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**Building on 11.7% Gain in FY2013,
Educational Endowments' Investment Returns
Averaged 15.5% in FY2014**

(Wilton, CT, January 29, 2015)—Final data gathered from 832 U.S. colleges and universities for the 2014 NACUBO-Commonfund Study of Endowments® (NCSE) show that these institutions' endowments returned an average of 15.5 percent (net of fees) for the 2014 fiscal year (July 1, 2013 – June 30, 2014) compared with 11.7 percent for the 2013 fiscal year. The 832 institutions participating in this year's Study represented \$516.0 billion in endowment assets.

These rising return rates have enabled colleges and universities to increase spending from their endowments to support student financial aid programs, faculty research, and other activities vital to their missions. In fiscal year 2014, 74 percent of all NCSE respondents said they increased spending from their endowments, with a median increase of 9.3 percent. On average, annual endowment funds accounted for 9.2 percent of institutions' total operating budgets (compared with 8.8 percent in 2013).

Domestic equities generated the highest return in FY2014, at 22.8 percent, followed by international equities, at 19.2 percent. Alternative strategies returned 12.7 percent, fixed income returned 5.1 percent and short-term securities/cash/other returned 1.9 percent. Returns for all five asset classes were higher in FY2014 than they were in the previous fiscal year. (All returns are reported net of fees.)

Breaking down the returns reported for various alternative strategies, venture capital provided the highest return, at 23.3 percent, a nearly fourfold rise compared with last year's 6.1 percent return. Private equity (LBOs, mezzanine, M&A funds and international private equity) followed at 16.5 percent. After that, in descending order, returns were: energy and natural resources at 15.3 percent; distressed debt at 13.2 percent; private equity real estate (non-campus) at 12.6 percent; marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives) at 9.9 percent; and commodities and managed futures at 7.9 percent.

Study data are broken down 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. The highest average return, 16.5 percent, was reported by institutions with assets over \$1 billion, while the lowest, 15.2 percent, was reported by two size cohorts—institutions with assets between \$51 and \$100 million and those with assets between \$25 and \$50 million.

2014 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average Return by Asset Class for Fiscal Year 2014

| <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 |
|---|---------------------------|-------------------------|----------------------------------|----------------------------|---------------------------|--------------------------|---------------------------|
| | 832 | 91 | 77 | 262 | 168 | 125 | 109 |
| Average FY2014 total return | 15.5 | 16.5 | 15.8 | 15.5 | 15.2 | 15.2 | 15.5 |
| Domestic equities | 22.8 | 23.9 | 24.4 | 22.6 | 22.7 | 21.5 | 22.0 |
| Fixed income | 5.1 | 4.8 | 4.2 | 5.2 | 5.4 | 5.3 | 5.1 |
| International equities | 19.2 | 19.6 | 18.9 | 19.2 | 19.5 | 19.3 | 18.0 |
| Alternative strategies | 12.7 | 17.5 | 14.6 | 12.8 | 11.5 | 9.4 | 11.8 |
| <i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i> | 16.5 | 20.9 | 19.1 | 15.0 | 13.9 | 15.6 | 2.1 |
| <i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i> | 9.9 | 11.4 | 10.7 | 9.8 | 9.1 | 9.4 | 8.6 |
| <i>Venture capital</i> | 23.3 | 32.4 | 24.2 | 18.8 | 19.4 | 7.2 | 13.0 |
| <i>Private equity real estate (non-campus)</i> | 12.6 | 17.2 | 13.2 | 10.4 | 12.3 | 13.0 | 0.0 |
| <i>Energy and natural resources</i> | 15.3 | 15.7 | 17.9 | 13.6 | 16.3 | 14.2 | 17.7 |
| <i>Commodities and managed futures</i> | 7.9 | 6.7 | 10.2 | 9.1 | 6.9 | 2.1 | 13.9 |
| <i>Distressed debt</i> | 13.2 | 14.9 | 17.5 | 12.4 | 9.6 | 11.9 | 0.0 |
| Short-term securities/cash/other | 1.9 | 2.7 | 1.8 | 2.1 | 1.5 | 0.9 | 2.4 |
| <i>Short-term securities/cash</i> | 0.2 | 0.1 | 0.3 | 0.2 | 0.1 | 0.3 | 0.2 |
| <i>Other</i> | 10.2 | 12.8 | 10.8 | 9.2 | 9.9 | 10.6 | 11.7 |

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.

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Longer-term Returns

Participating institutions' three-year net returns (from FY2012 to FY2014) averaged 9.0 percent, led by institutions with assets over \$1 billion, at 9.5 percent, and those with assets under \$25 million, at 9.4 percent. Five-year returns averaged 11.7 percent, with the same two size categories reporting the highest returns (and, once again, separated by just 10 basis points). Ten-year returns averaged 7.1 percent, with the largest endowments' returns ahead of the other five size cohorts by 90 to 170 basis points.

