2021 | NACUBO-TIAA Study of Endowments

Summary observations from the 2021 NACUBO-TIAA Study of Endowments

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720

colleges, universities and education-related foundations completed the FY2021 survey.

$1.1 billion

average endowment size reported, up 35% from 12 months earlier.

$821 billion

of endowment assets represented in the FY2021 survey.

84%

of total market value is held by endowments with more than $1 billion in assets.

The Survey was conducted from September 8, 2021, through December 10, 2021, and covers the 2021 fiscal year (July 1, 2020–June 30, 2021).

Gifting: Inflows increase with rising market

Change in new gifts from FY2020

+15%

The level of new gifting that endowments received in FY2021 increased significantly vs. FY2020. Research has shown that charitable giving is often higher when market returns are strong.

Percent of endowments that received gifts directed toward DEI initiatives

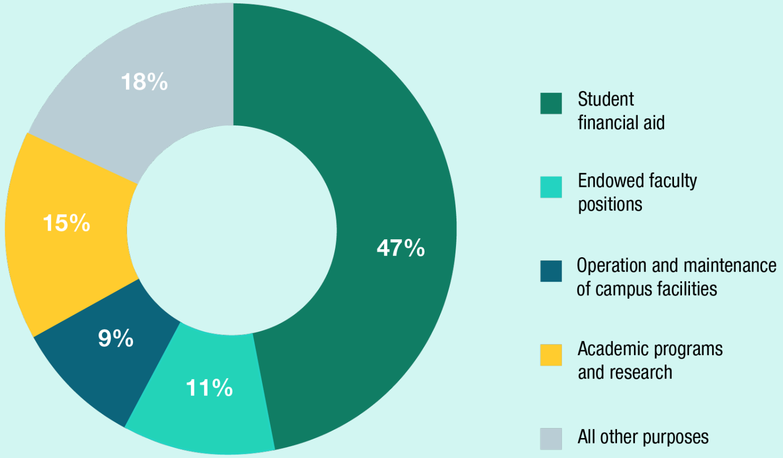
65%

Nearly two-thirds of respondents reported at least some level of gifting that was specifically tagged to support diversity, equity and inclusion (DEI) initiatives. This was the first year that the survey asked about these types of gifts.

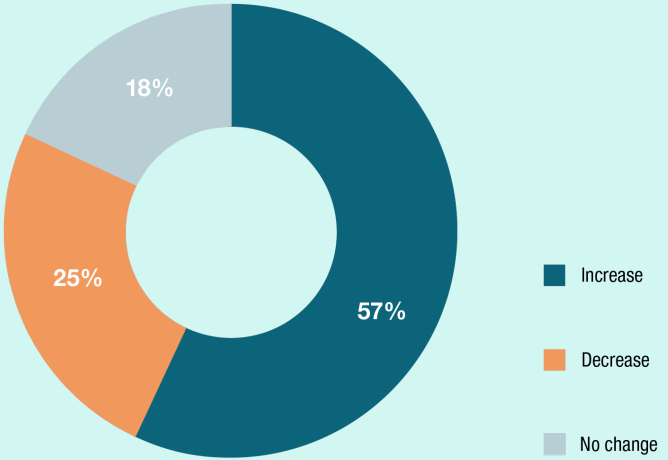
Endowment spending: Holds steady at 4.5%

The average spending rate by endowments was virtually unchanged from FY2020 at 4.5%. Endowment revenue was likely a larger part of FY2021 operating budgets because tuition and auxiliary revenue at many institutions were down as a result of the pandemic. The Study also found that 20% of institutions made special appropriations in FY2021.

