

Latest Endowment Study Shows Improved Long-Term Results

Short-Term Challenges Continue

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Higher Education Endowments Return Averages 1.8% for Fiscal Year 2020

According to the 2020 NACUBO-TIAA Study of Endowments (NTSE)¹, U.S. educational endowments returned 1.8% on average for the fiscal year (FY) ended June 30, 2020. This represents a 3.5% decline from the previous year and was driven largely by the market selloff in the first quarter of 2020. Meanwhile, the 10-year average annual return decreased to 7.5% from 8.4% as returns, posing a challenge for institutions with a long-term target return in the 7.0-7.5% range.

PFM compared NTSE's trailing 10-year annualized return of 7.5% to the 8.8% annual return of a globally diversified portfolio as measured by a balanced index comprised of 46% Russell 3000 Index, 24% MSCI ACWI ex-U.S. (net) Index and 30% Barclays Aggregate Index. The NTSE's underperformance can be attributed to a number of factors including: manager selection across asset classes, high fees associated with some active managers, and competition among managers in the alternatives space.

Average Annual Returns for U.S. Higher Education Endowments and Affiliated Foundations for Periods Ending June 30, 2020

Size of Endowment	1-Year	3-Year	5-Year	10-Year
Over \$1 Billion	2.5%	5.9%	5.7%	7.9%
\$501 Million to \$1 Billion	1.5%	5.1%	5.1%	7.4%
\$251 Million to \$500 Million	1.3%	5.2%	5.0%	7.6%
\$101 Million to \$250 Million	1.6%	5.0%	5.0%	7.5%
\$51 Million to \$100 Million	1.8%	4.7%	4.7%	7.0%
\$25 Million to \$50 Million	1.9%	5.1%	5.1%	7.5%
Under \$25 Million	2.5%	5.4%	5.3%	7.5%
All Institutions	1.8%	5.2%	5.1%	7.5%
Balanced Index*	4.9%	6.8%	6.7%	8.8%

2020 NTSE. Returns are net of fees.

*Balanced Index is comprised of 46% Russell 3000, 24% MSCI ACWI ex-U.S., 30% Barclays Aggregate.

Average Annual Effective Spending Rates for U.S. College and University Endowments and Affiliated Foundations, Fiscal Years 2011 to 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Average (All Institutions)	4.6%	4.2%	4.4%	4.4%	4.2%	4.3%	4.4%	4.4%	4.5%	4.6%

2020 NTSE. All data reflected as of June 30 each year-end. The effective spending rate represents the distribution for spending divided by the beginning market value (endowment value on or around the beginning of the fiscal year). The distribution for spending is the dollar amount withdrawn from the endowments to support expenditures on student financial aid, faculty research, maintenance of facilities and other campus operations, as determined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 investment fees and expenses for managing the endowment.

¹ National Association of College and University Business Officers, "2020 NACUBO-TIAA Study of Endowments (NTSE)," February 2021.



Spending Largely Unchanged

Institutions reported that the average endowment spending rate was 4.59% during FY20, a moderate increase from the 4.36% reported in FY19. Total endowment withdrawals were approximately \$23.3 billion throughout FY20, which is a 4% increase from FY19. The survey also indicated that 65% of spending in FY20 was spent maintaining student scholarships (48%) and academic programming (17%).

