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Panel: The Role of Endowments in Financing Higher Education

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NACUBO-
Commonfund
Study of
Endowments

NCSE

Topline Results

RETURNS AND INVESTMENT OBJECTIVES
ASSET ALLOCATION | INVESTMENT POLICIES
SOCIAL INVESTING | DEBT | FUND FLOWS
RESOURCES MANAGEMENT GOVERNANCE

January 2017

Topline Results of the 2016 NCSE

- Eighth year of successful partnership on the NCSE between NACUBO and Commonfund.
- 805 U.S. colleges and universities participated in the FY2016 survey (compared with 812 in FY2015).
- The U.S. institutions had \$515.1 billion in total endowment assets (as of June 30, 2016).
 - Average endowment of U.S. institutions was \$639.9 million, median was \$116.2 million.

Themes for FY2016 and Beyond:

- Endowments returned -1.9% vs. 2.4% in FY2015. This is the lowest return since the FY2008-2009 financial crisis.
- 10-year average returns fell to 5.0% in FY2016 vs. 6.3% in FY2015 and 7.1% in FY2014.
- Returns for all of the investment categories followed in the Study were lower than the previous fiscal year, with Private Equity Real Estate generating the highest return of 7.1%, compared with 9.9% in FY2015.
- Due to their large percentage allocation to fixed income the one-year return for endowments under \$25 million was -1.0%, relatively higher than the \$1 billion cohort, which returned -1.9%.
- Asset allocations remain stable, with a slight shift away from alternatives toward fixed income.
- Effective spending rates for FY2016 slightly increased to 4.3%, from 4.2% in FY2015, with 74% of endowments reported increasing their spending in dollar terms.
- The FY2016 results further demonstrate the need for college and university endowments to remain flexible and well-managed in order to meet fiscal and other challenges.

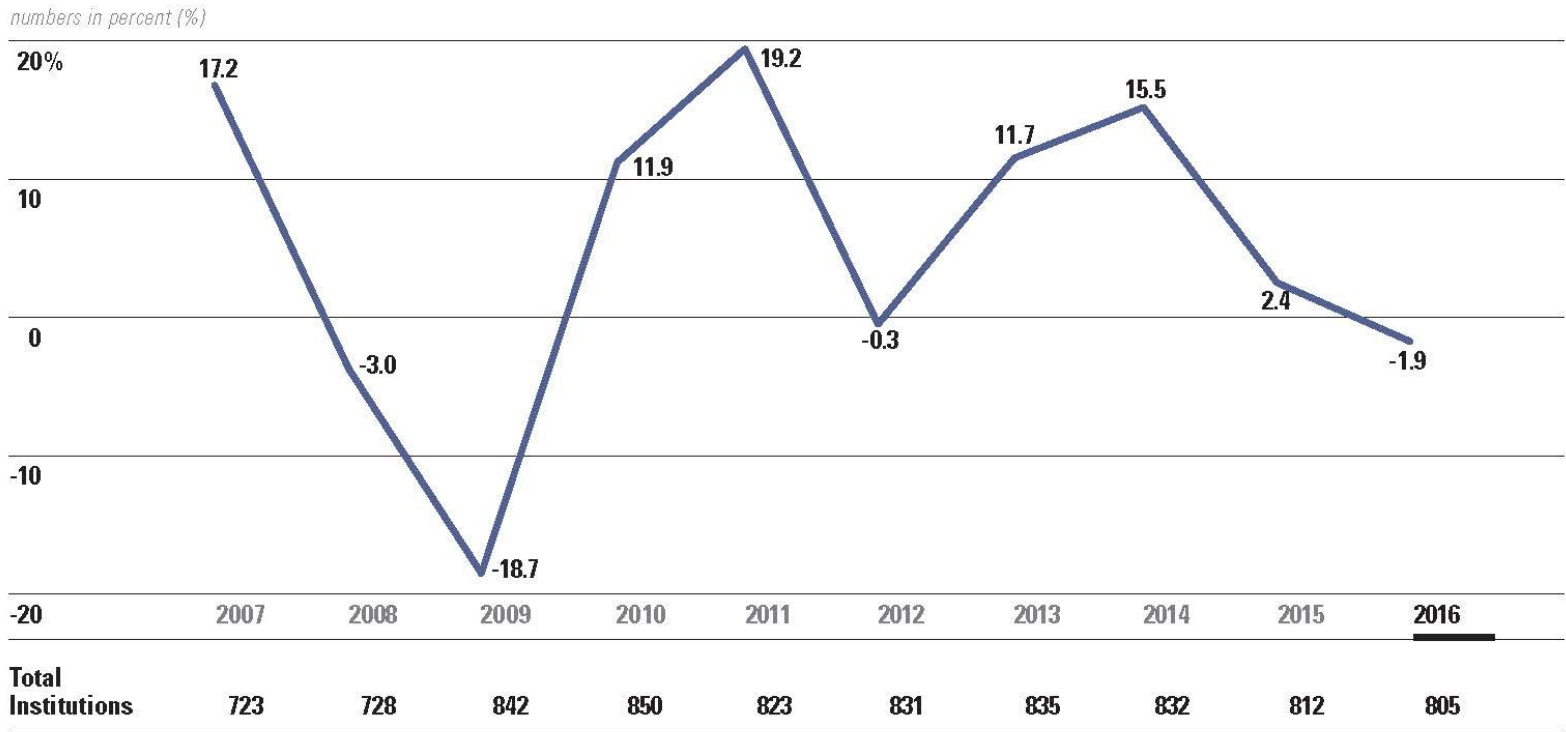
What the 2016 Results Mean for Higher Education Institutions

