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National Association of College and University Business Officers

NACUBO

2008 NACUBO-COMMONFUND ENDOWMENT STUDY

FOLLOW-UP SURVEY

2008

NACUBO-COMMONFUND ENDOWMENT STUDY FOLLOW-UP SURVEY

REPORT ON THE

NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

AND COMMONFUND INSTITUTE SURVEY

OF ENDOWMENT PERFORMANCE

FROM JULY 1 THROUGH NOVEMBER 30, 2008

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Foreword

We are pleased to share the results of the 2008 NACUBO-Commonfund Institute Endowment Study Follow-up Survey. We felt it necessary to conduct this study in order to document the effects that the market downturns in the latter part of calendar year 2008 had on endowment investment returns and market values. Various estimates show that the Standard and Poor's 500 Index fell 29.3 percent during the fall and early winter of 2008. The update presented in this report helps us to put the results of the overall NACUBO Endowment Study (NES) into a more current context, given this market volatility.

The Follow-up Survey also provides us with the opportunity to begin our work as partners in the new NACUBO-Commonfund Study of Endowments. Our two teams worked together to create the Follow-up Survey instrument and final report, and we thank them wholeheartedly for their assistance.

The 2008 NACUBO Endowment Study and this Follow-up Survey detail a year of great challenge for college and university endowment managers. Institutions and their affiliated foundations reported an average rate of return of -3 percent for the fiscal year ending June 30, 2008, and the results of the Follow-up Survey show that endowments fell an additional 22 percent in the first five months of FY09. These declines undoubtedly will have adverse effects on endowment spending rates and, ultimately, on institutional budgets. However, it is also important to take a long-term view in assessing endowment performance. Past NES reports show that endowments fell 3.5 percent in FY01 and 6.2 percent in FY02 before enjoying several years of double-digit average returns prior to FY08.

NACUBO and Commonfund Institute greatly appreciate the dedication of the 796 NACUBO member colleges, universities, and affiliated foundations that participated in the 2008 NES and the 435 who provided additional data for this Follow-up Survey report. Their participation makes the entire NES project a complete success.

John D. Walda
President and Chief Executive Officer
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Introduction

The 2008 NACUBO Endowment Study (NES) measures the market values, investment performance, and asset allocation of college and university endowments and their affiliated foundations during fiscal year 2008. For most colleges and universities, this period ranges from July 1, 2007, to June 30, 2008. The 2008 NACUBO-Commonfund Endowment Study Follow-up Survey attempts to assess how the market volatility that occurred in the July 1 to November 30, 2008 period affected endowment performance. For most institutions, this time period corresponds to the first five months of FY09. Respondents to the Follow-up Study were asked to make a best estimate of their endowment investment returns and market values during the survey period. It is very important to note that the figures provided by the Follow-up Survey respondents and presented in this report are rough estimates that have not been subject to the usual financial reporting requirements that institutions follow. As such, these figures should be considered early estimates of endowment performance during the study period. They are subject to change based on more accurate information that institutions may report at a later date. It also should be noted that, unlike the full NES, the Follow-up Survey did not ask institutions to report on changes in their endowment asset allocations, investment custodians, or other details about their endowment investments that might have occurred in the latter half of calendar year 2008. Finally, while limited institutional data for the full NES are provided to the responding institutions, the general public, and other organizations, no individual data on institutional endowments collected from this Follow-up Survey will be released.

Respondents

The 2008 NACUBO-Commonfund Endowment Study Follow-up Survey was launched on December 10, 2008 and sent to the 796 colleges, universities, and affiliated foundations that responded to the 2008 NES. As of December 31, 2008, 435 of these institutions (54.6 percent) sent in usable responses. As the table below shows, included with these responses are 39 of the 77 endowments that had market values of more than $1 billion as of June 30, 2008. In general, the distribution of respondents to the Follow-up Survey is similar to those from the full NES.

Comparison of 2008 NES Respondents with Follow-up Survey Respondents, by Endowment Size

Endowment Assets (as of June 30, 2008)	NES Respondents	Percentage of Total	Follow-up Survey Respondents	Percentage of Total
Greater Than $1 Billion	77	9.7	39	9.0
> $500 Million to ≤ $1 Billion	64	8.0	40	9.2
> $100 Million to ≤ $500 Million	229	28.8	132	30.3
> $50 Million to ≤ $100 Million	156	19.6	81	18.6
> $25 Million to ≤ $50 Million	136	17.1	78	17.9
Less Than or Equal to $25 Million	134	16.8	65	14.9
All Public Institutions	274	34.4	132	30.3
All Independent Institutions	522	63.6	303	69.7
Full Sample	**796**	**100.0**	**435**	**100.0**

Due to rounding, details may not total to 100.0%.

Investment Returns

During FY08 the Standard and Poor's 500 Index declined 13.3 percent. In the July 1 to November 30, 2008 period, the S&P 500 fell an additional 29.3 percent. While college and university endowments were affected by these overall market conditions and had negative returns, they generally outperformed the market index.