Spending policy distributions by function



Percentage of operating budget funded by endowment, change from FY2020 to FY2021



Investment returns: FY2021's robust gains have a muted impact on long-term returns

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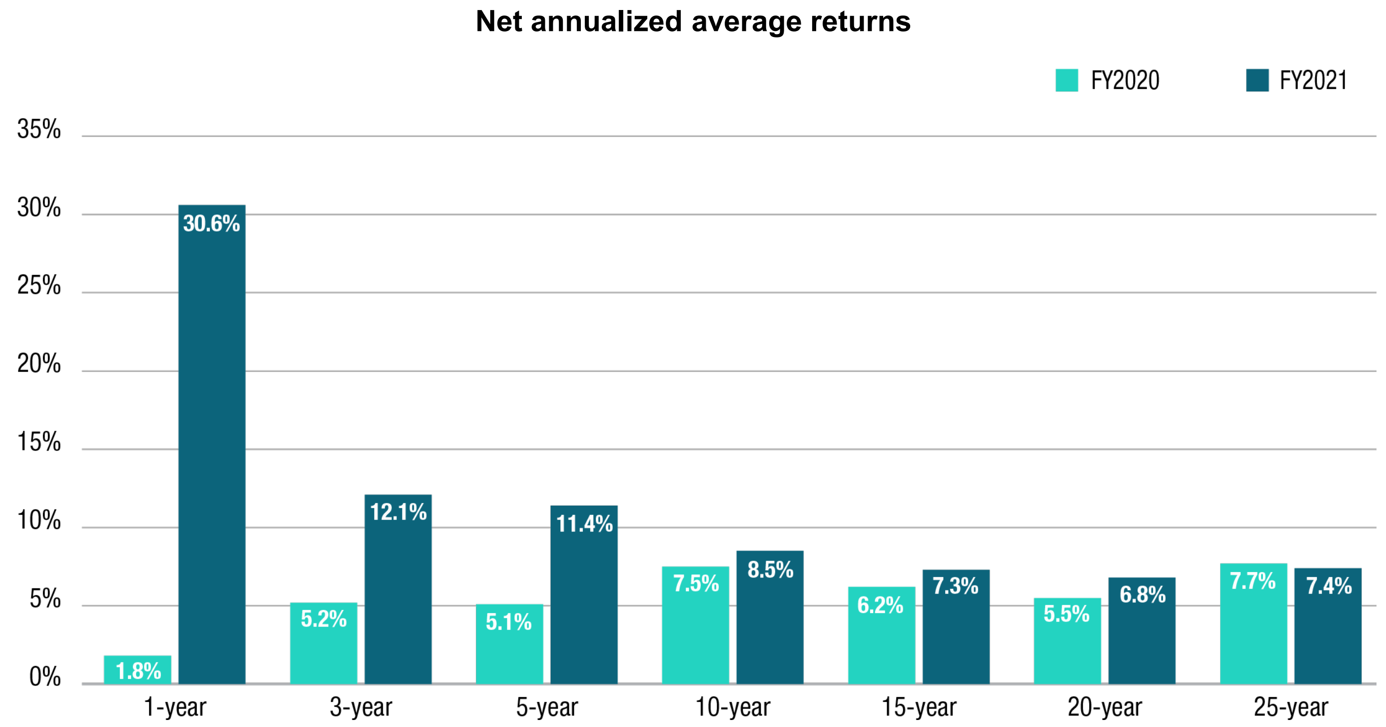
Endowments benefitted from robust returns across public and private equities and other risk assets in FY2021, resulting in an average return of 30.6% overall. But this chart shows how one year of strong returns has a limited impact on longer-term annualized returns.