- Endowments remain essential to college and university long-term planning.
- The average 10-year annual endowment return of 5.0% is below institutions' median long-term target rate of 7.4%.
 - This may make it harder for schools to increase endowment spending dollars in the future.
- Many schools continue to struggle, in spite of raising their endowment spending dollars.
 - Student enrollments have been falling in recent years and are expected to continue to decline.
 - Increased pressure from policy makers to freeze or cut tuition while maintaining access and affordability.

Average Annual Net Returns*

U.S. College and University Endowments | Fiscal Years 2007 to 2016

Figure 2.1 Average Annual Total Net Returns for Total Institutions for Fiscal Years 2007-2016



Source: Fiscal Years 2007-2008, NACUBO Endowment Study

* Net of fees.

Source: Fiscal years 2005 – 2007, NACUBO Endowment Study; Fiscal years 2008 – 2016, NACUBO-Commonfund Study of Endowments.

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Average Annual Returns* for One-, Three-, Five-, & Ten-Years By Endowment Size | Fiscal Years 2015 & 2016

Figure 2.2 Average One-, Three-, Five- and 10-Year Net Returns* for Fiscal Years 2015 and 2016

<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	
	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16
	812	805	94	91	77	75	261	264	167	163	117	121	96	91
Annual total net return	2.4	-1.9	4.3	-1.9	2.8	-2.2	2.0	-2.4	2.0	-1.8	1.9	-1.6	2.3	-1.0
3-year net return	9.9	5.2	10.8	6.0	10.2	5.4	9.7	4.9	9.4	5.1	9.9	5.2	9.9	5.5
5-year net return	9.8	5.4	10.4	6.1	9.9	5.7	9.5	5.1	9.4	5.0	9.8	5.3	10.6	5.8
10-year net return	6.3	5.0	7.2	5.7	6.7	5.3	6.2	4.8	5.9	4.7	5.6	4.7	6.0	5.0

