

## The webcast will start at 1 p.m. Eastern

---

- Visit [capincrouse.com/endowment-funds](http://capincrouse.com/endowment-funds) to access these materials from today's webcast:
  - Handout
  - Recording
- To receive CPE credit you must respond to the polling questions, which are not available on mobile devices. To receive CPE credit you must log in on a computer.
- CPE certificates will be emailed to you within the next few weeks.



## Endowment Funds

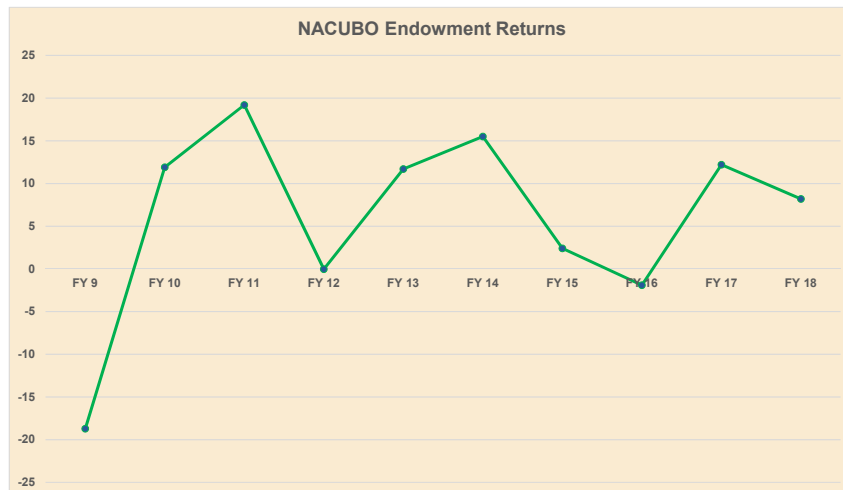
Bryan Taylor, Chief Investment and Executive Officer  
Cornerstone Management  
Dan Campbell, Partner, CapinCrouse  
8.22.19



## Endowment Survey Overview

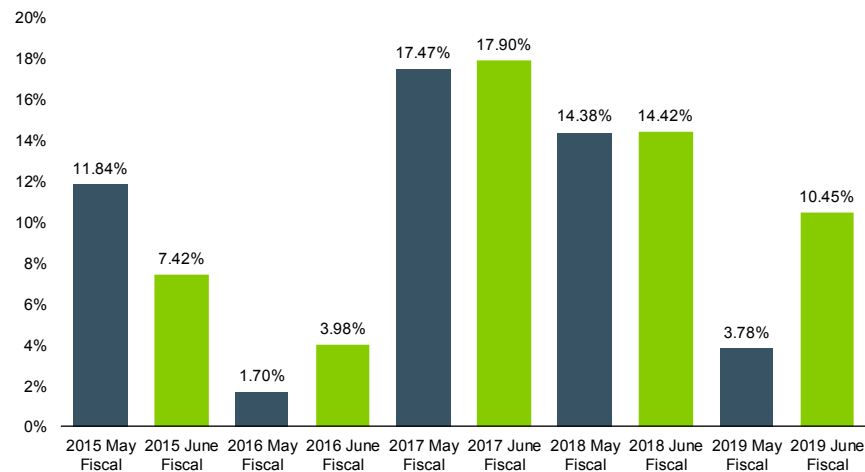
- General summary
- Most data is currently being provided by ABACC and CCCU colleges and universities
- For 2017/2018 fiscal year there were 35 respondents
- More respondents would be beneficial
- Most U.S. geographical regions are represented, but we have no respondents from the Pacific West and Northwest

## NACUBO Fiscal Year Endowment Returns



NACUBO Fiscal Year 2018 Average Endowment Return was 8.2%.

