U.S. Educational Endowments Report 5.3 Percent Average Return in FY19

1/30/2020

Nearly half of endowment withdrawals fund student financial aid

Media contacts:
Katy McCreary | 202.861.2503 | kmccreary@nacubo.org (mailto:kmccreary@nacub…

Lauren Post **|** 888.200.4062 **|** media@tiaa.org (mailto:media@tiaa.org)

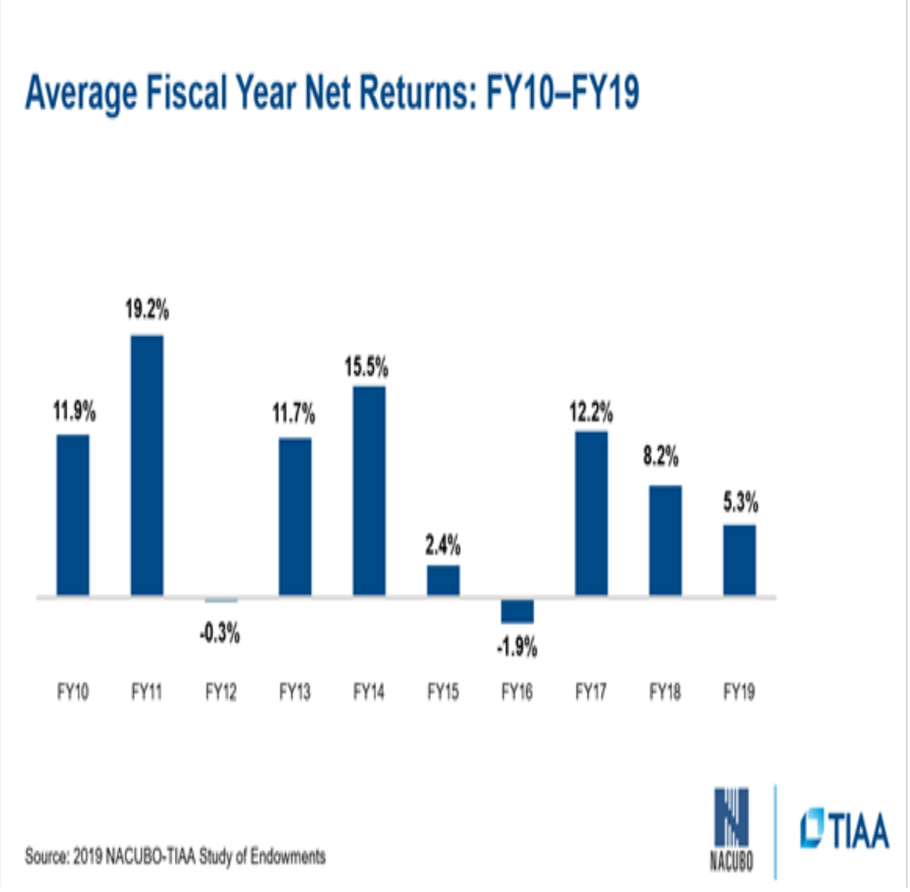
(Washington, DC) – Data gathered from 774 U.S. colleges, universities, and affiliated foundations for the *2019 NACUBO-TIAA Study of Endowments®* (NTSE) show that participating institutions' endowments returned an average of 5.3 percent (net of fees) for the 2019 fiscal year (July 1, 2018 – June 30, 2019).

Despite posting a lower return than FY18's one-year average of 8.2 percent, the average 10-year endowment return reached 8.4 percent, surpassing institutions' long-term average return objective of 7 percent for the first time in a decade. This reflects the strong stock market recovery since the 2008 financial crisis as well as solid management practices.

Due in part to strong 10-year returns, three quarters of institutions increased spending from their endowments to support students and faculty, with an average increase of more than $2 million. Participating institutions put 49 percent of their endowment spending dollars to student financial aid, 17 percent to academic programs, 11 percent to faculty, and 7 percent to campus facilities.

“The jump in spending from endowments last year shows once again the value of college and university endowments in supporting students and their access to a high-quality education,” said NACUBO President and CEO Susan Whealler Johnston. “These endowments help make opportunity available to college and university students and ensure the strength of academic programs that prepare them for work and life.”

“Endowments continue to play a significant role in institutions’ operations and financial strength, making it essential to take advantage of a wide range of investment options and strategies,” said Kevin O’Leary, Chief Executive Officer of TIAA Endowment and Philanthropic Services. “Endowment asset allocations and returns varied across different size endowment cohorts. Considering larger endowments generally have greater access to certain asset classes, such as private equity and venture capital, which were some of the highest performing asset classes in FY19, they again outperformed their smaller cohorts.”