*net of fees

Average One-Year Rate of Return*

By Asset Class | Fiscal Year 2016

Figure 2.6 Average Return by Asset Class for Fiscal Year 2016

<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
	805	91	75	264	163	121	91
Average FY2016 total return	-1.9	-1.9	-2.2	-2.4	-1.8	-1.6	-1.0
U.S. equities	-0.2	-2.1	-1.5	0.0	0.4	0.3	0.4
Fixed income	3.6	3.9	3.8	3.4	3.5	3.4	3.7
Non-U.S. equities	-7.8	-7.3	-8.0	-7.8	-8.4	-7.3	-6.7
Alternative strategies	-1.4	-1.1	-1.7	-0.9	-2.4	-1.5	-0.6
<i>Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)</i>	4.5	6.3	3.7	3.5	4.1	7.8	*
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	-4.0	-3.6	-3.9	-4.3	-4.0	-4.1	-3.6
<i>Venture capital</i>	1.5	1.0	1.6	1.1	3.0	*	*
<i>Private equity real estate (non-campus)</i>	7.1	10.8	6.9	6.3	5.6	6.3	*
<i>Energy and natural resources</i>	-7.5	-9.3	-6.8	-7.3	-7.7	-6.7	*
<i>Commodities and managed futures</i>	-7.7	-4.2	-9.9	-8.2	-7.5	-9.0	*
<i>Distressed debt</i>	-0.6	0.8	1.4	-1.5	-1.5	-3.3	*
Short-term securities/cash/other	0.2	0.5	0.0	0.1	0.3	0.1	0.1
Short-term securities/cash	0.1	0.0	0.0	0.1	0.4	0.1	0.2
Other	0.7	*	*	0.0	-0.5	-0.3	*

*sample size too small to analyze

*Net of fees.

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Allocations to Asset Classes*

Fiscal Years 2014, 2015 & 2016

Figure 3.2 Asset Allocations* for Fiscal Years 2014, 2015 and 2016

<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		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
	832	812	805	91	94	91	77	77	75	262	261	264	168	167	163	125	117	121	109	96	91
U.S. equities	17	16	16	13	13	13	20	21	20	27	27	26	31	33	33	38	40	38	43	42	44
Fixed income	9	9	8	8	7	7	10	9	9	14	13	13	18	17	17	19	20	20	26	24	24
Non-U.S. equities	19	19	19	18	19	19	20	20	18	21	21	20	21	20	19	18	18	17	14	15	15
Alternative strategies	51	52	53	57	57	58	44	44	45	33	34	35	24	25	24	18	16	17	10	11	10
Short-term securities/cash/other	4	4	4	4	4	3	6	6	8	5	5	6	6	5	7	7	6	8	7	8	7

*dollar-weighted

**Alternative strategies include: Private Equity (LBOs, mezzanine, M&A funds, and international private equity); Marketable alternative 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.

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Alternative Strategies Asset Mix*

Fiscal Year 2015 & 2016

Figure 3.7 Alternative Strategies Asset Mix* for Fiscal Years 2015 and 2016

<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	
	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16	'15	'16
Responding institutions	676	659	89	84	72	66	231	233	139	134	90	85	55	57
Type of investment														
<i>Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)</i>	21	21	22	22	17	19	17	16	15	13	11	16	3	7
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	40	39	38	37	51	49	54	51	58	55	57	51	74	69
<i>Venture capital</i>	11	11	12	12	7	7	5	6	3	4	4	3	3	3
<i>Private equity real estate (non-campus)</i>	12	12	12	13	9	8	8	9	9	13	12	14	5	5
<i>Energy and natural resources (oil, gas, timber, commodities and managed futures)</i>	13	14	12	13	12	14	13	15	13	13	15	14	13	15
<i>Distressed debt</i>	3	3	4	3	4	3	3	3	2	2	1	2	2	1

*dollar-weighted

*

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Percent of Endowments with YOY Increase in Spending Dollars

Fiscal Year 2016

Figure 5.7 Changes to Spending Dollars for Fiscal Year 2016

<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
	805	91	75	264	163	121	91
Increased spending dollars	74	82	83	79	73	65	62
<i>Median percent increase</i>	8.1	7.7	6.8	7.7	8.2	12.8	12.5
Decreased spending dollars	16	6	6	16	20	20	25
<i>Median percent decrease</i>	8.6	3.9	4.1	5.3	8.2	9.4	17.9
No change	1	0	0	*	0	3	1
No answer/uncertain	9	12	11	5	7	12	12