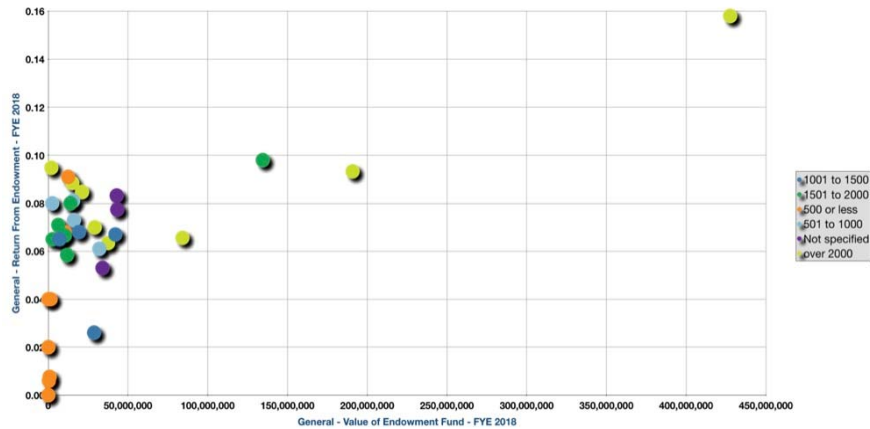
## S&P 500 Fiscal Year Performance



## Endowment Survey Overview

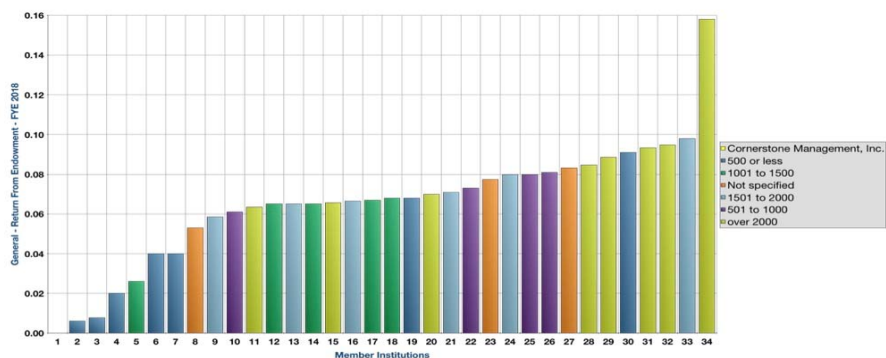
- Strategic Asset Allocation
- Traditional Asset Class Exposure
  - Alternative asset trends
    - Usage continues to trend upward slightly
    - Participating institutions may be looking for additional diversification opportunities in the face of low fixed income returns and high equity valuations
    - Average allocations to Alternatives remain above 20% in 2018
- Endowment Return
  - Impact of endowment size
    - Little correlation between size and FY 2018 return
    - Average Endowment Return FY 2018 = 6.55%

## Endowment Return vs Endowment Size



There seems to be little correlation between size of endowment and return or between institution size and return. This is also born out by other studies. We find this tremendously encouraging for smaller endowments and smaller institutions. (We assume June 30, 2018 Returns were reported.)

## Endowment Return vs Institution Size



Most Endowment Returns clustered in the 6-8% return range for the fiscal year ending June 30, 2018. Allocation to Fixed Income and International Equity detracted from U.S. equity returns and led to much of the spread in endowment returns over this period. A simple 60/40 benchmark constructed utilizing the S&P 500 and Barclays Agg. would have experienced a return of approximately 8.46% over this time period. A globally diversified 60/40 benchmark constructed utilizing the MSCI ACWI and Barclays Agg. would have experienced a return of approximately 6.28% over this time period. (We assume June 30, 2018 Returns were reported.)