2014 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Average One-, Three-, Five- and 10-Year Net Returns* for Fiscal Years 2013 and 2014

| numbers in percent (%) | Total Institutions | | Over \$1 Billion | | \$501 Million-\$1 Billion | | \$101-\$500 Million | | \$51-\$100 Million | | \$25-\$50 Million | | Under \$25 Million | |
|-------------------------|--------------------|------|------------------|------|---------------------------|------|---------------------|------|--------------------|------|-------------------|------|--------------------|------|
| | 835 | 832 | 82 | 91 | 70 | 77 | 261 | 262 | 166 | 168 | 125 | 125 | 131 | 109 |
| | '13 | '14 | '13 | '14 | '13 | '14 | '13 | '14 | '13 | '14 | '13 | '14 | '13 | '14 |
| Annual total net return | 11.7 | 15.5 | 11.7 | 16.5 | 12.0 | 15.8 | 11.9 | 15.5 | 11.5 | 15.2 | 11.4 | 15.2 | 11.7 | 15.5 |
| 3-year net return | 10.2 | 9.0 | 10.5 | 9.5 | 10.2 | 9.1 | 10.2 | 8.9 | 10.0 | 8.7 | 10.1 | 8.9 | 10.6 | 9.4 |
| 5-year net return | 4.0 | 11.7 | 3.8 | 12.1 | 4.0 | 11.8 | 3.8 | 11.8 | 4.0 | 11.4 | 4.3 | 11.4 | 4.9 | 12.0 |
| 10-year net return | 7.1 | 7.1 | 8.3 | 8.2 | 7.6 | 7.3 | 7.0 | 7.1 | 6.7 | 6.5 | 6.4 | 6.5 | 6.3 | 6.6 |

* net of fees

Commenting on the return data, NACUBO President and Chief Executive Officer John D. Walda said, "Perhaps the most significant finding is the rise in longer-term returns, which will be very beneficial to colleges and universities that are seeking to serve a broader variety of students than ever before. A higher level of long-term returns enables them to support their missions while remaining on a sound financial footing."

Commonfund Institute Executive Director John S. Griswold noted that return data indicate an increasing emphasis on risk management among participating endowments. "We have observed a clear increase in the number of institutions employing risk limits and guidelines and applying stress tests in managing their portfolios," Griswold said, adding, "Institutions appear to be remaining vigilant with an eye to avoiding a repetition of their experience in the

financial crisis of 2007-2009.” (Please refer to the “Risk Management” section later in the release for additional information.)

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 FY2014:

Asset Allocations* for Fiscal Years 2013 and 2014

| Asset Class | Fiscal Year | |
|----------------------------------|--------------------|------|
| | 2013 | 2014 |
| Domestic equities | 16% | 17% |
| Fixed income | 10% | 9% |
| International equities | 18% | 19% |
| Alternative strategies | 53% | 51% |
| Short-term securities/cash/other | 3% | 4% |

*Dollar-weighted

2014 NACUBO-COMMONFUND STUDY OF ENDOWMENTS

Detailed Asset Allocations* for Fiscal Year 2014

| <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 |
|---|---------------------------|-------------------------|----------------------------------|----------------------------|---------------------------|--------------------------|---------------------------|
| | 832 | 91 | 77 | 262 | 168 | 125 | 109 |
| Domestic equities | 17 | 13 | 20 | 27 | 31 | 38 | 43 |
| Fixed income | 9 | 8 | 10 | 14 | 18 | 19 | 26 |
| International equities | 19 | 18 | 20 | 21 | 21 | 18 | 14 |
| Alternative strategies | 51 | 57 | 44 | 33 | 24 | 18 | 10 |
| <i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i> | 11 | 12 | 7 | 5 | 3 | 3 | 0 |
| <i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i> | 18 | 18 | 20 | 16 | 11 | 8 | 6 |
| <i>Venture capital</i> | 4 | 5 | 3 | 2 | 1 | 1 | 0 |
| <i>Private equity real estate (non-campus)</i> | 6 | 7 | 4 | 3 | 2 | 2 | 1 |
| <i>Energy and natural resources</i> | 6 | 7 | 5 | 3 | 2 | 1 | 1 |
| <i>Commodities and managed futures</i> | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| <i>Distressed debt</i> | 2 | 2 | 2 | 1 | 1 | 0 | 0 |
| <i>Alternatives not broken out</i> | 3 | 5 | 2 | 2 | 3 | 2 | 1 |
| Short-term securities/cash/other | 4 | 4 | 6 | 5 | 6 | 7 | 7 |
| <i>Short-term securities/cash</i> | 3 | 3 | 4 | 3 | 3 | 4 | 4 |
| <i>Other</i> | 1 | 0 | 2 | 2 | 2 | 2 | 2 |
| <i>Short-term securities/cash not broken out</i> | 0 | 1 | 0 | 0 | 1 | 0 | 1 |

*dollar-weighted

When viewed across the size cohorts, Study data show significant differences in asset allocation. For example, while institutions with assets over \$1 billion allocated 13 percent of their portfolios to domestic equities and 8 percent to fixed income, institutions with assets under \$25 million allocated 43 percent and 26 percent to these asset classes, respectively. The largest endowments allocated fully 57 percent of their portfolios to alternative strategies, while at the other end of the size spectrum the smallest endowments allocated only 10 percent. Across the other four size cohorts, a similar pattern was observed: Allocations to traditional asset classes—domestic equities and fixed income—were higher at smaller endowments, while the reverse was true for alternative strategies, where the size of the allocation decreased with the size of the endowment.

