

# 2019 NACUBO-TIAA Study of Endowments

## Glossary

### Section 1: Demographic Information

**Full-time equivalent (FTE) students:** total full-time enrollment plus one-third of part-time enrollment. Include both undergraduate and graduate/professional students enrolled (as reported in IPEDS Fall Enrollment Survey, Part A) in your FTE enrollment calculation.

### Section 2: Endowment Value and Inflows

**Total endowment assets:** total market value of endowment assets excluding any non-endowment funds that are invested in the investment pool, e.g., funds for current operations, plant funds, working capital, life income assets, gift annuity assets, other trusts, assets managed on behalf of other institutions, and other non-endowment funds.

**Life income assets:** assets donated to the institution, usually in the form of a trust. The donor or designated individual(s) receive a specified amount of income during their lifetime, after which the institution has ownership of the assets. Examples include charitable remainder trusts, charitable gift annuities, and pooled income funds.

**Donor advised fund assets:** a charitable vehicle administered by a public charity created to manage charitable donations. To participate in a donor advised fund, an individual or organization opens an account in the fund and deposits cash, securities, or other assets. The donor surrenders ownership of the assets but retains the right to advise on how the account is invested and how the assets are distributed to charity.

**Gifts:** the total amount of voluntary donations to the institution from alumni or other donors, or to affiliated foundations and organizations created to raise funds for the institution. Include funds received for current operations and for capital purposes, regardless of form (e.g., cash, property, real estate, securities). Securities, real estate, equipment, property, and other noncash gifts should be valued at the fair market value placed on them by an independent appraiser. Also include deferred gifts, cash value of life insurance contracts, cash payments returned as contributions from salaried staff, and insurance premiums paid by donors.

**Operating budget:** the total expenditures of the institution or organization in the prior fiscal year. Generally, this equates to the funds used to meet the institution's education-related activities and carry out other activities that constitute the institution's ongoing major or central operations. Includes funds devoted to auxiliary or other related activities and enterprises conducted or operated by the institution or organization.

**Student-managed fund:** a pool of assets managed by a group of students on campus, often economic or business majors, typically with the oversight of a faculty member.

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## Section 3: Endowment Spending

**Effective spending rate:** the total endowment spending, excluding fees and expenses, divided by the endowment's June 30 market value. Spending should include all withdrawals from the endowment, including other recurring and non-recurring withdrawals. Fees and expenses for managing the endowment should not be included.

Example: as of June 30, 2018, your endowment value was \$100 million. During the 2019 fiscal year, you withdrew \$4 million according to your spending formula, \$400,000 for other investment management expenses, \$1 million for special projects, and \$300,000 for administration expenses. You would include \$5.3 million of total withdrawals for an effective spending rate of 5.3% in fiscal year 2019 (\$400,000 of investment management expenses are excluded as they are netted against investment performance).

**Spending policy:** the policy or formula that the institution uses to determine its annual draw from the endowment.

**Special appropriations:** recurring or non-recurring withdrawals in addition to the withdrawals determined according to the institution's spending policy.

**Custodial fees:** a fee paid to a financial services institution for asset safekeeping and related services.

## Section 4: Investment Returns

**Net annualized return:** returns for periods longer than one year are typically annualized (also called average annual compound return). An annualized return is the single rate of return which, if compounded over a particular period of time, produces the same result as the variable returns over the same period. Net refers to net of investment management fees.

**Long-term target return (nominal):** the expected nominal annual return (including inflation) that the institution has set for its endowment over the long term. Typically, the endowment's long-term target return, asset allocation, and spending policy are mutually consistent and support the institution's long-term objectives.

**Net of Fees:** For the purpose of calculating net of fees, please note we use the methodology (as in prior years) which incorporates net of fees and thus, does not include internal and external expenses (FASB Update 2016-14 – Topic 958).

## Section 5: Asset Allocation

**Strategic asset allocation:** the long-term allocation target of the endowment assets across asset classes, e.g., domestic equities, international equities, private capital, fixed income.

**Liquidity categories:** identifies how quickly an investment can be sold and turned into available cash.

# 2019 NACUBO-TIAA Study of Endowments

## Section 6: Debt

**Long-term debt:** the amount of outstanding debt that has a maturity of 12 months or longer. It is classified as a non-current liability on the balance sheet.

**Debt service:** the amount of money required to make payments on the principal and interest of outstanding loans, the interest on bonds, or the principal of maturing bonds.

## Section 7: Portfolio Management

**Portfolio rebalancing:** the process of bringing a portfolio's asset weights back to their target weights by selling overweight asset(s) and buying underweight asset(s).

**Calendar-based rebalancing:** a process of rebalancing the endowment based on specific calendar dates, e.g., at quarter-end or year-end dates.

**Market value-based rebalancing:** a process of rebalancing the endowment based on how much the portfolio has strayed from its strategic weights as a result of market movements and cash flows.

## Section 8: Responsible Investing

**Responsible investing:** an investment philosophy that incorporates environmental, social, and governance (ESG) factors into the investment analysis, portfolio construction, and ongoing monitoring with the objective of enhancing long-term performance, managing risk, and aligning the portfolio with the institution's values.

**Environmental, social, and governance (ESG) investing:** an investment approach that examines a company's exposure to ESG-related risks and opportunities, focusing on the ones most likely to have a material impact on investment performance. Environmental criteria look at how a company addresses climate change through greenhouse emissions, waste management, etc. Social criteria examine how a company manages relationships with its employees, customers, and the communities in which it operates. Governance addresses a company's board governance and executive pay, among other issues.

**Impact investing:** an investment approach made with the intention of generating positive, measurable social and environmental impact alongside a financial return. This approach involves investing in projects, funds, organizations, or companies (both private and public) related to renewable energy, sustainable agriculture, microfinance, and affordable housing, among other sectors.

# 2019 NACUBO-TIAA Study of Endowments

## Section 9: Investment Office

**Outsourced Chief Investment Officer (OCIO):** a third-party engaged to manage all or a portion of the endowment portfolio. The OCIO's functions typically include developing the asset allocation, selecting and monitoring investment managers, implementing portfolio decisions, risk management, performance reporting, rebalancing, and other areas of portfolio management.

**Investment consultant:** provides investment advice on setting investment objectives, determining spending, establishing the strategic asset allocation, and selecting managers. An investment consultant typically does not have discretion to implement investment decisions but works closely with the board committee charged with overseeing the endowment.

**Separate managers:** individual investment managers. If you use multiple products from the same investment firm, eliminate the double-counting in the total line.

**Fees in basis points:** the fees paid to the manager annually expressed as a percentage of the market value of the assets managed. A basis point is one one-hundredth of a percentage point or 0.01%. Fifty basis points is 0.50%; 500 basis points is 5.00%.