

EMBARGO ALL STORIES UNTIL JANUARY 31 AT 12:01 AM EST

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Educational Endowments Returned

An Average of 19.2% in FY2011

Medium-term returns still insufficient to cover spending, inflation and costs for most institutions

NEW YORK, NY, January 31, 2012 -- Data gathered from 823 U.S. colleges and universities for the 2011 NACUBO-Commonfund Study of Endowments® (NCSE) show that these institutions' endowments returned an average of 19.2 percent (net of fees) for the 2011 fiscal year (July 1, 2010 – June 30, 2011). This represents a marked improvement over the average 11.9 percent return reported for FY2010 and a continuation of the recovery from the -18.7 percent return reported for FY2009, when the financial crisis and accompanying slide in equity markets negatively affected educational endowments. Over the medium term, however, returns were still below the average inflation-adjusted spending rates of educational institutions, indicating that the damage inflicted by the downturn is still being felt by endowments.

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2011 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add One

2011 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average One-, Three-, Five- and 10-Year Net Returns for Fiscal Years 2010 and 2011

| <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 | |
|--------------------------------|---------------------------|------------|-------------------------|-----------|----------------------------------|-----------|----------------------------|------------|---------------------------|------------|--------------------------|------------|---------------------------|------------|
| | 850 | 823 | 60 | 73 | 66 | 66 | 226 | 251 | 169 | 162 | 145 | 134 | 184 | 137 |
| | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 |
| FY2011 annual total net return | 11.9 | 19.2 | 12.2 | 20.1 | 11.9 | 18.8 | 11.9 | 19.7 | 11.8 | 19.3 | 12.0 | 19.4 | 11.6 | 17.6 |
| 3-year net return | -4.2 | 3.1 | -3.5 | 2.4 | -3.9 | 2.6 | -4.4 | 2.6 | -4.3 | 2.8 | -4.2 | 4.2 | -3.9 | 4.6 |
| 5-year net return | 3.0 | 4.7 | 4.7 | 5.4 | 3.6 | 4.8 | 3.0 | 4.4 | 2.7 | 4.4 | 2.6 | 4.7 | 2.2 | 5.2 |
| 10-year net return | 3.4 | 5.6 | 5.0 | 6.9 | 3.6 | 6.0 | 3.3 | 5.3 | 3.3 | 5.1 | 2.9 | 5.0 | 2.8 | 4.9 |

The average annual three-year return for participating institutions was 3.1 percent, a welcome rebound from the FY2010 three-year return of -4.2 percent. The corresponding five-year return figure was 4.7 percent, up from 3.0 percent in FY2010, while the average annual return over 10 years rose to 5.6 percent from 3.4 percent a year ago.

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2011 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Two

2011 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average Return by Asset Class for Fiscal Year 2011

| <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 |
|---|---------------------------|-------------------------|----------------------------------|----------------------------|---------------------------|--------------------------|---------------------------|
| | 823 | 73 | 66 | 251 | 162 | 134 | 137 |
| Average FY2011 total return | 19.2 | 20.1 | 18.8 | 19.7 | 19.3 | 19.4 | 17.6 |
| Domestic equities | 30.1 | 32.3 | 31.2 | 30.7 | 30.2 | 28.5 | 27.8 |
| Fixed income | 6.5 | 6.6 | 6.8 | 6.5 | 6.4 | 6.1 | 6.6 |
| International equities | 27.2 | 29.0 | 28.6 | 27.0 | 27.6 | 26.5 | 25.7 |
| Alternative strategies | 14.1 | 16.9 | 16.4 | 15.4 | 13.9 | 12.0 | 9.5 |
| <i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i> | 18.7 | 22.0 | 19.1 | 18.9 | 15.6 | 17.5 | ♦ |
| <i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i> | 9.4 | 11.5 | 10.4 | 9.0 | 8.1 | 10.1 | 10.8 |
| <i>Venture capital</i> | 21.7 | 26.1 | 25.0 | 19.5 | 19.1 | 19.2 | ♦ |
| <i>Private equity real estate (non-campus)</i> | 10.3 | 15.2 | 13.3 | 10.6 | 7.9 | 3.0 | 5.7 |
| <i>Energy and natural resources</i> | 23.5 | 28.0 | 22.7 | 22.0 | 22.7 | 24.5 | ♦ |
| <i>Commodities and managed futures</i> | 26.0 | 37.0 | 24.2 | 24.6 | 27.3 | 23.0 | 18.6 |
| <i>Distressed debt</i> | 14.5 | 13.9 | 14.5 | 15.0 | 12.4 | ♦ | ♦ |
| Short-term securities/cash/other | 4.2 | 6.1 | 3.1 | 5.1 | 3.6 | 2.2 | 4.0 |
| <i>Short-term securities/cash</i> | 0.5 | 1.4 | 0.4 | 0.3 | 0.3 | 0.5 | 0.6 |
| <i>Other</i> | 13.8 | ♦ | ♦ | 15.5 | 11.1 | ♦ | 10.9 |