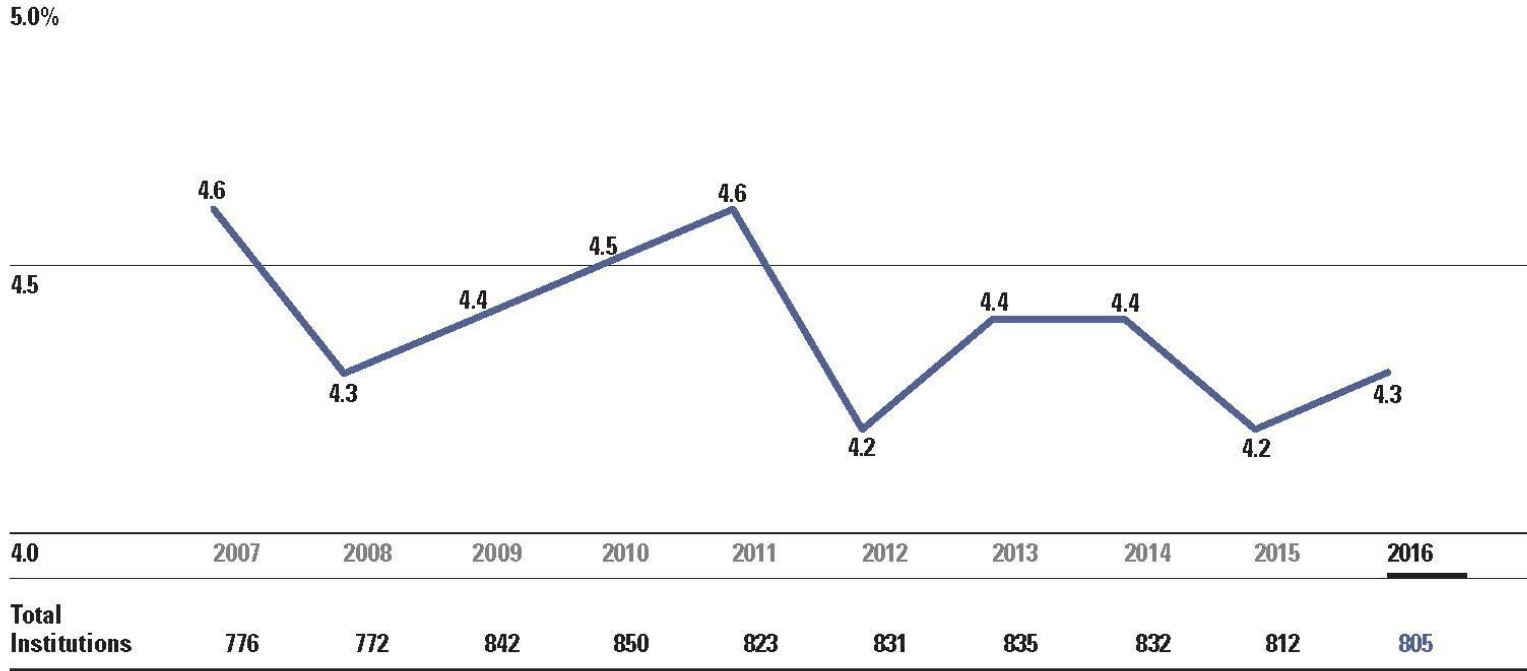
*sample size too small to analyze

Average Annual Effective Spending Rates*

Fiscal Years 2007 to 2016

Figure 5.1 Average Annual Effective Spending Rates* for Total Institutions for Fiscal Years 2007-2016

numbers in percent (%)



*equal-weighted

Source: Fiscal Years 2007-2008, NACUBO Endowment Study

*The effective spending rate is the percentage of the beginning market value of the endowment that is made available annually for spending on student financial aid, faculty research, maintenance of facilities, and other campus operations, as determined and defined by each institution. The rate is calculated net of any fees or expenses for managing and administering the endowment.

Source: Fiscal years 2005 – 2007, NACUBO Endowment Study; Fiscal years 2008 – 2016, NACUBO-Commonfund Study of Endowments.

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Summary – Key Results of the 2016 NCSE

- Much lower returns, but increased endowment spending dollars.
- The average 10-year annual return of 5.0% is far below institutions' median long-term target rate of 7.4%.
- Asset allocations remained stable despite turbulent market conditions.
- Lower returns reflect the fiscal constraints and other challenges that many schools are facing.

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