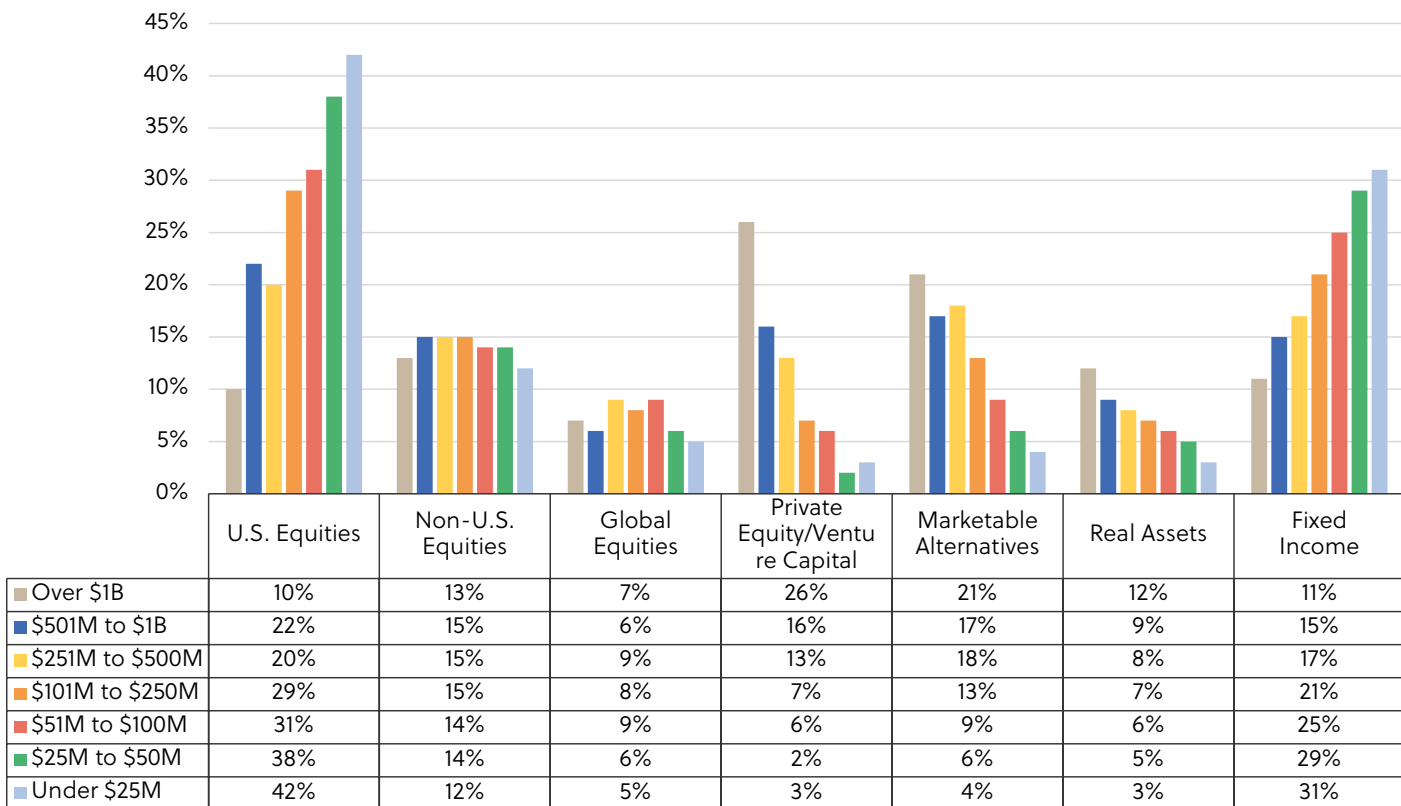
Asset Allocation

One should note that the 2020 study reflects the re-categorization of primary asset classes as begun FY19. The new classes and their respective dollar-weighted averages are as follows: U.S. Equities — 14.1%, Non-U.S. Equities — 14.5%, Global Equities — 6.6%, Other Equities* — 39.0%, Fixed Income** — 11.7%, Real Assets*** — 12.3%, Other — 1.7%.

Lower market returns in FY20 drove the decline in the average returns for endowments compared to FY19. Global equity markets returned 2.1% in FY20 versus 5.7% in FY19. Meanwhile, the S&P 500 returned 7.5% during the period, as compared to 10.4% in the prior year. Despite weaker equity markets, the Bloomberg Barclays U.S. Aggregate index returned 8.7%, whereas in the prior year it posted a return of 7.9%.

Alternative strategy allocations in venture capital and private equity were the top two performing asset classes for endowments in FY20, returning 3.2% and 2.4%, respectively. Meanwhile, endowments with large allocations to public or private U.S. equity and fixed income assets outperformed their peers during FY20.

Asset Allocations for Fiscal Year 2020



2020 NTSE.

*Other equities include: marketable alternatives, private equity, and venture capital.

**Fixed income includes: U.S. bonds, non-U.S. bonds, private debt, and cash and cash equivalent securities of less than one year.

***Real assets include: Treasury Inflation-Protected Securities, real estate investment trusts, commodities/futures, publicly traded Master Limited Partnerships, public traded natural resource equities, private energy and mining, and private agriculture and timber.



Our View

As we continue to face a challenging market environment, we feel that it is important for institutions to remain disciplined – maintain a strategic asset allocation aligned with portfolio objectives, implement a diversified portfolio that provides exposure to the broad market, allocate portfolio risk appropriately, and be mindful of investment management and advisory costs.

PFM's Endowment and Foundation Practice works with various institutions to help them formally analyze their investment programs and provide recommendations on how to address these challenges. For more information, please email efpractice@pfm.com or contact your PFM representative.

All data from the 2020 NACUBO-TIAA Study of Endowments (NTSE) unless otherwise noted.

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