CONTACT: Jessica Shedd
Director, Research & Policy Analysis
NACUBO
202.861.2527
jessica.shedd@nacubo.org

CONTACT: Chad Peterson
Director, Media Relations
TIAA-CREF
212.916.4808
cell: 917.715.9083
cpeterson@TIAA-CREF.org

CONTACT: Matt Hamill
Senior Vice President
NACUBO
202.861.2529
matt.hamill@nacubo.org

Diversified Investments Yield a 10.7% Return for Higher Education Endowments in FY06

Washington, DC, January 22, 2007 --- An increasingly diversified investment strategy helped managers of higher education endowment funds earn an average one-year return rate of 10.7 percent for fiscal year 2006. The investment performance provides colleges and universities with income to help support their educational and operating expenses, as well as offset their endowment management fees and reinvest a share of the income to preserve the value of the endowment against inflation. For many higher education endowments, the ten-year average compounded 8.8 percent return rate is close to the average return target needed to meet both current and long-term spending goals for the benefit of their institutional stakeholders. This according to a survey released today by the National Association of College and University Business Officers (NACUBO) in conjunction with TIAA-CREF, a national financial services organization.

Overwhelmingly, college and university endowments continue to be invested in equities and fixed income. In 2006, 78 percent of endowment investments fell into these asset categories. However, the 2006 study reflects a continued and steady trend toward alternative asset classes and away from traditional ones. Allocations to traditional assets have declined 1 to 2 percentage points a year over the past ten years. As a result, over the past decade, the portion of investments in asset classes other than equities and fixed income has more than tripled, from 5.4 percent to 17.3 percent of investment portfolios (Table 1).

Table 1
Average Allocation to Selected Asset Classes, FY 1997 & 2006

Asset Class	1997 Allocation	2006 Allocation	Percent Increase
Private Equity	0.3%	1.9%	533%
Natural Resources	0.3%	1.5%	400%
Hedge Funds	2.2%	9.6%	336%
Real Estate	1.9%	3.5%	84%
Venture Capital	0.7%	0.9%	29%

Data collected for 2006 also reaffirm the value that a well-diversified investment pool has in contributing to the strong long-term performance of an endowment. Compared to 2005 data, some asset classes saw fairly consistent average returns in fiscal year 2006, while other classes saw larger swings (Table 2). Over the long term, a diversified portfolio will balance out the rates of return of different asset classes, which individually may change significantly from one year to the next.

The NES is the largest and longest running yearly, voluntary survey of higher education institutions and their foundations about their endowment holdings. Survey information is collected and calculated on behalf of NACUBO by TIAA-CREF. Seven hundred sixty-five (765) institutional participants from the United States and Canada took part in the 2006 NES, the largest group in the 34-year history of the study and the sixth consecutive year of record-breaking participation since NACUBO began their partnership with TIAA-CREF in 2000.

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Table 2 Average Rate of Return by Asset Class, FY 2005 & 2006		
Asset Class	**Average Return (FY 2006)**	**Average Return (FY 2005)**
Equity (U.S)	10.3%	8.8%
Equity (Non-U.S.)	24.8%	15.7%
Fixed Income (U.S.)	0.6%	6.7%
Fixed Income (Non-U.S.)	3.2%	9.2%
Real Estate (Public)	19.0%	27.9%
Real Estate (Private)	15.8%	15.2%
Cash	3.8%	2.3%
Hedge Funds	10.4%	8.5%
Private Equity	17.9%	16.8%
Venture Capital	10.2%	14.5%
Natural Resources	28.2%	31.3%

A wide range of endowment sizes and investment return rates were reflected among this year's participants, with a majority of endowments holding less than $100 million in total assets. Earnings from endowment investments, and private financial support in general, are one of three primary revenue sources for colleges and universities; the other two being public funds and tuition income.

Taking into consideration an approximate annual inflation rate of three percent, a typical annual spending rate of approximately five percent of total endowment holdings, and various operational and management fees at one percent of total holdings, many endowments use a nine percent annual return target. Spending rate is the percentage of an institution's endowment contributed annually to its operating budget, and is usually determined using recent annual performance data. As in prior years, participants reported an average spending rate of just under five percent during fiscal year 2006.

Both an executive summary and the complete 2006 study are available for download at www.nacubo.org. The report contains tables and graphs that illustrate essential data on all aspects of endowment management including endowment size, rankings, historical investment performance, asset allocation, spending policies, management expenses, and manager selection. The cost for the full study is $89.95 for NACUBO members and $290.00 for nonmembers. The executive summary is available for $29.95 for NACUBO members and $50.00 for nonmembers.

TIAA-CREF is a national financial services organization with more than $406 billion in combined assets under management (as of 12/31/06) and is the leading provider of retirement services in the academic, research, medical and cultural fields. Further information can be found at www.tiaa-cref.org.

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 promote sound management and financial practices at colleges and universities.

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