*sample size too small to analyze

Respondents reported positive average returns for all asset classes this year, including private equity real estate (non-campus), which was the only strategy to report a negative return for FY2010. As was true last year, the highest return came from domestic equities, which gained 30.1 percent, nearly doubling FY2010's 15.6 percent return. This was followed by international equities, which generated a 27.2 percent return; the broad group of alternative strategies at 14.1 percent; fixed income at 6.5 percent; and short-term

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2011 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Three

securities/cash at 0.5 percent. Within the alternative strategies category, the highest returns came from commodities and managed futures (26.0 percent), energy and natural resources (23.5 percent), and venture capital (21.7 percent). Marketable alternatives—a category that includes hedge funds, absolute return, market neutral, long/short, 130/30, event-driven strategies and derivatives—returned 9.4 percent, little changed from last year's 9.9 percent return. Private equity returned 18.7 percent and distressed debt returned 14.5 percent.

Study data are divided into six categories according to size of endowment, ranging from institutions with endowment assets under \$25 million to those with assets in excess of \$1 billion. In past Studies, larger endowments have tended to significantly outperform smaller ones. Last year, however, the return spread across the six size cohorts was tightly compressed, at just 60 basis points from highest return to lowest. This year the spread expanded to a range of 250 basis points. As was true last year, the highest average return, 20.1 percent, came from institutions with assets over \$1 billion while the lowest, 17.6 percent, came from those with assets under \$25 million.

Performance figures over longer periods show the effect on portfolios of the 2008-09 market collapse and the subsequent recovery. Smaller institutions reported higher returns over three years, reflecting their better relative performance in FY2009 when they were buffered by their higher allocations to fixed income and lower allocations to alternative strategies. Over a five-year period, a transitional pattern can be observed as long-term

allocations by larger institutions to other, less-liquid asset classes enhanced returns and dampened volatility. Here, the best performance came at opposite ends of the size spectrum: an average of 5.4 percent annually from highly-diversified institutions with assets over \$1 billion and an annual average of 5.2 percent from more traditionally-allocated institutions with assets below \$25 million. Annual returns for the other four size cohorts all fell into the 4.4-4.8 percent range over the five-year period. Over 10 years, the advantages of size and diversification were again seen to reassert themselves, with the largest endowments reporting an average annual return of 6.9 percent, followed by the next-largest size cohort, institutions with assets between \$501 million and \$1 billion, reporting an average annual return of 6.0 percent. Across the six groups, size and return were correlated—the larger the asset pool, the higher the 10-year average annual return.

The NCSE for FY2011 reports and analyzes return data and a broad range of related information reported by 823 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. Participating institutions represented \$408.1 billion in endowment assets. Of the 823 institutions to take part in this year's Study, 97 percent participated in last year's NCSE.

“Fiscal 2011 was marked by favorable financial markets that benefited higher education endowments. With average returns close to 20 percent and all six size cohorts reporting

2011 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Five

strong returns, the fiscal year was highly positive for educational endowments participating in the Study,” NACUBO President and Chief Executive Officer John D. Walda and Commonfund Institute Executive Director John S. Griswold said in a joint statement. They added, “However, we should note that fiscal 2011 closed before equity markets encountered headwinds and high volatility beginning in July 2011 caused by concerns about the debt crisis in Europe, the stubbornly high U.S. unemployment rate, and much slower growth in the U.S. economy. Endowments very certainly were stressed by these factors during the latter part of calendar year 2011.”