For FY19, the average performance across the different size cohorts ranged from 4.9 percent to 5.9 percent, with the highest returns posted by the largest cohort.

Average One-, Three-, Five-, and Ten-Year Returns
By Endowment Size: FY19

Net Annualized Return	Total institutions	Over $1 Billion	Over $500 Million – $1 Billion	Over $250 Million – $500 Million	Over $100 Million – $250 Million	Over $50 Million – $100 Million	Over $25 Million – $50 Million	$25 Million and Under
1-year (FY19)	5.3%	5.9%	5.1%	5.0%	5.1%	4.9%	5.5%	5.8%
3-year	8.7%	9.6%	8.9%	8.9%	8.5%	8.3%	8.3%	8.3%
5-year	5.2%	6.1%	5.1%	5.3%	5.0%	4.9%	4.9%	5.5%
10-year	8.4%	9.0%	8.5%	8.4%	8.3%	8.2%	8.4%	7.7%

In FY19, larger cohorts outperformed the others. The larger cohorts outperformed based on the strong results of their large exposures to buyout and venture capital investments.

Source: 2019 NACUBO-TIAA Study of Endowments

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"To protect against market pressures and volatility, while still focusing on growth, many institutions are considering broadening their investment options, and making use of more tailored asset allocations to better fit their individual return and spending objectives," O'Leary said.

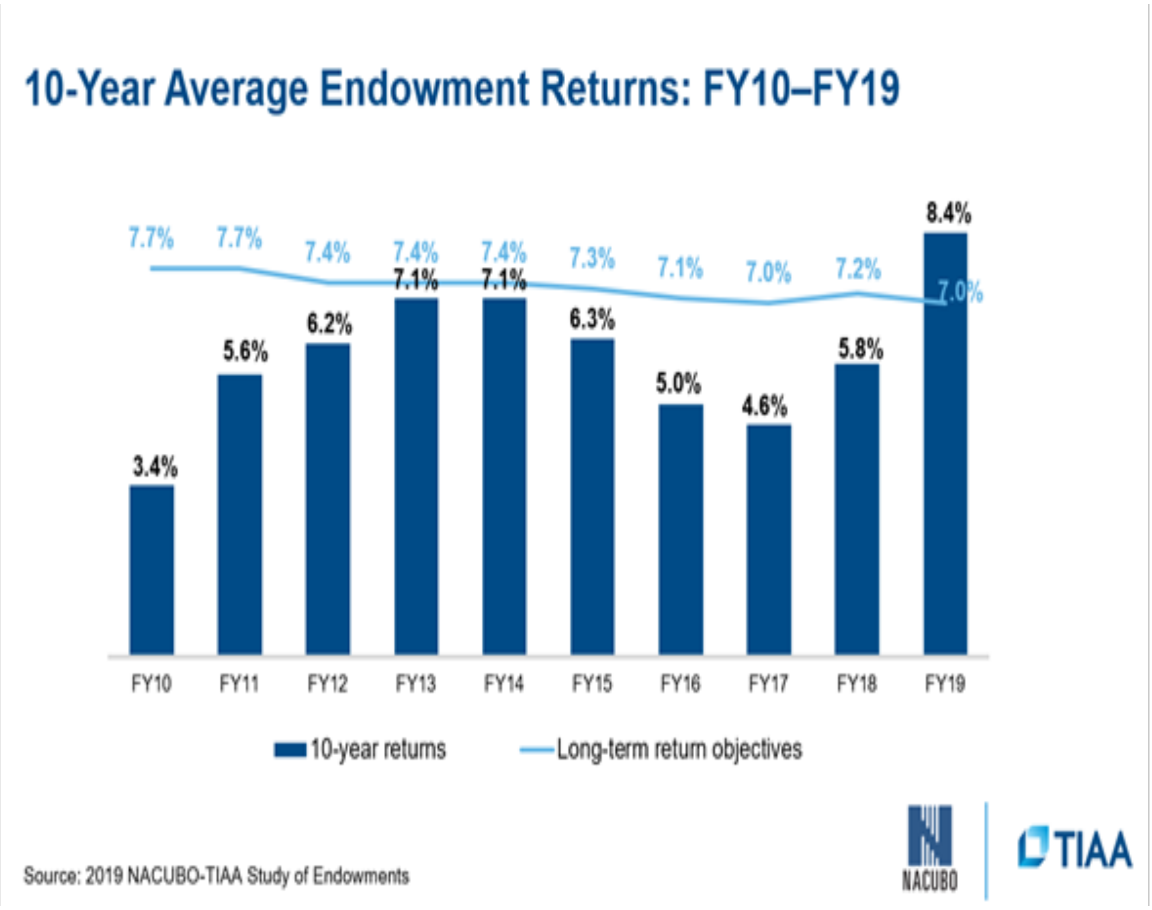
The annual study analyzes return data and a broad range of related information gathered from U.S. colleges and universities, both public and private, as well as their supporting foundations. The size and scope of the study make it the most comprehensive annual report on the investment management and governance practices and policies of institutions of higher education across the U.S.

