 10 years the average annual return was 3.4 percent.

**Average One-, Three-, Five- and 10-Year Net Returns for Fiscal Years 2009 and 2010**

numbers in percent (%)	Total Institutions		Over \$1 Billion		\$501 Million-\$1 Billion		\$101-\$500 Million		\$51-\$100 Million		\$25-\$50 Million		Under \$25 Million	
	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10
	842	850	52	60	60	66	219	226	164	169	137	145	210	184
FY2010 annual total net return	-18.7	11.9	-20.5	12.2	-19.8	11.9	-19.7	11.9	-18.6	11.8	-18.5	12.0	-16.8	11.6
3-year net return	-2.5	-4.2	-0.8	-3.5	-2.0	-3.9	-2.5	-4.4	-2.7	-4.3	-3.2	-4.2	-2.3	-3.9
5-year net return	2.7	3.0	5.1	4.7	3.5	3.6	2.6	3.0	2.7	2.7	2.1	2.6	2.1	2.2
10-year net return	4.0	3.4	6.1	5.0	4.3	3.6	3.7	3.3	3.7	3.3	3.4	2.9	3.9	2.8

Average annual returns by institution asset size were:

Over \$1 billion	12.2%
\$501 - \$1 billion	11.9%
\$101 - 500 million	11.9%
\$51 - \$100 million	11.8%
\$25 - \$50 million	12.0%
Under \$25 million	11.6%

In another marked departure from the prior year's Study, returns were positive for all major asset classes except real estate, while last year only fixed income showed a positive return. The highest return this year came from domestic equities, which gained 15.6 percent. This was followed by fixed income, at 12.2 percent; international equities, at 11.6 percent; alternative strategies, at 7.5 percent; and short-term securities/cash/other, at 2.7 percent. Within the alternative strategies category, distressed debt led all allocations with a return of 24.6 percent, followed by private equity, at 14.1 percent, and energy and natural resources, commodities and managed futures, at 13.2 percent. Marketable alternatives—a category that includes hedge funds, absolute return, market neutral, long/short, 130/30, event-driven

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strategies and derivatives—returned 9.9 percent. Only the sub-asset class of private equity real estate (non-campus), which returned -15.8 percent, showed a negative return in this year’s Study.

**Average Return by Asset Class for Fiscal Year 2010\***

*numbers in percent (%)*

	<b>Total Institutions</b>
Average FY2010 total return	<b>11.9</b>
Domestic equities	<b>15.6</b>
Fixed income	<b>12.2</b>
International equities	<b>11.6</b>
Alternative strategies	<b>7.5</b>
Private equity (LBOs, mezzanine, M&A funds and international private equity)	<b>14.1</b>
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	<b>9.9</b>
Venture capital	<b>9.6</b>
Private equity real estate (non-campus)	<b>-15.8</b>
Energy and natural resources, commodities and managed futures	<b>13.2</b>
Energy and natural resources	11.0
Commodities and managed futures	9.5
Distressed debt	<b>24.6</b>
Short-term securities/cash/other	<b>2.7</b>
Short-term securities/cash	<b>0.9</b>
Other	<b>8.4</b>

\*614 responding institutions

With data provided by 850 participating institutions of higher learning, the NCSE is the largest and most comprehensive annual Study of the investment management and governance practices of U.S. public and private nonprofit colleges and universities, their supporting foundations, and community colleges. Participating institutions represented over \$346 billion in combined endowment assets.

Speaking for the two organizations that sponsor the NCSE, NACUBO President and Chief Executive Officer John D. Walda and Commonfund Institute Executive Director John S. Griswold jointly said that the year’s 3,060-basis-point turnaround in return was a highly welcome development for the nation’s higher education community. “After a strong first

*2010 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Three*

half of FY2011, we are hopeful that good results in FY2010 can be repeated for the current fiscal year and thus return endowments to the solid footing needed to support the long-term missions of the institutions they support,” they said. “The cautionary note is that three-, five- and 10-year returns remained below the level needed to fund missions for the long term after accounting for spending, inflation and expenses. We hope that the data contained in the annual NCSE will serve as a useful tool for trustees and staff as they make important decisions for their institutions.”

### **Larger institutions outperform smaller endowments**

Walda and Griswold further observed that last year’s FY2009 Study produced anomalous results in that smaller institutions outperformed larger ones and fixed income and short-term securities/cash/other outperformed equity-based investments. “Over the long term, larger institutions with their greater resources generally outperform smaller ones, and domestic and international equities and alternative strategies outperform fixed income and short-term securities and cash-like assets. We saw these relationships largely restored in the FY2010 Study.”