Walda and Griswold further expressed concern that longer-term returns still lag the level needed to cover annual spending, inflation and investment management costs. “The average effective spending rate among Study participants this year was 4.6 percent. Adding inflation and costs totaling roughly 3 to 4 percent, and an average annual return of between 8 and 9 percent is necessary just to stay even. But with 10-year returns averaging just 5.6 percent, higher returns will be necessary to maintain endowment values over the long term,” they said.

Additional Study findings follow.

Asset Allocation

At June 30, 2011, participating institutions' dollar-weighted asset allocation was:

- Domestic equities: 16 percent
- Fixed income: 10 percent
- International equities: 17 percent
- Alternative strategies: 53 percent
- Short-term securities/cash/other: 4 percent

2011 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Asset Allocations* for Fiscal Years 2009, 2010 and 2011

| numbers in percent (%) | Total Institutions | | | Over \$1 Billion | | | \$501 Million-\$1 Billion | | | \$101-\$500 Million | | | \$51-\$100 Million | | | \$25-\$50 Million | | | Under \$25 Million | | |
|----------------------------------|--------------------|-----|-----|------------------|-----|-----|---------------------------|-----|-----|---------------------|-----|-----|--------------------|-----|-----|-------------------|-----|-----|--------------------|-----|-----|
| | 842 | 850 | 823 | 52 | 60 | 73 | 60 | 66 | 66 | 219 | 226 | 251 | 164 | 169 | 162 | 137 | 145 | 134 | 210 | 184 | 137 |
| | '09 | '10 | '11 | '09 | '10 | '11 | '09 | '10 | '11 | '09 | '10 | '11 | '09 | '10 | '11 | '09 | '10 | '11 | '09 | '10 | '11 |
| Domestic equities | 18 | 15 | 16 | 14 | 11 | 12 | 20 | 18 | 18 | 26 | 25 | 27 | 34 | 31 | 32 | 37 | 35 | 37 | 38 | 40 | 41 |
| Fixed income | 13 | 12 | 10 | 10 | 10 | 9 | 14 | 14 | 11 | 17 | 17 | 15 | 21 | 21 | 20 | 23 | 24 | 22 | 27 | 27 | 25 |
| International equities | 14 | 16 | 17 | 12 | 15 | 16 | 17 | 17 | 19 | 17 | 17 | 18 | 17 | 18 | 18 | 15 | 16 | 17 | 13 | 13 | 14 |
| Alternative strategies | 51 | 52 | 53 | 61 | 60 | 60 | 43 | 45 | 46 | 33 | 35 | 35 | 22 | 24 | 23 | 18 | 17 | 18 | 13 | 12 | 10 |
| Short-term securities/cash/other | 4 | 5 | 4 | 3 | 4 | 3 | 6 | 6 | 6 | 7 | 6 | 5 | 6 | 6 | 7 | 7 | 8 | 6 | 9 | 8 | 10 |

* dollar-weighted

2011 NACUBO-Commonfund Study of Endowments® (NCSE) ... Add Seven

2011 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Alternative Strategies Asset Mix* for Fiscal Years 2010 and 2011

