Strategy Director Spotlight Series: Higher Education

NACUBO 2022 – TIAA Report on Endowments

NACUBO is the National Association of College and University Business Officers. One of their services is an annual survey about their members' investment programs, which is released six or seven months after schools' June fiscal year end.

One of the more striking takeaways in this year's report was just how well college and university endowments have performed compared to passive, index-based measures. According to the survey results, endowments in general have significantly outperformed markets. This is in sharp contrast to a commonly held view that active investing has failed its adherents.

It is widely believed that very large universities have outperformed mostly due to large positions in Private Equity and Venture Capital.

- The data does show a pretty strong relationship between private investments and better performance for almost all reported periods.
- But the data also shows that midsized and smaller endowments have, as a group, outperformed market-based measures as well – though not to the degree of their larger peers.
- This is true over the past one-, three-, five-, and ten-year periods.
    - Endowments larger than $50 million outperformed over 15- and 20-year periods as well.
    - Only a handful of smaller endowments report 15- or 20-year results.

Why do we think endowments have outperformed passive? It's hard to say with certainty, but a few things come to mind as possible explanations.

1. Investment committees, at least the ones we work with, are successfully taking advantage of endowments' perpetual time horizon. Investing for the long-term means endowments can take appropriate risks, incorporate alternative and less-liquid investments, and not overact to volatility.
2. Endowments are perhaps getting better advice on the structure and implementation

of their programs. Many endowments have outsourced to fully discretionary approaches, where we believe the odds are better for success, particularly for those with fewer than a billion dollars to invest.

3. Smaller endowments as a group have a home market bias resulting in slightly higher weights to US stocks, which have outperformed the rest of the world since the 2008 financial crisis. Larger endowments tend to be more truly global in their equity investments.
4. Endowments generally – even smaller endowments – have less exposure to traditional Fixed Income than a generic mix of 65% stocks and 35% bonds. The 2022 bond rout left 10-year aggregate bond returns at about 1.5%, which helped comparisons for portfolios that avoided traditional bonds.
5. Many smaller endowments are taking advantage of pooled investment vehicles where they can invest in hard-to-access strategies, giving them an edge over more commonly offered investment products.

Before closing out, we should emphasize that while NACUBO data is the best we have, it is not perfect. There are some reporting inconsistencies across the almost 700 schools that participate, and we cannot know exactly what drives trends in the data. Skeptics might claim endowments have been more lucky than smart in their asset allocations. We don't think the majority of almost 700 investment committees got lucky and we think the higher education community should be proud of their stewardship of endowment assets.

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