Executive Summary
2015 NACUBO-Commonfund Study of Endowments®

Data gathered from 812 U.S. colleges and universities for the 2015 NCSE show that these institutions' endowments returned an average of 2.4 percent (net of fees) for the 2015 fiscal year (July 1, 2014–June 30, 2015), compared with 15.5 percent for the 2014 fiscal year and 11.7 percent for fiscal 2013. The 812 institutions participating in this year's Study represented $529.0 billion in endowment assets.

Returns for all of the investment categories followed in the Study were lower in FY2015 than in the previous fiscal year. As in FY2014, domestic equities generated the highest return, at 6.4 percent, a figure well below last year's 22.8 percent return. Other comparative reported returns for the two fiscal years were: alternative strategies, 1.1 percent in FY2015 versus 12.7 percent in FY2014; fixed income, 0.2 percent versus 5.1 percent; international equities, -2.1 percent versus 19.2 percent; and short-term securities/cash/other, 0.0 percent versus 1.9 percent. (All returns are reported net of fees.)

Examining reported FY2015 returns for the various alternative investment strategies, venture capital again provided the highest return, at 15.1 percent, compared with 23.3 percent a year ago. Private equity real estate (non-campus) returned 9.9 percent, down from 12.6 percent in FY2014. Private equity (LBOs, mezzanine, M&A funds and international private equity) followed at 9.3 percent, compared with 16.5 percent in FY2014. Distressed debt produced a 5.4 percent return, down from the previous year's 13.2 percent. Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives) returned 2.7 percent versus FY2014's 9.9 percent. Two strategies yielded negative returns: commodities and managed futures had a return of -17.7 percent compared with a 7.9 percent gain in FY2014, and energy and natural resources returned -13.3 percent against 15.3 percent last year.

Longer-term Returns

Participating institutions' trailing three-year returns averaged 9.9 percent, up from 9.0 percent last year, as a result of the elimination of FY2012's poor return from the calculation. Institutions with assets over $1 billion had the highest average return for this period, at 10.8 percent. The lowest average

three-year return, 9.4 percent, was reported by institutions with assets between $51 and $100 million. Trailing five-year returns averaged 9.8 percent compared with 11.7 percent in last year's Study, due to the elimination of FY2010's 11.9 percent return. Institutions with assets under $25 million reported the highest return for the trailing five-year period, at 10.6 percent, while institutions with assets between $51 and $100 million reported the lowest average return, at 9.4 percent. Trailing 10-year returns declined to an average of 6.3 percent from last year's 7.1 percent. The highest average 10-year return came from the largest size category, at 7.2 percent, while institutions with assets between $25 and $50 million reported the lowest, at 5.6 percent.

Asset Allocation

Asset allocation among participating endowments was little changed over the course of the fiscal year. Participating endowments reported the following asset allocation in FY2015 (with comparable FY2014 figures in parentheses):

- Domestic equities: 16 percent (17 percent)
- Fixed income: 9 percent (9 percent)
- International equities: 19 percent (19 percent)
- Alternative strategies: 52 percent (51 percent)
- Short-term securities/cash/other: 4 percent (4 percent)

The differences in asset allocation by size cohort that have characterized previous Studies are evident again this year. For example, the largest institutions in the Study reported an average 57 percent allocation to alternative strategies while the smallest size cohort averaged just 11 percent. The reverse was true for domestic equities, where institutions with assets under $25 million reported an average 42 percent allocation versus 13 percent for institutions with assets over $1 billion. Across all six size cohorts, the allocation to alternative investment strategies is correlated with endowment size; for both domestic equities and fixed income the reverse is true, with the allocation growing as endowment size declines.

Among alternative strategies allocations for the Study population as a whole, the largest allocation, at 20 percent, was to marketable alternatives, followed by private equity at 10 percent. Other allocations were: energy and natural resources and private equity real estate (non-campus), at 6 percent each; venture capital, at 5 percent; distressed debt, at 2 percent; and commodities and managed futures, at 1 percent.

Fund Flows

The FY2015 effective spending rate for the 812 participating institutions averaged 4.2 percent, down slightly from 4.4 percent last year, and attributable to the lag effect created by strongly rising markets in FY2013 and FY2014 on the averaging method used by the great majority of institutions in calculating their spending. The effective spending rate varied from a high of 4.5 percent for institutions with assets under $25 million to a low of 4.0 percent for institutions with assets between $25 and $50 million.

Although the effective spending rate declined moderately, a higher percentage of institutions reported increasing their spending in dollar terms. Seventy-eight percent of Study respondents reported spending more in dollars this year, an increase of four percentage points over last year. Five of the six size cohorts reported higher spending in dollars. Among institutions increasing their dollar spending, the median increase was 8.8 percent, well above inflation.