Among other highlights, the FY2010 effective spending rate for participating institutions averaged 4.5 percent, slightly higher than last year’s 4.4 percent average rate. On average, 10.5 percent of Study participants’ FY2010 operating budget was funded from endowment, a drop from last year’s 13.4 percent, reflecting the fact that budgets for FY2010 were prepared in the aftermath of FY2009’s -18.7 percent investment return at a time when university officers did not know that FY2010 would be a year of positive returns.

Additional data from the FY2010 NCSE follow.

**Asset Allocation**

Allocations to major asset classes in this year's Study were largely unchanged from last year:

- Domestic equities – 15 percent (down from 18 percent in FY2009)
- Fixed income – 12 percent (down from 13 percent)
- International equities – 16 percent (up from 14 percent)
- Alternative strategies – 52 percent (up from 51 percent)
- Short-term securities/cash/other – 5 percent (up from 4 percent)

As in the past, smaller endowments continued to display a preference for liquid domestic investments, with the smallest endowments in this year's Study reporting nearly four times the domestic equity allocation of the largest participants and a fixed income allocation nearly three times as large. International equity allocations showed a much smaller range of variation, just five percentage points (13 percent versus 18 percent). Participating institutions' allocations to alternative strategies were directly correlated with the size of the endowment, with the largest participating institutions reporting five times the alternative strategies allocation as the smallest. The largest institutions also had the smallest allocation to short-term securities/cash/other, 4 percent, while the next three largest cohorts had 6 percent allocations and the smallest two cohorts had 8 percent allocations.

2010 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Five

**Asset Allocations\* for Fiscal Years 2008,\*\* 2009 and 2010**

numbers in percent (%)	Total Institutions			Over \$1 Billion			\$501 Million-\$1 Billion			\$101-\$500 Million			\$51-\$100 Million			\$25-\$50 Million			Under \$25 Million		
	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10	'08	'09	'10
	470	842	850	48	52	60	36	60	66	165	219	226	69	164	169	60	137	145	92	210	184
Asset class																					
Domestic equities	23	18	15	20	14	11	24	20	18	30	26	25	39	34	31	42	37	35	46	38	40
Fixed income	12	13	12	10	10	10	13	14	14	16	17	17	18	21	21	22	23	24	25	27	27
International equities	18	14	16	17	12	15	19	17	17	19	17	17	17	17	18	15	15	16	10	13	13
Alternative strategies	46	51	52	52	61	60	42	43	45	32	33	35	23	22	24	17	18	17	11	13	12
Short-term securities/cash/other	1	4	5	1	3	4	2	6	6	3	7	6	3	6	6	4	7	8	8	9	8

\*dollar-weighted

\*\*Source: Commonfund Benchmarks Study of Educational Endowments 2008 data for institutions of higher education

Allocations to alternative investment strategies also displayed only small changes from last year, with smaller endowments continuing to exhibit a preference for marketable alternatives, while larger institutions reported more diversified alternative portfolios.

**Alternative Strategies Asset Mix\* for Fiscal Years 2009 and 2010**

numbers in percent (%)	Total Institutions		Over \$1 Billion		\$501 Million-\$1 Billion		\$101-\$500 Million		\$51-\$100 Million		\$25-\$50 Million		Under \$25 Million	
	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10	'09	'10
<b>Responding institutions</b>	<b>701</b>	<b>716</b>	<b>48</b>	<b>58</b>	<b>57</b>	<b>62</b>	<b>209</b>	<b>212</b>	<b>142</b>	<b>145</b>	<b>106</b>	<b>112</b>	<b>139</b>	<b>127</b>
Type of investment														
Private equity (LBOs, mezzanine, M&A funds and international private equity)	21	24	22	25	19	21	17	17	11	13	7	8	8	10
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	43	41	40	38	48	46	54	55	59	58	61	60	57	59
Venture capital	7	6	8	7	7	7	5	4	2	2	4	3	4	5
Private equity real estate (non-campus)	12	10	13	11	9	8	7	6	13	10	11	10	11	7
Energy and natural resources (oil, gas, timber, commodities and managed futures)	12	14	12	14	11	11	12	13	10	13	9	13	7	10
Distressed debt	5	5	5	5	6	7	5	5	5	4	8	6	13	9

\*dollar-weighted

**Spending**

The average annual effective spending rate for educational endowments is calculated by dividing endowment dollars spent into the beginning endowment value. While the average effective spending rate for all institutions was 4.5 percent, the highest rate, 5.7 percent, came from institutions with assets between \$501 million and \$1 billion. Institutions with assets over \$1 billion trailed closely behind at a rate of 5.6 percent. Institutions with assets under \$25 million had the lowest effective spending rate, 3.5 percent.