## Question

**What is your current endowment allocation stated simply as an equity/fixed income percentage? (50/50, 70/30, etc.)**



## Endowment Survey Notes – Allocation Insights

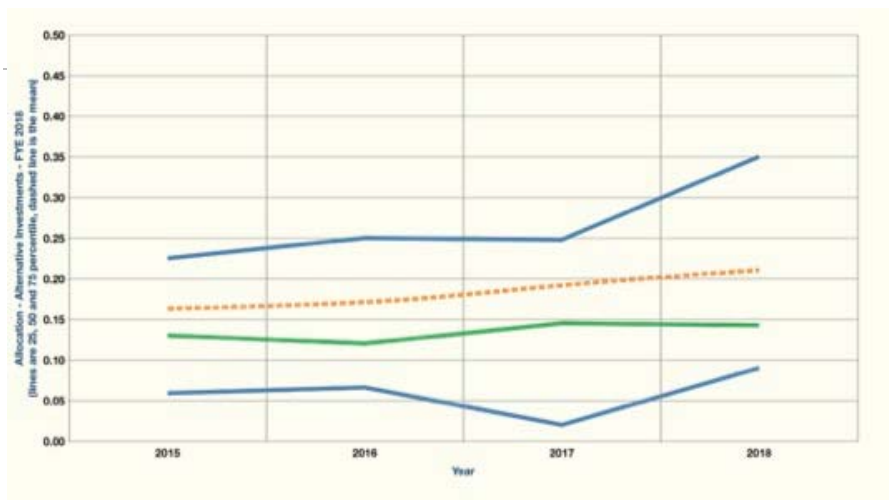
---

- Approximately 43% of respondents had approximately 25% or greater exposure to Large Cap Domestic equity
- The highest U.S. Large Cap Equity exposure reported was approximately 80%
- Approximately 50% of responding institutions had 20% or more exposure to U.S. Fixed Income
- Average Cash exposure was approximately 5%

## Endowment Survey Notes – Allocation Insights

- Average International Equity exposure was 11%... Most portfolios allocated between 10% and 20% to International equity.
- Alternative strategy data is very mixed; however, it appears that the majority of ABACC institutions have some exposure to alternatives. Exposure is wide-ranging, including Hedge Funds, Private Equity, Hard Asset Real Estate, etc.
- The information recorded relative to sub asset allocation is less consistent and may represent some challenges:
  - Please enter your data consistently
  - Follow the appropriate numerical convention (percentage, etc.)

## Trends in Alternatives Exposure



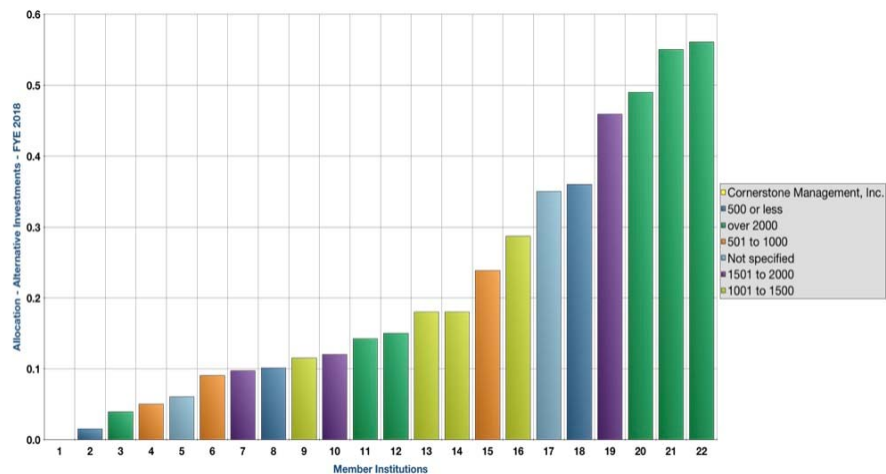
Exposure to Alt was up in the 2017-2018 year – this is somewhat surprising because returns have been poor over the last 10 years. The trend may reflect investment committees and consultants rebalancing away from highly priced equities.

## Question

Do you believe  
Alternative Asset  
Strategies have  
helped your  
endowment portfolio's  
total return?

