The NACUBO Endowment Study: A 50-Year Retrospective
Documenting a Period of Unprecedented Change
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Reflecting on 50 Years

The NACUBO-Commonfund Study of Endowments (NCSE) for fiscal year 2023 marks the 50th consecutive year that NACUBO has published a Study of the endowments of institutions of higher learning. It would not be an overstatement to say that the Study chronicled five decades of unparalleled change. The investment industry and endowment management have undergone profound change in thinking and practice—and that brings us to this document: a retrospective look at a select number of developments that have changed the course of endowment management.

The value of each annual Study—a look at the state of perpetual pools of funds at a point in time—lies in current, in-depth, reliable information. More than a source of hard data, the Studies enable endowments of every size and type to compare themselves to peers while also affording the opportunity to assess the policies and practices of institutions different than themselves. The value of a retrospective such as this is to understand how these annual Studies have also served as beacons calling attention to the emergence of new thinking and actions demanding to be noted, watched and considered for their implications for each institution’s own endowment.

We have not sought to prepare a comprehensive review; that would warrant a book. Instead, we have focused on a few developments of overriding significance. We have called on data from past Studies to document this period of change but sought to concentrate on the larger story because topics for research evolved, new lines of inquiry opened, methodologies changed and different teams worked together over this lengthy time span. Throughout, the Study continually adapted and evolved to account for these changes.

We at NACUBO pledge to maintain and enhance the Study, which is generally recognized as the most comprehensive inquiry into and reporting of endowment thinking and practice. We at Commonfund Institute have been privileged to team with NACUBO in the past and are pleased to renew our relationship. Together, we are committed to the highest professional standards of research and analysis. Moreover, we are alike in our belief that endowments play a vital role in our society and it is through that lens that we view a history-making 50 years.

Kara D. Freeman  
President and CEO  
National Association of College and University Business Officers

George Suttles  
Executive Director  
Commonfund Institute
Endowments are pools of assets managed and invested by nonprofit organizations that include churches, hospitals, foundations, cultural institutions as well as colleges and universities to support their respective missions in perpetuity. These institutional funds represent the accumulation of gifts and donations, operating surpluses, returns earned by investing the asset pools and other sources. In the higher education sector, most endowments have been built and maintained over extended periods of time, especially those of private institutions. In recent decades, however, an increasing number of public colleges and universities have established endowments or separate foundations.

Specifically in response to these changes Commonfund was founded in 1971 with a mission of helping higher education institutions enhance their financial resources and improve investment management practices.

Until this time, endowment assets had largely been invested in bonds whose yield was insufficient to fund colleges’ and universities’ operating budgets, much less provide for returns sufficient to offset inflation and grow the endowment in real terms to maintain purchasing power. The decisions of this era made equities and their potential for capital gains (as well as dividends) much more attractive for long-term asset pools. The fact that institutions have become more
reliant on their endowments through time testifies to the effectiveness of changes that began—and since evolved—50-plus years ago. Today, endowments are essential to the operation of hundreds of institutions and have contributed broadly to the quality of American higher education. Among the many benefits they deliver, endowments:

- **Are a source of stability.** Effectively managed, endowments are a reliable source of revenue for colleges and universities, especially as other revenues fluctuate with changes in enrollment, gifts and public support (both state and federal). Stability is especially important for programs and activities that cannot be started and stopped or undercut by changing levels of financial support.

- **Foster long-range thinking.** Endowments keep generating income over time, meaning that endowed institutions are better able to plan strategically and commit to longer-term goals.

- **Support core mission.** As the accompanying chart shows, more spending from endowment goes to student financial aid than any other purpose. Endowments also support faculty positions, innovative academic programs, campus operations and facilities, community engagement, medical research and much more.

- **Promote flexibility.** To the extent that policies allow, schools may turn to the endowment to make special appropriations, as deemed desirable by the board. The NCSE for FY23 found that 22 percent of participating institutions made such appropriations and the initiatives they funded ranged from campus or facility improvements and financial aid to new strategic initiatives and support for diversity, equity and inclusion (DEI).