The 774 institutions in this year's study represented $630 billion in total endowment assets as of June 30, 2019. The median endowment was approximately $144.4 million, and 39 percent of study participants had endowments of $101 million or less.

Longer-Term Returns

While one-year returns are important indicators, many endowments reference 10-year average annual returns when measuring performance. The increase in the FY19 10-year average return over FY18 in part reflects the removal from the calculation of the FY09 return of -18.7 percent that occurred during the financial crisis.

Investment oversight committees are shifting their market expectations and long-term endowment return objectives are trending down, from a high of 7.7 percent in FY10 to 7.0 percent in FY19.



Asset Allocation

Study participants' average asset allocation in FY19 showed little change from FY18. On a dollar-weighted basis, the largest allocations were to marketable alternatives (19.1 percent), non-U.S. equities (14.5 percent), and U.S equities (14.1 percent).

Allocations to Asset Classes: FY19

	Total institutions	Over $1 Billion	Over $500 Million – $1 Billion	Over $250 Million – $500 Million	Over $100 Million – $250 Million	Over $50 Million – $100 Million	Over $25 Million – $50 Million	$25 Million and Under
U.S. Equities	14.1%	11.2%	20.7%	21.1%	28.4%	31.6%	37.8%	45.7%
Non-U.S. Equities	14.5%	13.9%	17.1%	16.7%	15.7%	14.9%	14.6%	12.2%
Global Equities	6.6%	6.2%	7.5%	9.1%	9.1%	8.1%	5.3%	2.7%
Other Equities	39.0%	43.2%	30.3%	27.1%	18.1%	14.8%	10.1%	5.6%
Fixed Income	11.7%	10.1%	14.4%	15.7%	19.5%	23.1%	26.5%	29.7%
Real Assets	12.3%	13.5%	9.2%	8.4%	7.1%	6.0%	4.6%	3.2%
Cash/Other	1.7%	1.8%	0.8%	1.8%	2.0%	1.5%	1.1%	0.9%

*Dollar-weighted institutional average

Notes on asset class groupings shown above:

- Other Equities represents equity-related alternative asset classes including Private Equity, Venture Capital and Marketable Alternative Securities
- Fixed Income represents both traditional and alternative debt instruments including U.S. Bonds, Non-U.S. Bonds, Private Debt and Cash Equivalent Securities
- Real Assets combines both traditional and alternative real asset classes including TIPS, REITs, commodities/futures, MLPs, publicly traded natural resource equities, Private Energy and Mining, Private Real Estate and Private Agriculture/Timber

Source: 2019 NACUBO-TIAA Study of Endowments

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FY19 Returns by Asset Class

The lower market returns in FY19 accounted for the decline in the average endowment return compared to FY18. Global equity markets, as measured by the Morgan Stanley Capital Index All Country World Index, returned 5.7 percent versus 10.7 percent in FY18. In the U.S., the S&P 500 index rose by 10.4 percent in FY19, down from 14.4 percent the prior year. The Bloomberg Barclays U.S. Aggregate Bond Index was up 7.9 percent, compared to -0.4 percent in FY18.

Strong FY19 performance by the largest institutions (over $1 billion) was driven by larger exposures to buyout and venture capital investments. The second best-performing cohort were those with assets of $25 million or less.

Venture capital (13.4 percent), private equity (10.2 percent), and U.S. equities (8.2 percent) were the three top-performing endowment asset classes in FY19. Portfolios that had meaningfully higher exposures to public or private U.S. equity and fixed income investments outperformed peers. Portfolios with higher exposures to international equities tended to underperform.

Spending

Institutions participating in the study reported a slightly higher average effective spending rate than in FY18 (4.5 percent v. 4.4 percent). Collectively, these colleges and universities spent about $22 billion from their endowments on student financial aid and other campus operations in FY19.

About NACUBO

Founded in 1962, the National Association of College and University Business Officers (NACUBO) is a nonprofit professional organization representing chief administrative and financial officers at more than 1,900 colleges and universities across the country. NACUBO's mission is to advance the economic vitality, business practices, and support of higher education institutions in pursuit of their missions. For more information, visit www.nacubo.org.

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Based on $1.1 trillion of assets under management across Nuveen Investments affiliates and TIAA investment management teams as of 9/30/19.

Contact

Katy McCreary
(mailto:kmccreary@nacub…

Senior Manager, Public Relations and News

202.861.2503
(tel:202.861.2503)

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