Educational Endowments Returned -18.7% in FY2009

842 colleges and universities provide wide range of data in first annual

NACUBO-Commonfund Study of Endowments

NEW YORK, January 28, 2010 – Data gathered from American colleges and universities participating in the 2009 NACUBO-Commonfund Study of Endowments® (NCSE) show that these institutions’ endowments returned an average of -18.7 percent (net of fees) for the 2009 fiscal year (July 1, 2008 – June 30, 2009).

The average annual three-year return for institutions participating in the Study was -2.5 percent, while the average annual return for the trailing five years was 2.7 percent. Over the past 10 years, participating institutions reported an average annual return of 4.0 percent (all returns are net of fees).

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The data come from in-depth surveys of 842 U.S. institutions of higher learning, including public and private colleges and universities, their supporting foundations, and community colleges. Participating institutions represent $306 billion in endowment assets.

Study results show that investment returns were negative for all asset classes but two—fixed income, which generated a 3.0 percent gain, and short-term securities/cash, which returned 0.8 percent. International equities produced the weakest return, -27.6 percent. Domestic equities were not far behind, with a return of -25.5 percent on average. Alternative strategies returned -17.8 percent, while short-term securities/cash/other returned -1.5 percent.

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NACUBO President and Chief Executive Officer John D. Walda and Commonfund Institute Executive Director John S. Griswold jointly said that FY2009’s total return confirms how difficult the year was for educational institutions. In mid-December, partial NCSE data gathered from 504 institutions showed the average return for FY2009 was -19.0 percent. “These results illustrate the extreme difficulties colleges and universities faced at the height of the global economic crisis,” said Walda. “Our hope is that the strong first half of FY2010 augurs well for the full fiscal year and that a year hence the story will be much more positive.” Griswold pointed
out, “Many educational institutions have taken steps to adapt to the realities imposed by endowments that have been buffeted by losses averaging nearly 20 percent. Future NCSE reports may well reflect fairly significant changes in investment management, spending, debt practices and governance policies.”

On June 30, 2009, NCSE survey data indicate that participating institutions’ dollar-weighted asset allocation was:

- Domestic equities: 18 percent
- Fixed income: 13 percent
- International equities: 14 percent
- Alternative strategies: 51 percent
- Short-term securities/cash/other: 4 percent
Within alternative strategies, the asset mix was:

- Private equity: 21 percent
- Marketable alternative strategies: 43 percent
- Venture capital: 7 percent
- Private equity real estate: 12 percent
- Energy and natural resources: 12 percent
- Distressed debt: 5 percent

Alternative strategies are categorized in the NCSE as follows: Private equity (Leveraged buyouts (LBOs), mezzanine and M&A funds and international private equity); marketable alternative -more-
strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives); venture capital; private equity real estate (non-campus); energy and natural resources (oil, gas, timber, commodities and managed futures); and distressed debt.

### Table: Alternative Strategies Asset Mix for Fiscal Year 2009

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>Total Institutions</th>
<th>Over $1 Billion</th>
<th>$501 Million-$1 Billion</th>
<th>$101-$500 Million</th>
<th>$51-$100 Million</th>
<th>$25-$50 Million</th>
<th>Under $25 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responding institutions</td>
<td>701</td>
<td>48</td>
<td>57</td>
<td>209</td>
<td>142</td>
<td>106</td>
<td>119</td>
</tr>
<tr>
<td>Private equity (LBOs, mezzanine, M&amp;A funds and international private equity)</td>
<td>21</td>
<td>22</td>
<td>19</td>
<td>17</td>
<td>11</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</td>
<td>43</td>
<td>40</td>
<td>48</td>
<td>54</td>
<td>59</td>
<td>61</td>
<td>57</td>
</tr>
<tr>
<td>Venture capital</td>
<td>7</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Private equity real estate (non-campus)</td>
<td>12</td>
<td>13</td>
<td>9</td>
<td>7</td>
<td>13</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Energy and natural resources</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>12</td>
<td>10</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Distressed debt</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>8</td>
<td>13</td>
</tr>
</tbody>
</table>

*Numbers in percent (%)

**Spending**

The average spending rate for educational endowments participating in this year’s Study—calculated by dividing endowment dollars spent by the beginning endowment value—was 4.4 percent. The highest spending rate, 4.9 percent, was found among institutions with assets between $501 million and $1 billion, while the lowest, an average of 3.9 percent, occurred among institutions with assets under $25 million. Forty-three percent of Study participants reported increasing their spending rate versus 25 percent that lowered it and 28 percent that reported no change.