- **Meet student needs and supplement other funding.** Institutions have increased their student aid expenditures in recent years and today most schools subsidize all their students with a tuition that is lower than the full cost of education. Endowments also leverage other grants that students may receive, such as federal Pell Grants, to further lessen the cost of college. Colleges and universities with larger endowments have more often been able to offer need-blind admissions.

- **Encourage innovation.** When other sources of funds, such as annual fund gifts or grants are not available, endowment spending enables faculty and students to pursue research and innovative technologies with potential benefits in science, medicine, education and other fields.

- **Align with the public interest.** Endowments help equip students from diverse socioeconomic backgrounds to pursue the education needed to enter fields such as research and professions such as law and medicine. Endowments also provide funds to promote the arts, engage diverse communities and support institutional initiatives that align with the public interest.

The Study for FY23 found that participating colleges and universities relied on their endowment to fund an average of 11 percent of their annual operating budget. Institutions with larger endowments were even more reliant on endowment as it funded 17 percent or more of larger endowments’ budgets.

Endowments are funds for the future, a commitment that is captured in the term “intergenerational equity,” or the notion that future generations will have the same, or better, financial support as that of the present.

### INSTITUTIONAL PURPOSES SUPPORTED BY ENDOWMENT FUNDS FOR FY23

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student financial aid</td>
<td>47.7</td>
</tr>
<tr>
<td>Academic programs and research</td>
<td>17.5</td>
</tr>
<tr>
<td>Endowed faculty positions</td>
<td>11.1</td>
</tr>
<tr>
<td>Operation and maintenance of campus facilities</td>
<td>7.4</td>
</tr>
<tr>
<td>All other</td>
<td>16.4</td>
</tr>
</tbody>
</table>
In 1974 NACUBO published the results of a survey of the endowment management practices of 136 U.S. colleges and universities (688 institutions in the FY23 Study). The title of the Study, Results of the 1974 NACUBO Comparative Performance Study and Investment Questionnaire, proved to be longer than it would endure as the Study was retitled the NACUBO Endowment Study (NES) in FY86. In retrospect that was fitting, for it was a transitional period—one that saw the end of one epoch and the transition to another that established what has become today's preeminent investment principle: total return.

In addition to being categorized by endowment size (a practice that continues today), participating institutions in that first Study were categorized by investment objective—either total return, balanced or income oriented. In the words of that first Study the terms were defined as follows:

**Total return:** Investment returns are sought from both market appreciation and dividends and interest. Current income requirements generally do not dictate the kind of securities that may be held as the primary emphasis is on long-term overall return.

**Balanced:** The pooled funds are invested in such a manner as to minimize investment risks without unduly sacrificing current income or the possibility for some long-term growth. This is usually done by investing a portion of the pool in fixed income securities.

**Income oriented:** Investment policy is dictated by current income needs; market appreciation is never utilized for current operating purposes and the primary emphasis is on current income maximization.

Data gathered for the Study showed that 61 percent of participating institutions followed a balanced or income-oriented approach while 39 percent followed a total return approach. The Study did not distinguish between respondents using a balanced or income-oriented approach.

Contained in that data was the undoing of the balanced/income-oriented way of thinking. As noted in the preceding commentary, by the late 1960s returns from college endowments persistently lagged the growth of operating budgets. Much of the problem lay in the traditional thinking surrounding personal trusteeship, which, among other things, permitted only the spending of income from dividends and interest while barring any spending of capital appreciation. It took reforms such as the previously cited UMIFA and other measures to free institutions from the shackles of cost accounting methods.¹

Indeed, changes were coming. The Study for fiscal year 1977 was the first to make a distinction between balanced and income-oriented approaches, and the data were telling: While a minority, 35 percent, of respondents followed a total return approach most, 59 percent, still used the balanced approach while only 6 percent continued to adhere to the income-oriented objective.