Return targets: Inflation and fees raise investment goals

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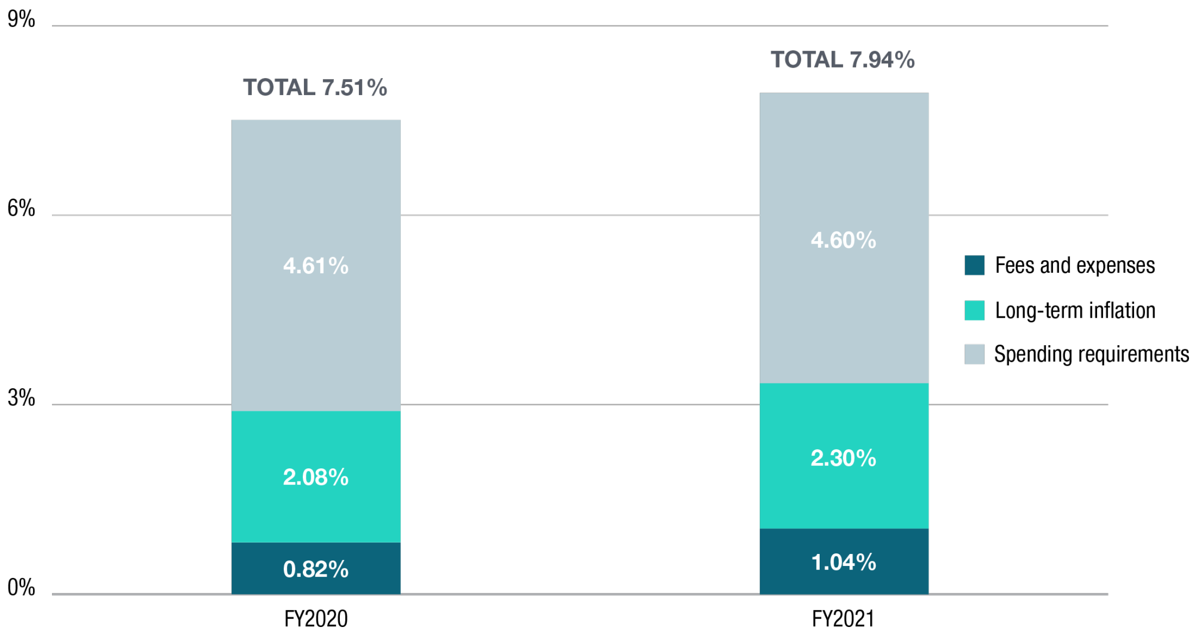
For years, 7.5% has been considered the standard target return for endowments. This target, or "bogey," comprises three primary categories: spending requirements, inflation expectations, and fees and expenses. In FY2021, that total jumped to 7.94%, driven by large increases in long-term inflation expectations and fees and expenses.

Average expectations for primary target return components



Asset allocation: Larger endowments maintain higher allocations to private assets, real assets and marketable alternatives