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While 43 percent of participating institutions increased their spending rate, an even higher 54 percent increased spending in dollars, indicating that colleges and universities stepped up spending to maintain programs and services central to their missions even as their endowments lost value.

**Gifts**

Sixty percent of responding institutions reported a decline in gifts in FY2009, while only 26 percent reported an increase. The median decrease was 45.7 percent. Only 8 percent of participating institutions include future gifts when establishing a spending policy. Among the various size cohorts, larger institutions include gifts in future spending plans at the highest rate—16 percent of respondents with assets over $1 billion and 19 percent of institutions with assets between $501 million and $1 billion.

**Debt**

Among the 654 Study respondents reporting that they carry debt at present, average total long-term debt stood at $167.8 million as of June 30, 2009, up from $109.1 million the previous year. Average debt levels were driven upward by institutions with assets over $1 billion and by public universities.

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Costs
Endowments reported that it cost 63 basis points, on average, to manage their funds in FY2009. Measured on a median basis, the cost was 53 basis points.

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

- Domestic equities: 3.9
- Fixed income: 2.2
- International equities: 2.8
- Alternative strategies (direct): 10.3
- Alternative strategies (fund of funds): 2.5

On average, institutions employed 1.6 full-time equivalent employees (FTEs) to manage their endowments, but the median number of FTEs, 0.5, may be more indicative of true employment levels.

Socially Responsible Investing
Of the 842 Study participants, 178 reported having some form of social investing policy. Of these 178 institutions, 55 percent screen all of their portfolios, while 34 percent screen part of the portfolio (11 percent offered no response or were uncertain). Participating institutions most
frequently screen to eliminate investment strategies related to tobacco, geopolitical/location-specific concerns, alcohol, gambling, pornography, abortion, and armaments/weapons.

**Endowment Leaders**

The asset allocation of top decile performers was far different in FY2009 than in previous years. Griswold commented, “With nearly one-third of their assets in fixed income and 11 percent in cash, the top decile performers in this exceptional year achieved their investment results by following highly unorthodox strategies that are unlikely to be repeatable, much less prove successful over the longer term.”

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

The 2009 NCSE is the result of a landmark research partnership between NACUBO and Commonfund. Previously, the two organizations conducted separate studies of educational endowments’ investment performance. The previous Commonfund Benchmarks Study of Educational Endowments and NACUBO Endowment Study were merged to create the 2009 NACUBO-Commonfund Study of Endowments (NCSE). The NCSE is the largest and most comprehensive annual survey on higher education endowment investment performance, asset allocation, and related finance and governance matters.

**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

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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 more information about NACUBO, please visit www.nacubo.org.

About Commonfund Institute
Commonfund Institute houses the education and research activities of Commonfund and
provides the entire nonprofit community 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 endowment and treasury
management; proprietary and third-party research and publications, including the series of
Commonfund Benchmarks Studies of Foundations, Operating Charities and Healthcare
Organizations; calculation and analysis of 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 educational
and other nonprofit institutions including endowments, foundations, healthcare and service
organizations through superior fund management, investment advice and treasury operations.
Directly or through its subsidiaries—Commonfund Capital, Commonfund Realty, and
Commonfund Asset Management Company—Commonfund manages approximately $25.5

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billion for approximately 1,580 nonprofit educational institutions, foundations, healthcare and other nonprofit institutions. In response to the growing needs of nonprofit institutions, Commonfund, together with its subsidiary companion organizations, offers more than 30 different endowment investment programs. All securities are distributed through Commonfund Securities, Inc. For additional information about Commonfund, please visit www.commonfund.org.