By 1984, for the first time, the share of participants (now risen to 206) following a total return approach exceeded those pursuing a balanced approach: total return, 48 percent; balanced, 46 percent; income oriented, 6 percent. It was a step not a leap, however, as the very next year the proportions using total return and balanced approaches reversed. But that 1985 Study

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contained a telling bit of commentary: “In terms of investment objectives, those pools with a total-rate-of-return objective outperformed those with balanced and income objectives in FY85. This was also the case for the three-, five- and 10-year periods.”

The Study for FY87 was the last to make the distinction between total return, balanced and income. Respectively, the share of each reported by respondents was 49 percent, 45 percent and 5 percent. Asset allocation that year stood at:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>54.2</td>
</tr>
<tr>
<td>Fixed income</td>
<td>29.4</td>
</tr>
<tr>
<td>Cash</td>
<td>12.7</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.9</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1.8</td>
</tr>
</tbody>
</table>

The shift to total return gained momentum in the early 1970s and, looking back, it seems as though it must have been inevitable. But there were real-life challenges. In the same fiscal year that the first NACUBO Study was published, total return advocates saw the first Organization of the Petroleum Exporting Countries (OPEC) oil embargo lead to a fiscal year decline in the S&P 500 Index of about 45 percent. Returns in the fiscal 1988 Study were severely impacted by the October 19, 1987, “Black Monday” collapse that led to the S&P 500 declining 22.6 percent in that one quarter. Today, total return is not an unqualified term. More often, it is “risk-adjusted total return.” Nevertheless, spending from the corpus of the endowment had become the accepted practice and endowments were better able to fulfill their potential as reliable sources of institutional funding.

**COMPARATIVE FIXED INCOME ALLOCATIONS**

The NACUBO Endowment Study’s First Decade vs. Its Most Recent Decade

Measured at semi-annual intervals for the first six NACUBO Endowment Studies and the most recent six, allocations to fixed income securities recently have been one-half to one-third of what they were in early Studies, reflecting the broader shift to equities that accompanied the adoption of total return investing.
Diversification then, diversification now: Two entirely different things. When the NACUBO Endowment Study began, assets were spread across four categories: equities, senior securities (bonds), cash and miscellaneous (undefined). As a side note, “asset allocation” was not the term in use; instead, it was “asset composition.”

As the decade of the 1980s began, the nomenclature and the number of categories changed to stocks, bonds, miscellaneous, cash and real estate, the latter a carve-out marking the Study’s first asset class expansion. In the Study for FY83, a more significant change occurred: the first data on investment in “foreign securities” and venture capital. Under the heading in use at the time, these “nontraditional investments” would fundamentally alter the concepts of diversification and long-term investment. Moreover, they would prove to be strategies in which colleges and universities were the thought leaders—pioneering in what are now foundational to the portfolios of nonprofit institutions of all types.

In that fiscal year of 1983, 22 percent of 220 participating institutions—ranging from those with the largest endowments to the smallest—reported investments in foreign securities. The allocations were generally small, however many reported no allocation and the largest were in the 7.0 percent to 10.0 percent range. Nineteen percent of Study participants reported allocations to venture capital. Once again, many allocations were under 1 percent but one outlier reported an allocation of 16.6 percent.

The Study for FY86 offered two observations that would underscore the tectonic shift taking place: “Generally speaking, those responsible for the asset allocation decision seem to be directing cash flows into the more attractive future areas of investment rather than shifting assets between traditional stocks and bonds … the number of endowments investing in nontraditional areas of investing, such as foreign securities and venture capital, continues to increase.”

For most of the 1990s, asset classes and strategies were broadly aggregated into marketable securities and nonmarketable securities, non-campus and campus real estate, and miscellaneous assets. These were defined but sub-allocations to each were not quantified. Marketable securities were defined as common stocks, fixed income, cash and cash equivalents, hedge funds, distressed securities, event arbitrage and high-yield bonds. Venture capital, buyouts, and oil and gas comprised the nonmarketable securities designation.