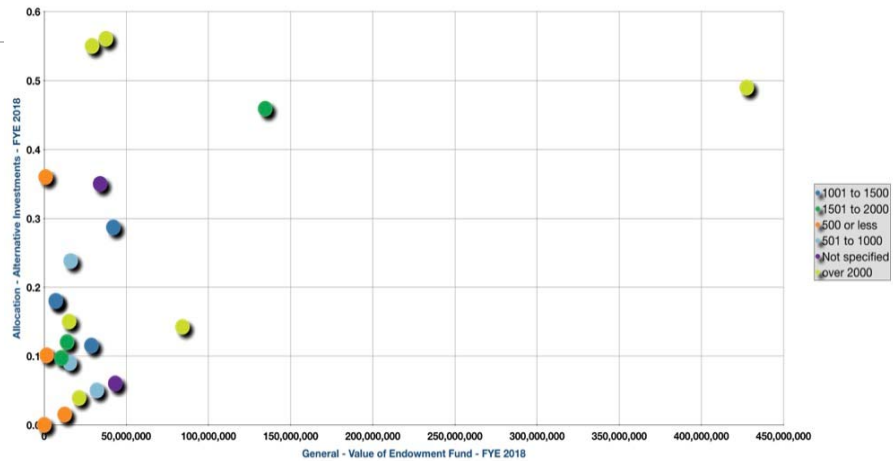


## Endowment Exposure to Alternative Assets



Most respondents had some exposure to alternative assets — those responding suggest ABACC institutions' exposure is commensurate with that suggested by other studies... although there are a few surprising outliers generally among the larger institutions.

## Endowment Exposure to Alternative Assets



Surprisingly, endowment value had little impact on overall exposure to alternative assets...we suspect this reflects the trend toward liquid alternatives and the normal “ad hoc” real estate most universities carry on their books.

## Endowment Survey Overview

- Spending Policy Options
  - Rolling average
    - Provides steadier spending
  - Absolute payout rate
    - Spending more susceptible to annual fluctuations in endowment balance
    - Most common single number is 5%
    - More respondents are below 5% in the 2018 survey; most distribution rates are between 4% and 5%
    - Approximately 60% of respondents indicated they did not allow spending from underwater endowments



## Endowment Survey Notes – Spending Policy Data

---

- It would seem that most universities/colleges that have an endowment report having a spending policy.
- The most common calculation utilizes a rolling average percentage of the endowment value to determine the annual distribution... other methods utilized include: a distribution of earned income (dividends and interest), a simple percentage-based distribution, 80% of the previous year's spending rate + 20% of the long-term spending rate, and a stated percentage of dividend and interest income. (Note: This was a relatively small sample size but corresponds with larger surveys such as the one provided by NACUBO... we were not able to obtain a full update for 2016 so data relates to 2015 fiscal year-end.)
- Absolute spending level for most respondents ranged between 4.5% and 5%. (Note: This was a relatively small sample size but corresponds with larger surveys such as the one provided by NACUBO – 75% of NACUBO's respondents utilize a rolling average and the average distribution rate is 4.6%.)

## Endowment Survey Overview

---

- Professional Assistance
  - It appears that a number of ABACC institutions use a consultant; various advisor/consultant models exist
  - Most reporting universities do not have dedicated endowment staff
  - Approximately 60% of the respondents have an investment committee
- Cost Analysis
  - Fee-based or commission-based models
  - Transparency and alignment of incentives are key

## Endowment Survey Notes – Cost Analysis

---

- **Cost Analysis**

- Cost data indicates either: most entities are not familiar with the fees they are paying for the services they receive, they did not have the information readily available, or they were simply confused by the questions! We also believe there may be some transcription errors in the data. Many other responses were unclear or extremely unlikely and suggest that confusion remains. Further, responses illustrate the challenge as it relates to understanding cost across endowment structures. Fee information is improving but we are receiving less data.
- Most institutions that report having an endowment appear to be utilizing some form of professional assistance.

### Question

**Are you comfortable with your understanding of the cost associated with the management of your institution's endowment?**