Participating institutions reported that an average of 9.7 percent of their operating budget is funded by their endowment compared with 9.2 percent reported a year ago. The largest institutions, those with assets over $1 billion, relied on the endowment to fund an average 16.5 percent of their operating budget in FY2015, while at institutions with assets under $25 million the endowment funded just 4.7 percent of the operating budget.

The median total of new gifts to endowment was $2.7 million, an increase from last year's $2.5 million, while the average total of new gifts was $10.0 million compared with last year's $10.1 million. Forty-five percent of participating institutions reported an increase in gifts in FY2015, unchanged year over year. Thirty-eight percent reported a decrease in gifts, also unchanged.

Debt

Among the 610 Study respondents reporting that they carry debt, average total debt stood at $219.1 million as of June 30, 2015, compared with $217.5 million a year earlier. Median debt rose to $58.2 million from $55.2 million. Thirty percent of Study participants reported increasing debt in FY2015, a two-percentage-point decrease over the course of the year. Sixty-five percent reported a decrease, up from 62 percent in the previous Study.

Staffing, Outsourcing and Consultant Use

Endowments reported an average of 1.7 full-time equivalent (FTE) employees devoted to the investment management function in FY2015 versus an average of 1.6 FTEs a year ago. Endowments with assets over $1 billion had the largest average staff size, at 9.1 FTEs, while endowments with assets between $501 million and $1 billion reported an average of 2.5 FTEs. Endowments in the other size cohorts reported less than one full-time equivalent devoted to investment management.

Forty-three percent of Study respondents said they have substantially outsourced the investment management function, unchanged year over year. While outsourcing has been increasing for a number of years, this year may indicate a pause in this trend. Eighty-four percent of the Study population reported using a consultant for various services related to investment management, a moderate increase over last year's 82 percent.

Risk Management

The Study found that 62 percent of participating institutions employ risk limits in their portfolios, up from 57 percent a year ago and a marked increase from the 50 percent reported two years ago. Seventy-nine percent of this group use volatility calculations, such as standard deviation, up from 76 percent a year ago and 72 percent two years ago. Sixty-six percent use measures such as alpha and beta, up from 61 percent last year and 55 percent in FY2013. Fifty-one percent of respondents reported using stress testing or scenario analysis for their portfolios compared with 46 percent last year and 41 percent two years ago.

Responsible Investing Criteria

Of the 812 Study participants, 15 percent said they seek to include in their portfolios investments ranking high on environmental, social and governance (ESG) criteria, a one-percentage-point increase year over year. Twenty-five percent said they exclude or screen out investments that are inconsistent with the institution's mission, unchanged since the previous Study, while 16 percent said they allocate a portion of the endowment to investments that further the institution's mission, a small increase over the 15 percent that did so last year. Just 7 percent of institutions said their board had voted to exclude responsible investing considerations, up slightly from 6 percent last year, while 76 percent of respondents said their board had not taken such an action, also a one-percentage-point increase. Seven percent said they were considering changing their investment policy to include ESG integration, unchanged from last year, while 70 percent said they were not doing so, compared with last year's 69 percent.

NCSE Leaders

NCSE Leaders comprise the top decile and top quartile of the Study universe measured by investment return for FY2015. Compared with the Study universe return of 2.4 percent, the top decile reported an average return (net of fees) of 7.8 percent and the top quartile reported an average net return of 5.8 percent.

For the trailing three years, the top decile reported an average annual return of 11.7 percent while the top quartile was just behind with an average annual return of 11.4 percent versus a 9.9 percent average return for the Study universe. For the trailing five-year period, respective returns were 11.1 percent, 10.9 percent and 9.8 percent. The top decile reported 10-year trailing returns of 7.9 percent, while the top quartile reported 7.3 percent. For the same period, the Study population overall reported an average annual return of 6.3 percent.

As was the case last year, the Leaders had highly diversified portfolios with smaller allocations to the highest performing liquid asset class, domestic equities. Compared with an overall allocation of 16 percent, the top decile allocated 11 percent to domestic equities while the top quartile allocated 13 percent. All three categories had roughly equal allocations to the poorest performer, international equities. Leaders had the largest allocations to alternative strategies—an average of 61 percent for the top decile and 58 percent for the top quartile against 52 percent for Study participants overall.

As has frequently been true in the past, the largest and most diversified endowments were over-represented among the NCSE Leaders. Institutions with assets over $1 billion represented 12 percent of the Study population, but 36 percent of the top decile and 24 percent of the top quartile. Both are noteworthy increases, as last year the largest endowments accounted for 24 percent of the top decile and 18 percent of the top quartile. Institutions with assets between $501 million and $1 billion were also over-represented, but those with assets between $101 and $500 million were under-represented as were those with assets between $51 and $100 million. Institutions with assets between $25 and $50 million were under-represented in the top decile but proportionally represented in the top quartile; the smallest endowments, those with assets under $25 million, were proportionally represented in both the top decile and top quartile.