By FY00, venture capital was the most widely held of the alternative strategies, an average allocation of 8.8 percent for 574 participating institutions. This was followed by hedge funds at 4.7 percent and private equity at 4.1 percent. But larger observations can be made about this period. First, the range of alternative strategies included in the Study had expanded to about what it has been for the past few years. Second, the correlation between the size of the allocation to alternative strategies and endowment size had emerged and remains in place today. Third, private institutions reported higher allocations to alternatives compared to their public counterparts; this, too, remains in place although the greater disparity of earlier years has narrowed.

Studies over the following decade would confirm a shift that had been gaining momentum through the years. In short, from FY99 to FY08, schools’ allocation to alternatives tripled to 23.6 percent from 7.5 percent. The allocation to traditional equities declined to 51.9 percent from 64.3 percent and the allocation to fixed income declined to 19.2 percent from 23.6 percent.
Allocations to alternative strategies accounted for more than half of schools’ endowments by FY09, reported at 51 percent. Institutions with assets over $1 billion reported an average allocation of 61 percent, but even those with assets under $25 million reported an average 13 percent allocation. Private institutions accounted for an average 54 percent allocation, but public institutions weren’t far behind at 50 percent. Six years later, at mid-decade, the overall asset allocation reported for FY15 stood at:

<table>
<thead>
<tr>
<th>Allocation</th>
<th>2015 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equity</td>
<td>16</td>
</tr>
<tr>
<td>Fixed income</td>
<td>10</td>
</tr>
<tr>
<td>Non-US equity</td>
<td>18</td>
</tr>
<tr>
<td>Alternative strategies</td>
<td>53</td>
</tr>
<tr>
<td>Short-term securities/cash/other</td>
<td>3</td>
</tr>
</tbody>
</table>

Numbers in percent (%)

In ensuing years, alternatives’ startling rate of growth would level off—as was bound to happen. Other than yearly variability of a few percentage points, however, the allocation did not go into decline. Indeed, for perpetual institutions the trade-off of illiquidity for potentially greater return appeared to be the ideal fit.

**ALLOCATIONS TO ALTERNATIVE INVESTMENT STRATEGIES**

Dollar-Weighted | FY88 – FY23

Measured at five-year intervals spanning fiscal years 1988 – 2023, institutions’ allocations to alternative investment strategies have risen dramatically, especially during the period from FY98 to FY13.
Among the major developments over the past 50 years of endowment management was the progression from external investment advisors to the use of consultants to outsourcing and then to the OCIO model, or outsourced chief investment officer. Relationships with external investment advisors/managers predated the first NACUBO Endowment Study but should not be overlooked in the long migration from internal management of the endowment to increasing reliance on external resources. In the nonprofit sector, colleges and universities were at the nexus of a period of change in the 1960s and early 1970s, being motivated by the fact that endowment returns were not keeping pace with increases in annual operating expenses. Until the 20th century, nonprofit governance in the U.S. was a matter of common law, with general principles based on English trust law concepts. It was common for trustees to manage endowment assets personally, as classical trust law held that a “trustee cannot properly delegate to another power to select investments.” A major breakthrough in endowment management came in 1972 with the passage of the previously mentioned UMIFA; among the act’s key provisions was one that allowed trustees to delegate investment management decisions.

Two years on, the NES for FY74 inquired about the use of investment advisors, with 75 percent of participating institutions reporting that they used them while 25 percent did not—implying that a substantial share of respondents made even the most basic buy/sell decisions internally. Over the next decade, the only other related area of inquiry was whether institutions gave discretion to their investment managers. Originally responses were about half and half, but those granting discretion gradually became a substantial majority. Data gathered for the FY02 Study showed that three-quarters of total Study respondents were using consultants. The lowest rates of usage in the 50 percent range—a pattern that would hold for several years—was found among institutions with the largest and smallest endowments. The highest rates, in the upper 80 percent range, were among those endowments in the upper-mid size cohort. This Study found that private institutions were using consultants at twice the rate of public institutions, but that changed quickly to equal rates of usage in the next few years. Usage rates continued to grow, reaching 80 percent in FY10 and 85 percent in FY15. In particular, institutions with the largest endowments increased usage rates to 65 percent by FY10 and to 85 percent by FY15. Subsequent Studies broadened data gathering to include data on consultant services used by their client institutions. The most frequently used services were generally performance attribution and measurement, asset allocation/rebalancing, manager selection and policy review.