## Endowment Survey Overview

---

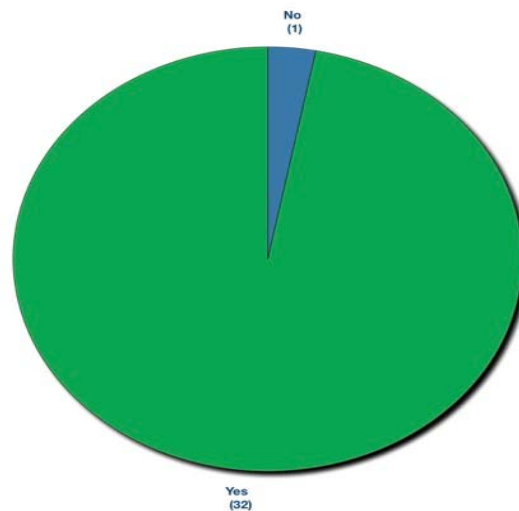
- **Investment Policy**

- Most organizations that report having an endowment report having an IPS

- **Total Size/Relative Size**

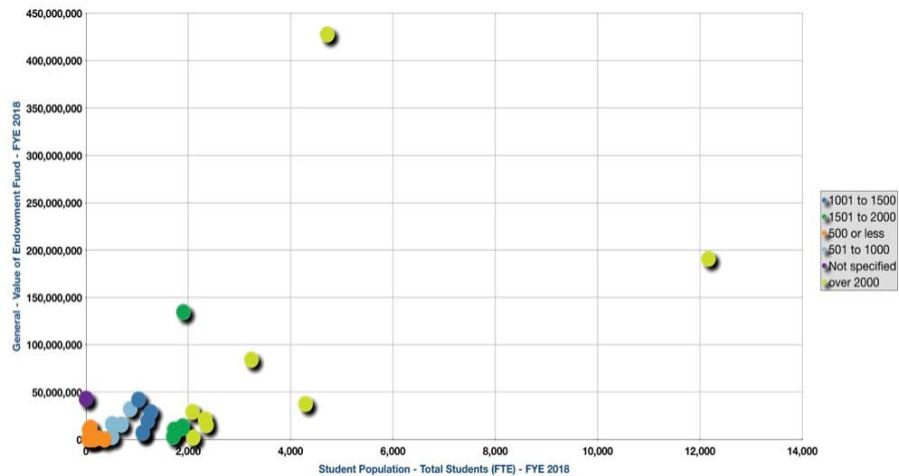
- Absolute size of endowments
- Size of endowment per number of student

## Endowment Survey Overview



The majority of responding institutions have an investment policy.

## Endowment Size and Number of Students



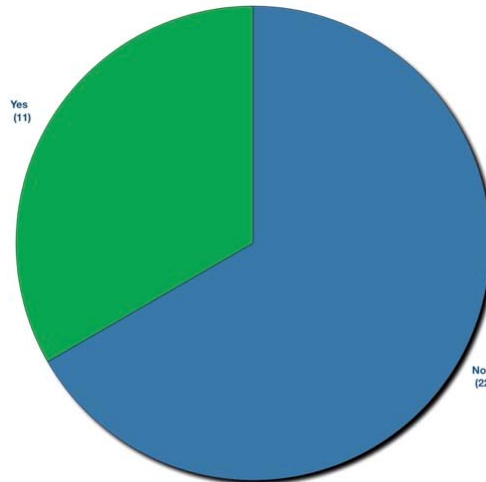
Limited correlation between institution size and endowment size... although one could probably note that very small institutions usually have small endowments.

## Endowment Survey Overview

- **Social Screening**

- Approximately 35% of total respondents, as of 2017/2018 report, are utilizing some form of social screening in their investment program.
- More detail related to the type of screening is necessary.
  - BRI – Biblically Responsible Investing
  - SRI – Socially Responsible Investing
  - ESG – Environmental, Social, Governance

## Endowment Survey Overview



Approximately 1/3 of respondents indicate some form of Social/Biblically responsible screening.

## Endowment Survey Overview

- **Endowment Tracking Solutions**

- Only a small number of ABACC institutions are utilizing a specialized software package such as Fund Driver to track their endowments.
- It appears that most other institutions continue to do this tracking either with a spreadsheet or some other form of enterprise software, although this is difficult to ascertain from responses.



## Thank you.

Bryan Taylor, Chief Investment and  
Executive Officer  
Cornerstone Management

✉ [bryan@cornerstonemgt.net](mailto:bryan@cornerstonemgt.net)

📱 770.449.7799

Dan Campbell, Partner  
Higher Education Services Director  
CapinCrouse

✉ [dcampbell@capincrouse.com](mailto:dcampbell@capincrouse.com)

📱 505.50.CAPIN ext. 1452



© Copyright CapinCrouse 2019