The results shown below indicate that endowment investments fell roughly 22.5 percent during the five-month Follow-up Survey period. This compares with a -3.0 percent loss during the FY08 period as measured by the NES. Unlike the NES time span, during which the largest-sized endowments were able to achieve a small positive return, endowments of all size levels fell by more than 20 percent during the follow-up period.

Average Endowment Investment Returns, FY08 and Estimated for July 1 to November 30, 2008

Endowment Assets (as of June 30, 2008)	FY 2008 (NES)	July 1 to Nov. 30 (Follow-up)
Greater Than $1 Billion	0.6%	-20.5%
> $500 Million to ≤ $1 Billion	-1.9%	-22.2%
> $100 Million to ≤ $500 Million	-2.9%	-23.5%
> $50 Million to ≤ $100 Million	-3.2%	-22.1%
> $25 Million to ≤ $50 Million	-4.3%	-23.1%
Less Than or Equal to $25 Million	-4.3%	-21.4%
All Public Institutions	-3.3%	-22.3%
All Independent Institutions	-2.8%	-22.5%
Full Sample	**-3.0%**	**-22.5%**

Change in Endowment Market Values

Similarly, endowments suffered substantial losses in market value during the Follow-up Survey period. Endowment market value includes investment returns plus growth from gifts, bequests, and other donations, minus withdrawals for spending, management fees, and other expenditures.

Collectively, survey respondents estimate that their endowments fell by an average of 22.9 percent from July 1 to November 30, 2008. This compares with a gain of 0.5 percent in endowment assets during the 2008 fiscal year. As the table that follows illustrates, the largest reversal occurred for the largest endowments. The group with assets of over $1 billion saw their endowments go from an average gain of 1.5 percent in FY08 to a loss of 20.0 percent in the Follow-up Survey timeframe. However, the $500 million to $1 billion group reported the largest market decline. These endowments fell 25.5 percent on average from July 1 to November 30.

Average Change in Endowment Market Values, FY08 and Estimated for July 1 to November 30, 2008

Endowment Assets (as of June 30, 2008)	FY 2008 (NES)	July 1 to Nov. 30 (Follow-up)
Greater Than $1 Billion	1.5%	-20.0%
> $500 Million to ≤ $1 Billion	-1.1%	-25.5%
> $100 Million to ≤ $500 Million	-2.6%	-23.8%
> $50 Million to ≤ $100 Million	-0.4%	-23.9%
> $25 Million to ≤ $50 Million	-2.7%	-23.7%
Less Than or Equal to $25 Million	-1.9%	-21.3%
All Public Institutions	0.8%	-24.4%
All Independent Institutions	0.4%	-22.0%
Full Sample	**0.5%**	**-22.9%**

Based on the original calculations from the 2008 NES, these results suggest that during the July 1 to November 30, 2008 period endowments lost about $94.5 billion in market value, due largely to investment declines.

Effects of Market Losses on Endowment Draws

Each year, many colleges and universities withdraw a percentage of their endowment's market value to help support their operations. For a number of institutions, annual endowment draws account for a substantial proportion of their total revenue. The Delta Cost Project[1] estimates that endowment withdrawals account for 15 to 20 percent of large private colleges and universities' total revenue. Even the smallest endowments use their endowment draws to help finance their operations.

The NES Follow-up Survey thus attempted to ascertain what effect the market declines might have on planned endowment draws for the reminder of FY09. These results are shown in greater detail on the next page. In general, 60.5 percent of respondents said they do not expect to change their endowment draw amounts, but 26.7 percent expect to decrease their draw amounts and 11.7 percent said they did not know. Only 1.1 percent of respondents said they expected to increase their draws.

As might be expected, institutions with larger endowments were somewhat less likely to decrease their draws. About 15 percent of respondents at the institutions with endowments over $1 billion said they planned to decrease their draw amounts, compared with one-quarter of the respondents in the $500 million to $1 billion group, and approximately 26 percent of those in the $25 million-and-lower category. In addition, about 26 percent of the institutions with the smallest endowments said they did not know if their draws would change.

[1]Jane V. Wellman, Donna M. Desrochers, and Colleen M. Lenihan. *The Growing Imbalance: Recent Trends in U.S. Postsecondary Education Finance.* Washington, DC: Delta Cost Project, 2008.

Follow-up Survey Respondents' Planned Changes to FY09 Endowment Draws, by Endowment Size

Endowment Assets (as of June 30, 2008)	No Changes Planned	Plan to Decrease Draw	Plan to Increase Draw	Unknown/No Response
Greater Than $1 Billion	71.8%	15.4%	2.6%	10.2%
> $500 Million to ≤ $1 Billion	67.5%	25.0%	2.5%	5.0%
> $100 Million to ≤ $500 Million	59.8%	30.3%	#	9.9%
> $50 Million to ≤ $100 Million	65.4%	25.9%	#	8.7%
> $25 Million to ≤ $50 Million	60.3%	28.2%	1.3%	10.2%
Less Than or Equal to $25 Million	44.6%	26.2%	3.1%	26.1%
All Public Institutions	49.2%	32.6%	#	18.2%
All Independent Institutions	65.3%	24.1%	1.7%	8.9%
Full Sample	**60.5%**	**26.7%**	**1.1%**	**11.7%**

#Less than 1%.
Due to rounding, details may not total to 100.0%.