Forty-five percent of Study participants reported increasing their effective spending rate in FY2010, while 27 percent lowered it and 25 percent reported no change.

**Gifts**

The flow of gifts and donations improved over the prior year. Last year, 60 percent of Study participants reported a decrease in gifts while 42 percent did so this year. Moreover, while just

26 percent reported an increase last year, 43 percent reported an increase this year.

### **Debt**

Among the 635 Study respondents reporting that they carry debt at present, average long-term total debt stood at \$181.5 million as of June 30, 2010, up from \$167.8 million as of June 30, 2009. Median debt also trended higher this year—to \$48.1 million from \$44.3 million in FY2009. While the average levels were higher, many Study participants reported that they in fact lowered their debt level in FY2010; the increase in the overall numbers appears to reflect greater borrowing on the part of those institutions that did increase debt.

### **Costs**

Endowments reported that it cost 66 basis points, on average, to manage their funds in FY2010. The median cost was 52 basis points. Comparable data reported in FY2009 was an average of 63 basis points and a median of 53 basis points. Across the size cohorts, costs varied widely. The larger institutions, with their significantly greater allocations to alternative strategies, paid the most—an average of 100 basis points for institutions with assets over \$1 billion and 89 basis points for institutions with assets between \$501 million and \$1 billion. Costs continued to decline by endowment size, reaching a low of 56 basis points for institutions with assets between \$25 and \$50 million before moving up modestly to 62 basis points for institutions with assets below \$25 million.

### **Resources, Management and Governance**

On average, institutions employed an average of 1.5 full-time equivalent employees (FTEs) to manage their endowments, a modest increase from last year's 1.4 FTEs. Eighty percent of Study participants reported using an outside consultant, unchanged since the last Study.

*2010 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Eight*

Viewed by asset class, the average number of investment managers that participating institutions reported using is:

Domestic equities: 3.8

Fixed income: 2.4

International equities: 3.0

Alternative strategies (direct): 11.4

Alternative strategies (fund of funds): 2.6

**Socially Responsible Investing**

Of the 850 Study participants, 161 reported having some form of social investing policy—down moderately from last year’s 178 out of 842 Study participants. Of these 161 institutions, 45 percent screen all of their portfolios (versus 55 percent last year), while 44 percent screen part of the portfolio (up from 34 percent last year). The decline in those screening all of their portfolios may reflect the difficulty of screening a diversified portfolio in its entirety—particularly one that contains a significant allocation to less-transparent alternative strategies. Participating institutions most frequently screen for investments that may involve tobacco, geopolitical/location-specific concerns, alcohol, abortion, gambling, pornography, and armaments/weapons-related issues.

**Endowment Leaders**

Endowment Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2010. The top decile reported an average return net of fees of 17.2 percent, a strong improvement over last year’s -8.1 percent. The top quartile reported an average return of 15.5 percent, once again a major turnaround from last year’s -12.3 percent. Over the trailing three-year period, however, returns were negative for all participants, including the Leaders.

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## **NACUBO-Commonfund Study of Endowments (NCSE)**

The second annual NACUBO-Commonfund Study of Endowments (NCSE) for FY2010 (June 30, 2009 to July 1, 2010) is the result of a landmark research partnership between NACUBO and Commonfund. Previously, the two organizations conducted separate studies of educational endowments' investment performance. A year ago, the previous Commonfund Benchmarks Study of Educational Endowments® and NACUBO Endowment Study were merged to create the first NACUBO-Commonfund Study of Endowments (NCSE) on higher education endowment investment performance, asset allocation and related finance and governance issues. With 842 institutions participating in last year's Study and 850 participating this year, NCSE is the most comprehensive annual survey on higher education endowment and financial management and governance.

## **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](http://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 approximately over \$26 billion for over 1,500 clients. Commonfund, together with its subsidiary companion organizations, offers more than 30 different investment programs. All securities are distributed through Commonfund Securities, Inc. For additional information about Commonfund, please visit [www.commonfund.org](http://www.commonfund.org).

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