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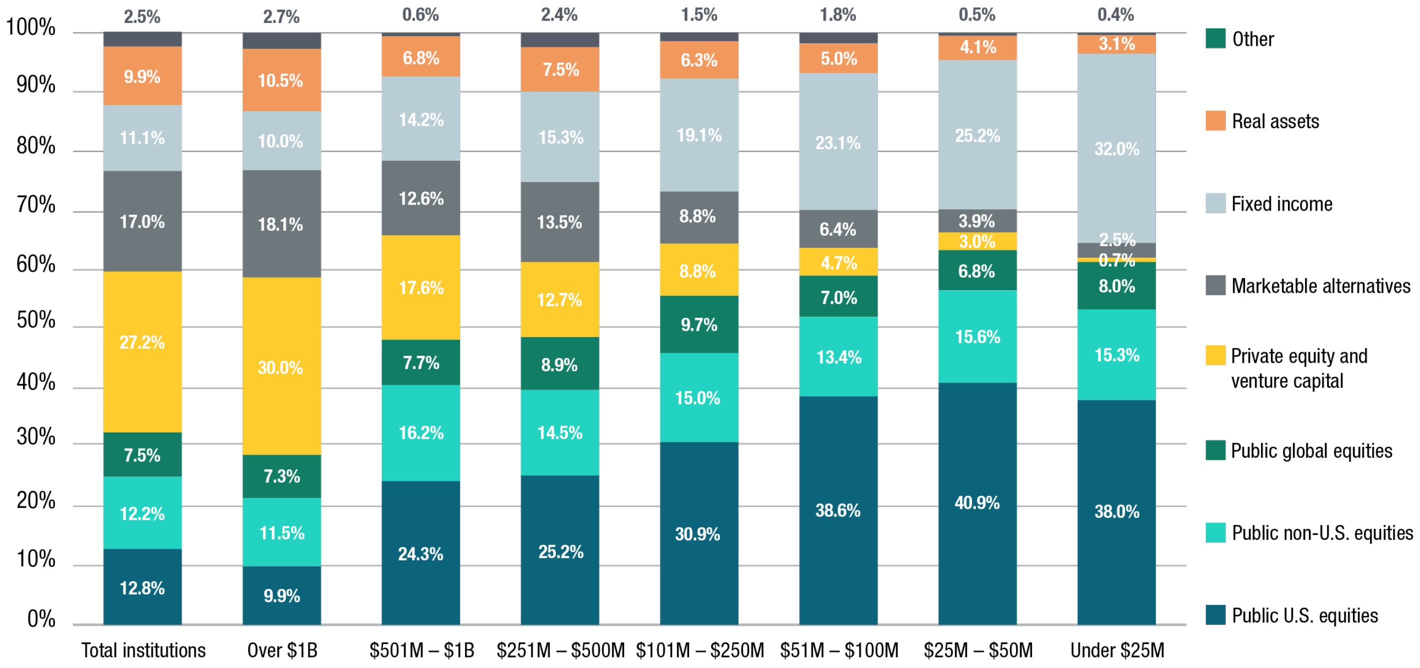
Like in previous years, in FY2021 larger endowments exhibited less reliance on fixed income and domestic public equities, while showing greater utilization of private equity, venture capital, real assets and marketable alternatives.

Asset allocations for endowment cohorts, FY2021



Asset allocation: Exposure to private assets drives large endowments' higher returns

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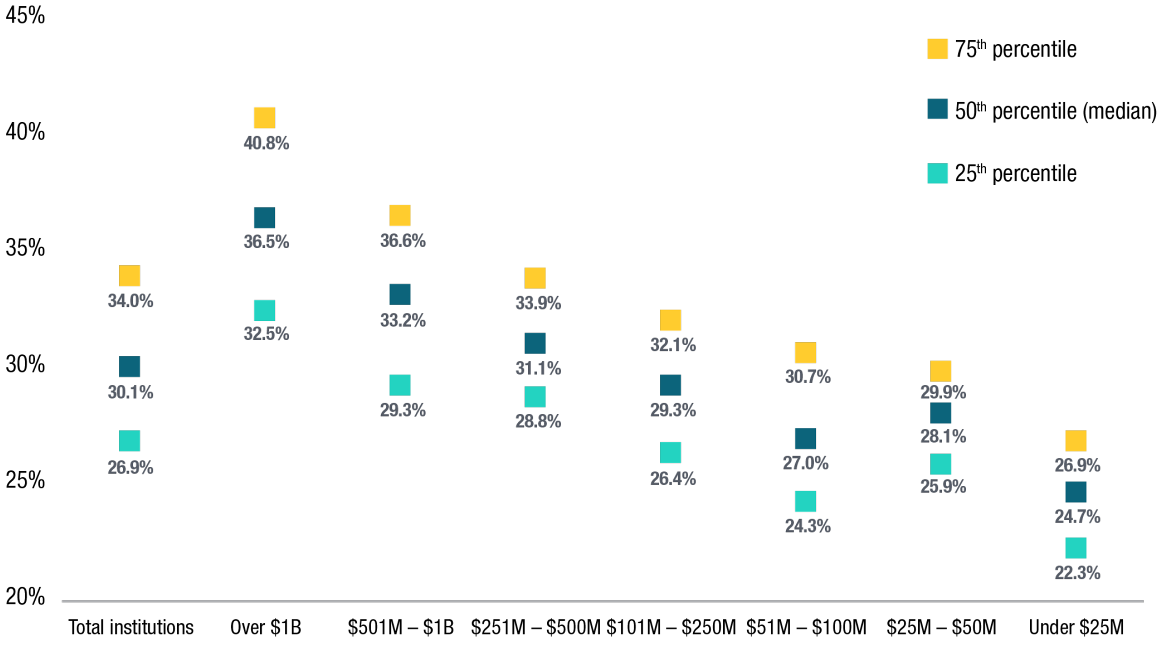
Across all institutions, the gap between the 75th percentile of investment returns and the 25th percentile in FY2021 was 7.1%—more than twice the 3.4% dispersion posted in FY2020, albeit on a base of much larger absolute returns. Return dispersion was widest for the largest cohort, at 8.3%; this is likely driven by $1 billion+ endowments' relatively large allocations to private equity and venture capital, as well as real assets.