Expected Change in Endowment Spending Rates

The Follow-up Survey also asked respondents to indicate what changes, if any, they anticipate making to their endowment spending rates in FY10 as a result of the declines in endowment market value that have been incurred thus far in FY09. The spending rate is the figure obtained by dividing the dollars spent from the endowment into the endowment's beginning market value. The full NES report shows that in FY08 the average endowment spending rate was 4.6 percent.

The results for the Follow-up Survey are mixed, as a fairly large share (41.0 percent) of respondents from the largest endowments said they do not yet know what their rates for FY10 will be (see table on the next page). Similarly, more than half (50.8 percent) of respondents from the smallest endowments also did not yet know what spending rates their institutions would set. On the other hand, 56.8 percent of respondents from the $500 million to $100 million group said they expect no change in their spending rate, compared with 35.9 percent of those in the over $1 billion category and 44.8 percent of respondents overall. In addition, 7.7 percent of the respondents in the over $1 billion category plan to increase their spending rates, compared with only 1.5 percent of those in the $25 million or less range and 3.7 percent of respondents overall.

Follow-up Survey Respondents' Planned Changes to Their FY10 Endowment Spending Rates, by Endowment Size

Endowment Assets (as of June 30, 2008)	No Changes Planned	Plan to Increase Rate	Plan to Decrease Rate	Unknown/No Response
Greater Than $1 Billion	35.9%	7.7%	15.4%	41.0%
> $500 Million to ≤ $1 Billion	52.5%	7.5%	12.5%	27.5%
> $100 Million to ≤ $500 Million	40.2%	3.8%	21.2%	34.8%
> $50 Million to ≤ $100 Million	56.8%	1.2%	16.0%	26.0%
> $25 Million to ≤ $50 Million	48.7%	3.8%	17.9%	29.6%
Less Than or Equal to $25 Million	35.4%	1.5%	12.3%	50.8%
All Public Institutions	37.9%	2.3%	15.2%	44.6%
All Independent Institutions	47.9%	4.3%	17.8%	30.0%
Full Sample	**44.8%**	**3.7%**	**17.0%**	**34.5%**

Due to rounding, details may not total to 100.0%.

Illustrating the Impact of the Endowment Declines

The Follow-up Survey also provided respondents with the opportunity to provide qualitative commentary and examples of how the downturn in the economy and the decline in endowment market values have affected their budgets or operations. Thirty-five respondents said that the market and endowment conditions will lead to budget cuts, and eight respondents said they have implemented hiring freezes and other substantial reductions in administrative expenditures. One respondent's comments illustrate these sentiments: "We have frozen the creation of any new positions, asked for non-mission critical expenditures to be suspended, will review any vacant positions before deciding to refill, and will not be increasing any departmental budgets for the next fiscal year."

Two other areas likely to be affected by the economic difficulties are enrollment and financial aid. Thirteen respondents said that they believe their enrollment growth will be negatively affected due to the economy, and nine predicted that they would have to reduce their expenditures for institutionally funded financial aid. As one respondent put it, "Student scholarship dollar availability will be less, at a time they are most in need." Several respondents were also concerned about declines in the availability of student loans.

At the same time, some institutions (30 respondents) said they have not yet seen any negative effects, but are more worried about the near future. As one respondent said, "We are more concerned about what will happen if the financial downturn doesn't begin correcting in the next year, then FY 2011 and beyond could usher in some hard choices."

Summary

The institutions that participated in the 2008 NACUBO Endowment Study and the NACUBO-Commonfund Follow-up Survey experienced a difficult investment environment in the 2008 fiscal year and the beginning of FY09. Participants in the 2008 NES report an investment return of -3.0 percent in fiscal year 2008, while the sample of institutions that participated in the Follow-up Survey estimate that their endowment investment declined another 22.5 percent in the first five months of FY09. These losses, while severe, were less than those suffered by the broader U.S. stock market, as measured by the S&P 500 Index.

The overall investment losses contributed to a decrease in endowment market value of roughly 23 percent during the first five months of FY09. This overall loss equates to a decline of about $94.5 billion in endowment assets, much of which was incurred by the institutions with the largest endowments. However, the majority of these institutions said they do not intend to lower their endowment withdrawal amounts during the remainder of FY09. There is some concern for the future, however, as more than one-third of the respondents do not yet know what effect the market declines will have on FY10 endowment spending rates. The survey results suggest that institutions with the smallest endowments will be the most adversely affected by the market declines, as they were more likely than better-endowed schools to indicate that they will lower their FY09 endowment draws.

Comments from the responding institutions suggest that a number have already implemented or plan to implement budget cuts, hiring freezes, and other cost reductions due to the endowment declines and poor market conditions. While these results and comments are disappointing, it is important to keep a long-term view of endowments. Endowment investment policies are designed to preserve real purchasing power and support spending over many years. The prudent stewardship of endowment managers will help ensure the future ability of academic institutions to fulfill their long-term educational and research goals.