The OCIO concept sprang from the consultant community in the latter 1980s, the idea being a turnkey resource for organizations needing the expertise and resources to manage their assets in a complex and quickly changing investment environment but preferring not to hire a chief investment officer or maintain an internal investment staff. Alternative investment strategies required greater time, expertise and experience to manage effectively. Moreover, two crises stressed and stretched internal resources. The OCIO model gained traction following the Global Financial Crisis of 2007-2009, particularly among smaller and mid-sized endowments, while another crisis, COVID-19, stretched internal resources, principally staff. The pandemic created uncertainty around endowments’
budgeting processes and stretched administrative resources, motivating institutions to seek external support for CIO functions.

The OCIO concept evolved to encompass a wide range of models that, if fully implemented, accept responsibility for an institution’s entire investment process, filling a role equivalent to that occupied by the internal investment office staff at institutions with very large investment pools.

The first Study to report on OCIO usage, issued for FY10, found that 34 percent of endowments had adopted the model. By the Study for FY23, that had grown to 46 percent after topping out at 52 percent in FY19. As may be anticipated, the largest endowments relied on the OCIO model at the lowest rate, 14 percent, with the rate of OCIO usage generally rising as endowment size declined. Among those institutions not using an OCIO, 78 percent used a consultant and 42 percent had an internal CIO. Even among the largest endowments, 45 percent reported using a consultant; of those institutions without an OCIO 90 percent or more of most size cohorts also reported consultant use.

**OCIO USAGE AMONG TOTAL NES PARTICIPANTS**

FY10 – FY23

The share of Study respondents outsourcing the management of endowment assets rose from 34 percent in FY2010 to 46 percent in FY23, reaching a high of 52 percent in FY19. There was a sharp decline into the following fiscal year, 2020, when OCIO-managed assets rose year over year for the two largest size cohorts but declined for each of the other five cohorts.
Responsible investing in the U.S. can be traced to the colonial era but it wasn’t until the 20th century that it began to take forms more recognizable to today’s investors. The practice gaining the most traction was exclusionary investing, which prohibited or screened out investments in companies in the tobacco, alcohol, arms, gambling and other “sin” industries. In the 1970s, the anti-apartheid campaign led many endowments and other institutions to divest their portfolios of companies doing business in South Africa. With the passage of time, awareness of responsible investing grew and options for investment became far more extensive, as they now embrace environmental, social and governance criteria (ESG), impact investing, diverse managers and other approaches. Once again, institutions of higher learning have been in the vanguard of thought and practice.

Responsible investing first appeared in the NACUBO Endowment Study for the millennial year, FY00. That Study reported that 39.5 percent of respondents gave social responsibility a place in their investment policies. Institutions practicing responsible investing most often reported using the exclusionary approach, which became known as “socially responsible investing,” or SRI. Respectively, 53.0 percent, 29.0 percent and 28.0 percent said they barred investment in the tobacco, alcoholic beverage and gambling industries. At that stage, private institutions considered responsible investing at about twice the rate of public institutions (21.7 percent versus 10.4 percent). Institutions with endowment assets under $100 million—the smallest of four size categories in that Study—were most likely to incorporate social responsibility in their investment policies. Religiously affiliated institutions also adopted responsible investing practices, particularly negative screens, that reflected their beliefs and traditions.

Progress came slowly over the next few years. The Study for FY04 reported, “One investment management feature that has remained relatively stable over the past three years is the lack of consideration for social responsibility criteria as part of an institution’s investment management policy. Approximately three-quarters, or 73.4 percent, of the reporting institutions do not consider such criteria when making investment decisions, although 8.2 percent will when required by donors.” Institutions with endowments at the smaller end of the size scale continued to engage in socially responsible investing at a higher rate. By 2010, SRI remained the locus of institutional policies and the rates were higher—45 percent of respondents screened all their portfolios and 44 percent screened part. That Study also gathered data on whether managers voted proxies consistent with SRI, and inquired about an expanded list of prohibited investments and whether commingled funds were screened.