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Only allocations to international equities and short-term securities/cash/other were relatively steady across size cohorts.

Among allocations to alternative investment strategies for the Study population as a whole, the largest allocation, at 18 percent, was to marketable alternatives, followed by private equity at 11 percent. Other allocations were: energy and natural resources and private equity real estate (non-campus), at 6 percent each; venture capital, at 4 percent; distressed debt, at 2 percent; and commodities and managed futures, at 1 percent.

Fund Flows

The FY2014 effective spending rate for the 832 participating institutions averaged 4.4 percent, unchanged from last year's Study. The effective spending rate ranged from a high of 4.6 percent for the largest and smallest endowments to a low of 4.2 percent for institutions with assets between \$25 and \$50 million.

As noted, participating institutions reported that an average of 9.2 percent of their operating budget was funded by their endowment compared with 8.8 percent reported a year ago. The largest institutions, those with assets over \$1 billion, relied on the endowment to fund 16.9 percent of their operating budget in FY2014, while at institutions with assets under \$25 million the endowment funded just 4.2 percent of the operating budget.

Forty-five percent of participating institutions reported an increase in gifts in FY2014, down from last year's 51 percent. Thirty-eight percent reported a decrease in gifts, up from last year's 30 percent. Among institutions reporting an increase, the median increase was 61.6 percent; for those reporting a decrease, the median decrease was 36.1 percent. The median total of new gifts to endowment was \$2.5 million, up from \$2.3 million last year, while the average gift was \$10.1 million, an increase compared with last year's \$9.4 million.

Debt

Among Study participants, 629 reported that they carry long-term debt; the average total debt stood at \$217.5 million as of June 30, 2014, compared with \$204.3 million a year earlier. Median debt declined slightly to \$55.2 million from \$56.3 million. Thirty-two percent of Study participants reported increasing debt in FY2014, a one percentage point increase over the course of the year. Sixty-two percent reported a decrease, unchanged from the previous Study.

Staffing, Outsourcing and Consultant Use

Endowments reported an average of 1.6 full-time equivalent (FTE) employees devoted to the investment management function in FY2014, unchanged year over year. Endowments with assets over \$1 billion had the largest average staff size at 9.3 FTEs; endowments with assets between \$501 million and \$1 billion reported an average of 2.4 FTEs. All other size cohorts reported less than one full-time equivalent devoted to investment management. Forty-three percent of Study respondents said they have substantially outsourced the investment management function, up from 40 percent the prior year and 38 percent the year before that, continuing a trend toward outsourcing that has been on the rise for several years. Eighty-two percent of the Study population reported using a consultant for various services related to investment management, a moderate decrease compared with last year's 85 percent.

Risk Management

The Study found that 57 percent of participating institutions employ risk limits (strategies for measuring risk in specific forms of investments) in their portfolios, a marked increase from last year's 50 percent. Seventy-six percent of this group use volatility calculations, such as standard deviation, up from 72 percent a year ago, while 61 percent use measures such as alpha and beta, up from 55 percent in FY2013. Forty-six percent of respondents reported using stress testing or scenario analysis for their portfolios compared with 41 percent a year ago.

Environmental/Social/Governance Investing Criteria

Fourteen percent of NCSE participants said they seek to include in their portfolios investments that rank high on environmental, social and governance (ESG) criteria. Twenty-five percent said they exclude or screen out investments that are inconsistent with the institution's mission, while 15 percent said they allocate a portion of the endowment to investments that further the institution's mission. Just 6 percent of institutions said their board had voted to exclude responsible investing considerations, while 75 percent of respondents said their board had not taken similar action. Seven percent said they were considering changing their investment policy to include ESG integration, while 69 percent said they were not doing so.

Endowment Leaders

Endowment Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2014. Compared with the Study universe return of 15.5 percent, the top decile reported an average return (net of fees) of 19.8 percent and the top quartile reported an average return (net) of 18.6 percent.

For the three years from FY2012 to FY2014, the top decile reported an average annual return of 10.9 percent while the top quartile realized an average annual return of 10.3 percent versus a 9.0 percent average return for the Study universe. For the five-year period, respective returns were 13.5 percent, 12.9 percent and 11.7 percent. The top decile reported 10-year returns of 8.3 percent, while the top quartile reported 7.6 percent. For the same period, the Study population overall reported an average annual return of 7.1 percent.

Additional Resources

Additional materials in support of the NCSE are available on the NACUBO website, including tables that demonstrate the endowment market values of participating institutions in FY2014 and percentage changes in market values from FY2013 to FY2014.

About NACUBO

NACUBO is a membership organization serving 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, business practices and support for higher education institutions in fulfillment of their 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

Commonfund was founded in 1971 as an independent nonprofit investment firm with a grant from the Ford Foundation. Commonfund today manages customized investment programs for endowments, foundations and pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, 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, commodities 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.

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