Dispersion of one-year returns, FY2021



Fixed income: Non-investment grade and private debt allocations remain low … for now

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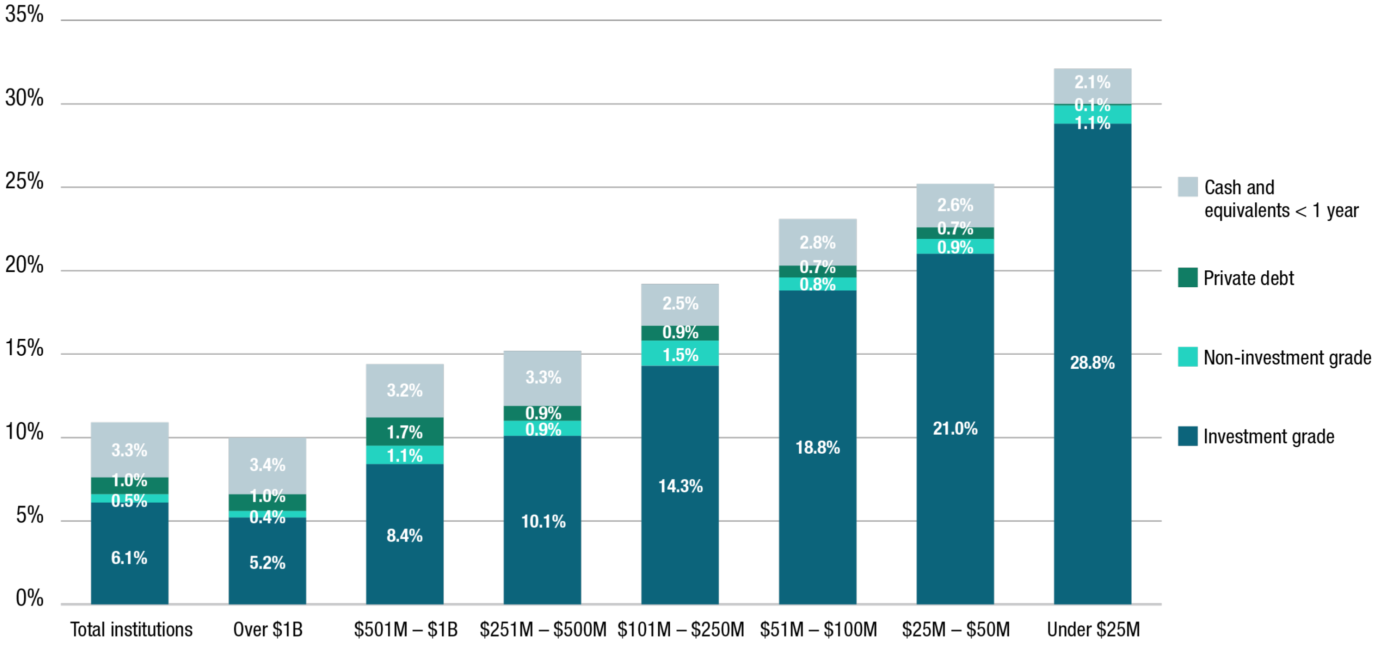
Allocations to non-investment grade fixed income and private debt remained surprisingly low across all size cohorts in FY2021, at less than 2% of endowments' total allocations. Allocations to non-investment grade fixed income, particularly floating-rate debt, will likely increase significantly in coming years as we move into a rising-rate environment.

