

# THE BUSINESS JOURNALS

## University endowments eye more private equity, venture capital and crypto

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Expect more college and university endowments to invest in private equity and venture capital moving forward. That was one takeaway from a conversation with leaders of TIFF Investment Management, a firm that advises nonprofit organizations, including higher-education institutions.

The schools that saw the largest returns in fiscal 2021, a record year for university endowments, profited most from private equity and venture funds, said Kane Brenan, TIFF's CEO, and Jess Portis, head of member portfolio management and services. That's inspiring more college endowments to find ways to get a piece of the action. Private equity and venture capital accounted for just 2.3% of asset allocation in endowments between \$25 million and \$50 million, according to the National Association of College and University Business Officers-TIAA 2020 "Study of Endowments." Meanwhile, endowments over \$1 billion relied on those alternative investments for a quarter of their asset allocations.

Some schools are also exploring how to add cryptocurrencies to their investment strategies, an area that's previously proven too volatile for most endowment managers' comfort but the upsides have become hard to ignore, Portis said.

*The Business Journals* recently spoke with Brenan and Portis about the state of university endowments, including the investments that colleges are stepping away from (namely Russia and fossil fuels) and the areas catching their eyes. The following is an edited transcript of the conversation.

### What is the state of university endowments right now?

**Brenan:** I think university endowments are super excited. They had the best fiscal year ever in the period ending June 30, 2021. They're quite pleased for a couple of reasons. One is the endowment model has been frequently maligned in the press (with people saying) its best days have passed. So, the numbers coming out with 30%, 40%, 50%, 60% returns give people a fair bit of satisfaction. Second, you can almost draw a perfect correlation between those that had good returns, those that had great returns and those that had spectacular returns with the amount of private equity they had. That's what endowments are trying to figure out now. We know that for those that were exposed to private equity for the last 10 years, they've



Kane Brenan, CEO of TIFF Investment Management

just killed it. But will that continue? I think that's what the endowments are grappling with.

**Portis:** I think the reason that they're focused on how do we generate these returns on a go-forward basis is because many of the private schools are still recovering from a loss of revenue associated with the pandemic. So, although they've started to see the tuition dollars come back, many of the non-tuition dollars have been slower (to recover). That is translated into greater endowment dependence. So, making sure that the endowment on a go-forward basis can support the level of spend the organization needs while they get through this period has been critically important.

### Historically it's been the wealthiest schools that are the ones investing in private equity. Are you seeing smaller, more modest endowments dipping their toes into that space now?

**Brenan:** "Yes" is the short answer. You need a certain amount of assets legally to be able to go into private equity. And then you need a certain amount of assets to be able to build a book of diversified exposures. And then you need a certain amount of assets to matter to the general partners. These smaller endowments are getting access. They're frequently going through places like us that aggregate their dollars and have the relationships and the expertise to get exposure to private equity. We've seen that on the business side, people saying, "OK, will you help us build a private

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**Jessica Portis, Head of Member Portfolio Management and Services at TIFF Investment Management.**

equity program? We know that we're too small to do it on our own."

## Are many schools invested in venture capital?

**Portis:** Venture has been a big driver of performance, particularly in the larger endowment portfolios. It's one of the highest returning areas, and also one of the hardest to access. A lot of organizations have been trying to find partners like us in order to gain access to some venture capital.

## And how is fiscal 2022 shaping up in comparison to last year?

**Brenan:** Definitely worse. Public markets have traded sideways since September. Inflation is hurting people's portfolios and their operations. On the expense side, universities have huge working populations and those people are looking at their bills going up to 7.9% last month on an annualized basis. So, it's shaping up to be a harder year for sure. (Endowments are) trying to figure out the long-term impact of war and inflation. People are grappling with, is it a great buying opportunity because people are scared? Or is it time to just sell all your equities and hope for better times?

## Are you seeing many university endowments divest from Russian-related assets?

**Brenan:** Russia, for sure. I think everyone's trying to get out of Russia. Some people, not our clients, but some people have said they don't actually want to sell at 20 cents on the dollar because they think that would just enrich the existing power players (such as the) oligarchs when Russia comes back. So, that's the question. I think a harder question that people are grappling with is what does this mean in terms of your China exposure? I think people are trying to figure out, OK, does the fact that someone has a differ-

ent governmental setup mean that we shouldn't be invested there because they don't have exactly the same democratic institutions? We've been taking the position that we're more competitors with China than face-to-face adversaries. But some clients are raising the issue.

## There's a big student-led push to encourage their institutions' endowments to step away from fossil fuel investments. Is that something that you're seeing more schools move on?

**Portis:** We've seen a number of schools talk about it. A number of them have tried to think of more positive ways, as opposed to just divestment or their other, more impact oriented investments that they could make to have an impact on society and their portfolio. I think they're trying to move beyond just divestment and to do other things with their investment portfolio related to the energy transition.

## How are you seeing university endowments use the record returns from last year?

**Portis:** Given the way that many of their spending policies work, they're looking at the market value of the portfolio over the last let's say three years. I think many institutions, after having to spend a bit more in prior fiscal years as a result of Covid, are being really thoughtful and smart around assessing the financial health of their organizations and trying to figure out how much they need from the endowment in any given period. We haven't seen a dramatic increase in the absolute level of spend. (Colleges are) really just trying to recover from the prior year as a result of the pandemic.

## It seems like schools aspire to get to the \$1 billion endowment threshold. How are you seeing endowments try to get to that level?

**Portis:** Giving has definitely increased. That's one positive that has come out of the pandemic is that people are feeling more closely aligned with the missions of schools. That that will help many of them boost the size of their endowments. They always are looking to grow. So, how do they maximize what they're doing in the broader organization with the endowment? How are they using those dollars to benefit their students? What new programs can they start? It takes a lot for an organization that has a \$200 million dollar endowment to get to \$1 billion. So, really trying to make sure that they incentivize people to donate on a long-term basis is something that many of them have been focused on.

## Are you seeing more schools investing in crypto currencies at this point?

**Portis:** We are not seeing a number of schools investing directly. I think the volatility associated with crypto is something that has kept them on the sidelines. A number of schools we've seen have found ways to take donations in crypto but have not yet put it into the investment portfolio. But we're trying to find ways to be exposed to DeFi (decentralized finance) and crypto. So, not necessarily assuming all the volatility, but being able to take advantage of the innovation and some of the returns that we think will come from the space. So, we have a couple of strategies, both on the private-equity side and the hedge-fund side that we have put in the portfolio for this very reason.