The next year’s report represented a complete shift that captured the suddenly accelerating rate of change in responsible investing. From focusing exclusively on SRI in FY10, the Study for FY11 concentrated solely on ESG. The impetus was the 2006 adoption by the United Nations of its six Principles for Responsible Investing, or UN PRI. The principles, which were rooted in ESG criteria, received global support and many institutions of higher education became PRI signatories. The FY11 Study found that 18 percent of respondents had applied some form of ESG criteria to their investment portfolios. This is not to say that responsible investing was universally endorsed; some colleges and universities held off, frequently citing their belief that adhering to ESG criteria could adversely affect long-term investment performance and call into question fulfillment of their fiduciary duties.

The Study for FY14 expanded reporting on responsible investing to include ESG, SRI/negative screening as well as impact investing, the latter being investments that are consistent with institutional mission. Reports over the next five years showed a gradual increase in the number of institutions seeking to incorporate ESG in
their portfolios and an equally gradual decline in those using SRI/negative screening. The Study for FY18 noted that some endowments were seeking to invest with minority-owned investment management firms. By FY20, for the first time, responsible investing was treated as a separate chapter in the report, placing it on the level of subjects such as asset allocation, returns and fund flows.

In the Study for FY23, 27.7 percent of respondents reported having implemented ESG; 14.0 percent, negative screening (SRI); and 8.8 percent, impact investing. This Study also confirmed recent Studies that found a reversal in the earlier Studies’ data indicating that institutions with smaller endowments most frequently practiced some form of responsible investing. Now, 40 percent or more of institutions in the four largest size cohorts reported implementing ESG, including 50 percent of institutions in the largest size cohort; institutions in the remaining three size cohorts were in the range of 16 percent to 23 percent. Among all Study respondents, half had joined an ESG or sustainability network and half had factored responsible investing into their investment manager due diligence process.

The NCSE for FY23 shows, as have previous Studies, that some endowment decision-makers view responsible investing as inconsistent with their duties as fiduciaries and potentially at risk for sub-optimal investment performance. Despite the growing adoption of ESG—and, to an extent, because of it—an obstacle outside of college and university boardrooms has arisen: the politicization of responsible investing, with ESG being a primary target. Recently, some politicians have likened ESG to “woke capitalism” that places too much emphasis on social, climate and environmental goals. At the same time, staunch advocates within the investment industry remain committed to ESG and believe it will remain a significant factor within the broader investment landscape. Indeed, the long history of responsible investing in the U.S. suggests that it will play a role in the future even as it continues to evolve.

### REQUIRED OR PERMITTED RESPONSIBLE INVESTING INVESTMENT PRACTICES

**Private and Public Institutions**

<table>
<thead>
<tr>
<th></th>
<th>FY00</th>
<th>FY03</th>
<th>FY17*</th>
<th>FY23*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Public†</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
</tbody>
</table>

* ESG only
† Public institutions and systems; does not include institutionally-related foundations

In two of the earlier Studies to gauge institutions’ consideration of responsible investing, private institutions were twice as likely to require/permit it in their investment policies as their public counterparts. In two more recent Studies, private institutions continued to include ESG in their policies more frequently than public institutions, but the spread between the two narrowed.
Asset Allocation

Clearly, asset allocation is foundational to colleges’ and universities’ investment policies. In terms of changes since the inception of the NACUBO Endowment Study, the fact that in initial Studies it was referred to as “asset composition” is incidental. What matters is that asset allocation “now” would be barely recognizable versus what it was “then.” Diversification that was once equities, fixed income and cash has been reconstituted as a mosaic of asset classes and strategies. This was enabled in the first place by two concepts—one, total return investing and, two, the greater diversification provided by private market strategies, both of which have been described earlier. Not every institution will include every asset class or alternative strategy in its portfolio, but the range of options and degree of fine-tuning to meet the return objectives and risk appetite of every institution continues to evolve.

