Enterprise Approach to Endowment Management: Key Considerations for Optimizing Endowment Management

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Years of declining enrollment combined with steep tuition discounts at private institutions and reduced state funding for public universities have placed significant pressure on endowments to help make up lost revenue. In fiscal 2018, two-thirds of colleges and universities increased their endowment spending by a median of 6.6 percent even as their long-term 10-year average endowment returns were 5.8%.[1] Left unchecked, increases in endowment spending can, over time, have the unintended consequence of reducing future payouts. Overly aggressive spending also raises questions about intergenerational equity, particularly if there is a market correction or economic downturn accompanied by a drop in donor contributions.

Managing and overseeing an endowment is a complex task. Too often, endowments are managed solely from the perspective of total return, asset allocation, manager selection, and spending policy. While these elements are integral to the process, they represent too narrow a scope of analysis. Other important factors such as the institution's reliance on endowment spending, its overall balance sheet health, expected discretionary and capital spending, and future fundraising tend to be overlooked, creating a disconnect between the management of the endowment and critical institutional needs.

In today's volatile market, it is more important than ever for institutions to adopt an integrated, total enterprise approach to endowment management that closely aligns the portfolio strategy of the endowment with the institution's financial and operating profile. The goal is to maximize investment performance, while also driving resource optimization and long-term financial sustainability, so the institution's mission can be fulfilled.

[1] 2018 NACUBO-TIAA Study of Endowments

An enterprise approach to endowment management:

- Delivers critical insights based on the institution's total financial profile, including its endowment, in order to optimize risk management.
- Models institutional revenue sources and other market variables, and gains insights from reviewing peer data.
- Analyzes the endowment strategy in the context of the institution's goals and objectives to ensure that the endowment is being used in the most productive way for the benefit of the institution.
- Identifies potential strategic asset allocations based on a comprehensive view of risk that integrates the endowment with the institution's operations.
- Ensures that the focus is on managing the endowment so that it provides the institution with a sustainable and diversifying source of revenue.

Today, it is important for trustees to have a clear picture of whether the endowment is taking on too much risk or not enough—and to fully understand the implications for the institution. As fiduciaries, they have a unique opportunity to constructively engage with stakeholders and spearhead change. This is an opportune time for trustees to work with their endowment manager to adopt an enterprise approach to endowment management.

For more information on TIAA's enterprise approach to endowment management, visit www.tiaa.org/teps; email: TEPS@tiaa.org; phone: 855-200-0355.

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