Allocations to fixed income, FY2021



Debt: Endowments lock in low rates ahead of anticipated increases

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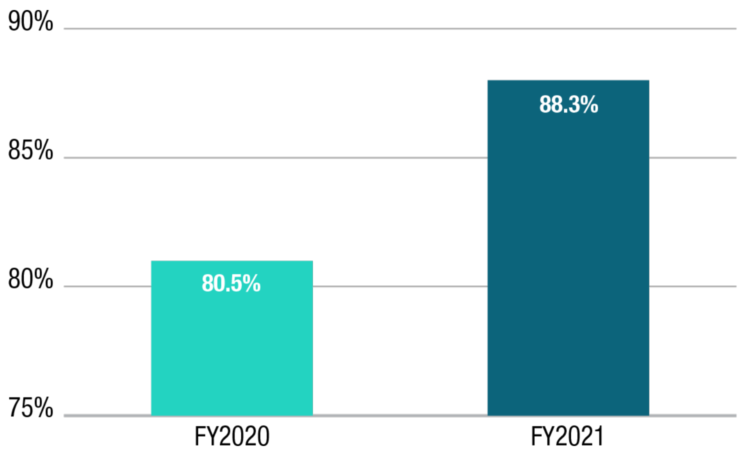
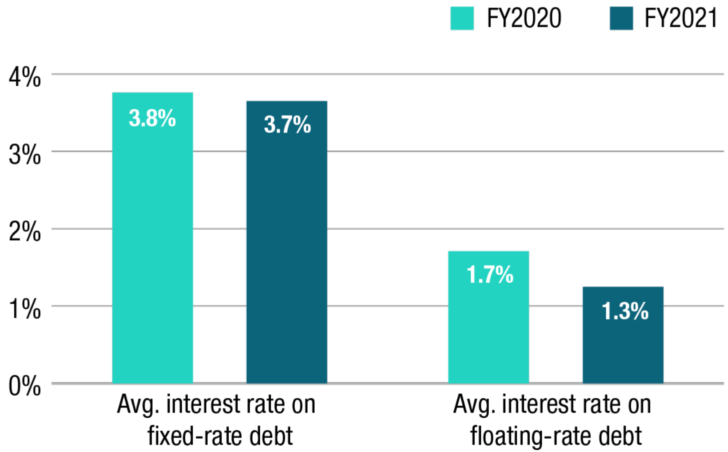
FY2021's environment of ultra-low interest rates, combined with growing expectations that rates would soon begin rising as monetary policy tightens, led some endowments to shift more toward fixed-rate debt to finance their borrowing.