| numbers in percent (%) | Total Institutions | | Over \$1 Billion | | \$501 Million-\$1 Billion | | \$101-\$500 Million | | \$51-\$100 Million | | \$25-\$50 Million | | Under \$25 Million | |
|--|--------------------|------------|------------------|-----------|---------------------------|-----------|---------------------|------------|--------------------|------------|-------------------|------------|--------------------|-----------|
| | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 | '10 | '11 |
| Responding institutions | 716 | 708 | 58 | 69 | 62 | 62 | 212 | 236 | 145 | 141 | 112 | 107 | 127 | 93 |
| Type of investment | | | | | | | | | | | | | | |
| Private equity (LBOs, mezzanine, M&A funds and international private equity) | 24 | 24 | 25 | 26 | 21 | 22 | 17 | 18 | 13 | 13 | 8 | 10 | 10 | 8 |
| Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives) | 41 | 38 | 38 | 34 | 46 | 45 | 55 | 53 | 58 | 55 | 60 | 62 | 59 | 60 |
| Venture capital | 6 | 7 | 7 | 8 | 7 | 7 | 4 | 4 | 2 | 4 | 3 | 3 | 5 | 4 |
| Private equity real estate (non-campus) | 10 | 12 | 11 | 13 | 8 | 8 | 6 | 7 | 10 | 10 | 10 | 9 | 7 | 9 |
| Energy and natural resources (oil, gas, timber, commodities and managed futures) | 14 | 15 | 14 | 15 | 11 | 13 | 13 | 14 | 13 | 14 | 13 | 13 | 10 | 12 |
| Distressed debt | 5 | 4 | 5 | 4 | 7 | 5 | 5 | 4 | 4 | 4 | 6 | 3 | 9 | 7 |

* dollar-weighted

Spending

As noted, the average annual effective spending rate for educational endowments was 4.6 percent. The highest effective spending rate, 5.2 percent, came from the two largest categories of institutions with assets over \$500 million. Institutions with assets between \$101 and \$500 million were next at 5.0 percent. The three smaller size cohorts had lower effective spending rates. Twenty-five percent of Study participants reported an increased effective spending rate in FY2011, 49 percent reported a decrease in the rate and 24 percent reported no change. The decline in effective spending rates at these institutions is due in part to the inverse relationship between spending rates and growth in endowment market values.

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Gifts

Forty-six percent of participating institutions reported an increase in gifts and donations, modestly higher than the 43 percent that reported an increase last year. Thirty-one percent of participants reported a decrease in gifts this year, down from 42 percent a year ago.

Debt

Among the 615 Study respondents reporting that they carry debt, average long-term total debt stood at \$189.0 million as of June 30, 2011, up from \$181.5 million last year and \$167.8 million the year before that. Median debt also rose this year—to \$56.2 million from \$48.1 million and \$44.3 million in FY 2010 and FY2009, respectively. In contrast to recent years, many larger institutions lowered their debt levels while some smaller Study participants increased debt moderately.

Costs

Endowments reported that it cost 64 basis points, on average, to manage their funds in FY2011, a two-basis-point decline compared with a year ago. The median cost was 51 basis points, a decline of one basis point. The larger institutions, with their significantly greater allocations to alternative strategies that attract incentive fees, paid the most—an average of 96 basis points for institutions with assets over \$1 billion.

Resources, Management and Governance

Institutions employed an average of 1.6 full-time equivalent employees (FTEs) to manage their endowments, a modest increase from last year's 1.5 FTEs. None of the three smaller size cohorts reported having more than 0.4 FTE dedicated to the investment function.

Eighty-one percent of Study participants reported using an outside consultant, almost unchanged from last year's 80 percent.

Environmental/Social/Governance Investing Criteria

Of the 823 Study participants, 18 percent said they apply environmental, social and governance (ESG) criteria to portfolio holdings. Of the 146 institutions with some form of ESG policy, 58.3 percent of their portfolio employs negative screens, 58.5 percent is devoted to impact investing and 15.0 percent follows sustainable investing practices.

Endowment Leaders

Endowment Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2011. The top decile reported an average return, net of fees, of 25.0 percent, up from 17.2 percent last year. The top quartile reported an average return of 23.5 percent compared with 15.5 percent last year. Leaders showed the greatest difference in return from the overall Study population in one- and three-year returns, but for five- and 10-year periods the gap for both the top decile and the top quartile averaged just 20 basis points annually.

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 an institutional investment firm serving nonprofit institutions, pension funds and other leading institutional investors offering a broad range of investment solutions in traditional and alternative strategies. Directly or through its subsidiaries—Commonfund Capital and Commonfund Asset Management Company—Commonfund manages over \$24 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.

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