Portion of endowment debt that is fixed-rate



Average interest rates paid on fixed- and floating-rate debt

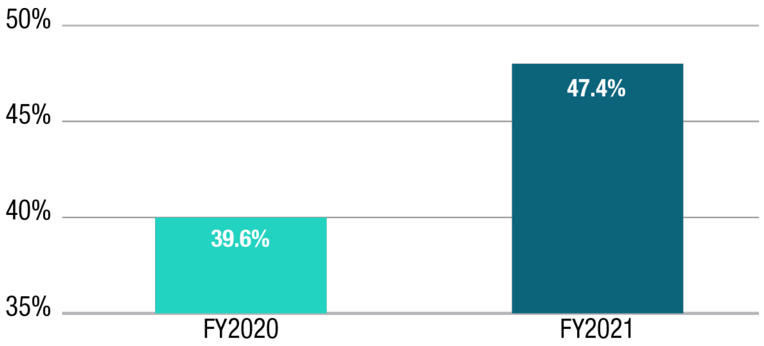


Responsible investing: Increasing but still measured adoption

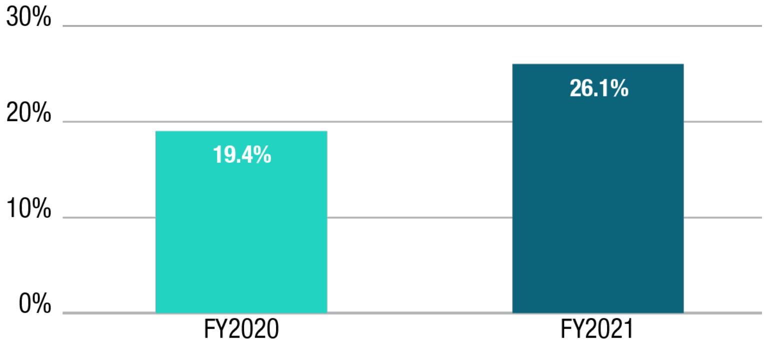
Endowments increased their responsible investing practices in 2021, yet they continue to take a measured approach to its implementation in their investment policies and portfolios. Uncertainty remains about whether responsible investing can add alpha, and many endowments continue to have concerns that responsible investing may conflict with their duties as fiduciaries. The lack of standardized ESG reporting, structural limitations and resource concerns continue to limit adoption, especially for smaller institutions.

Percent of endowments that:

Factor responsible investing into their investment manager due diligence and evaluation process



Believe that responsible investing can be a source of alpha



OCIO: Trend toward outsourcing continues

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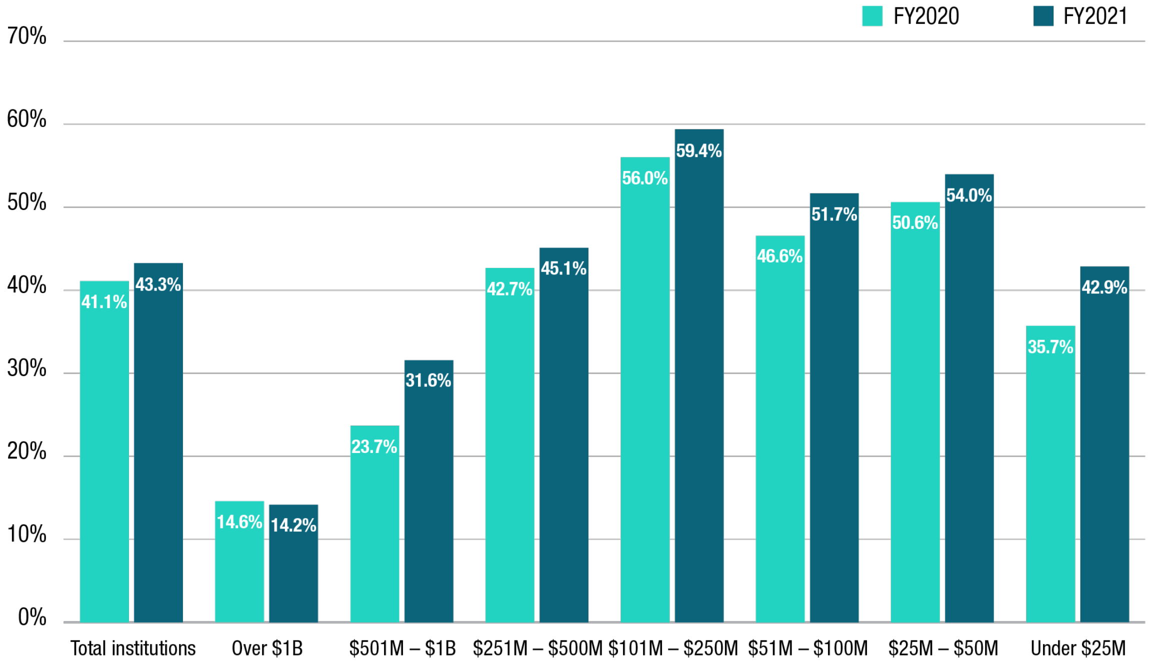
In FY2021, 43% of endowments reported using an outsourced chief investment officer (OCIO), up from 41% in FY2020 and up from 34% in FY2010. This trend reflects the increased adoption of the OCIO model following the Global Financial Crisis of 2007–2008 among institutional investors of all types, particularly among smaller and mid-sized funds.

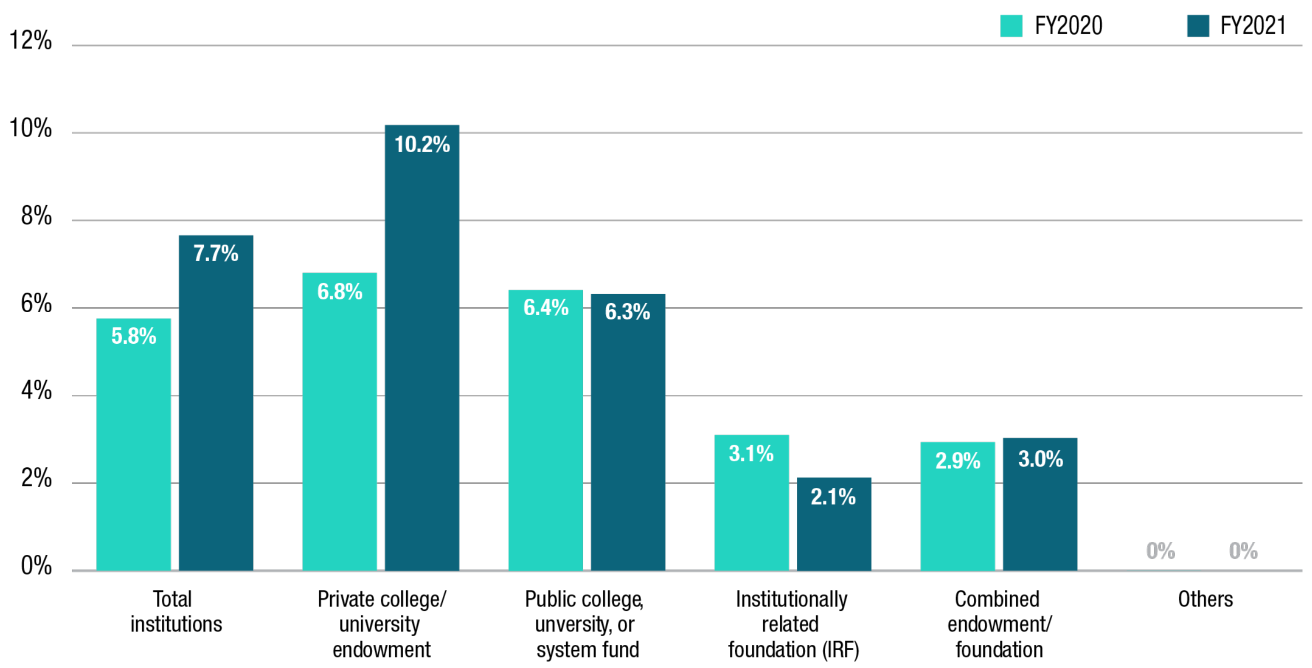
Percent of endowments using an OCIO to run investment management



DEI: Incremental gains in manager selection

The percentage of endowments reporting that their institution had a formal policy addressing diversity and inclusion related to investment manager selection increased modestly in FY2021. Nearly all this increase was driven by private institutions.

University has a diversity and inclusion policy for investment manager selection



2021 | Q&A

Keep exploring the survey results

Access the publicly available tables from this year's survey and learn how to purchase the survey at: https://www.nacubo.org/Research/2021/NACUBO-TIAA-Study-of-Endowments

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SOURCE: 2021 NACUBO-TIAA STUDY OF ENDOWMENTS