Spending from Endowment

The NES measured annual spending from its earliest days. The 136 institutions participating in the Study for FY74 reported spending an average of 4.8 percent of their endowments’ market value—a rate that would be familiar to today’s boards and investment committees.

Early Studies concentrated most of their data gathering on private institutions, taking the position that they were far more reliant on their endowments than their public counterparts. Commentary illustrates this point of view: “The average amount of current fund revenue for private and state institutions is $24 and $150 million, respectively … The average percent of endowment income to current fund revenue for private and state institutions is 12.4 percent and 2.3 percent … The role of endowment income as a source of current fund revenue is relatively insignificant for state supported institutions and far more important for private institutions.”

Spending may have resembled a one-size-fits-all proposition for some years, as some variation of spending a percentage of endowment values was the accepted methodology. By the latter 1990s and early years of the 2000s the Studies reported a much greater range of choice. The predominant methodology was still spending a percentage of endowment values, but to smooth variability the rate was calculated over rolling time periods. Three years was, and is, by far the most widely used, but it could also be segmented by quarters (as many as 60). Three other methodologies frequently used are: deciding on an appropriate rate each year, the weighted average or hybrid method (also called the Yale/Stanford rule) and the previous year’s spending plus inflation with upper and lower bands. Other methodologies have been adopted, but at very low rates. For more information on spending methodologies, download Commonfund’s paper “Endowment Spending Policy: Often Overlooked but Critical to Long-Term Success.”

With the passage of time, early Studies’ distinction between the spending practices of public and private institutions has not just blurred, it has been all but erased by the growth of public institution endowments and institution-related foundations, or IRFs. While IRFs have existed in the U.S. since the 1890s, they have become commonplace among public institutions in recent years. To pick a random year as an example, in the FY10 Study the spending rates for various institution types were: private institutions, 4.8 percent; public institutions, 4.3 percent; IRFs, 3.9 percent; and combined endowments/foundations, 4.6 percent.

3 Early Studies often referred to coverage, or endowment assets per full-time student or faculty member that the endowment could support and did not consistently report the percentage of annual operating budgets supported by the endowment.

4 IRFs are college and university foundations that are separate 501(c)(3) charitable organizations that exist solely to support students, research and learning at a college, university or university system.
Operating Budget Support

Long-term trends show that colleges and universities have become increasingly reliant on their endowment to fund annual operating budgets as measured by the share of schools’ budget funded by the endowment. In the latter 1970s, the average was just above 4.0 percent and the median hovered around 3.0 percent. In the following years, the rate grew steadily reaching an average of 4.4 percent for fiscal years 1982 and 1983 (median data are not available for this period). Endowment support for the operating budget was not studied for a number of years; two metrics used at times during this extended period were endowment assets per full-time student and full-time faculty member.

Data gathered for the FY09 Study showed that endowment funded an average of 13.4 percent of participating institutions’ annual budget. The median figure was 4.6 percent. That difference cast light on a characteristic that has remained consistent over the past 15 years: Average support for the operating budget runs consistently higher than the median, indicating that a relatively few institutions funded more of their operating budgets with endowment money than the typical institution. In addition, there have been considerable differences among size cohorts, with institutions having larger endowments funding a greater share of their budget from endowment. To illustrate, in FY09 the largest institutions, those with over $1 billion in endowment assets, funded an average of 19.6 percent of their budget from endowment and a median of 13.3 percent. For mid-range institutions, those with assets between $51 and $100 million, respective figures were 11.2 percent and 5.4 percent. For institutions with assets under $25 million the figures were 8.1 percent and 1.0 percent.

Since operating budget support was first published two periods bear a closer look. The FY09 Study coincided with the financial crisis and Great Recession and, as stated, an average of 13.4 percent of the operating budget was funded by endowment. The financial crisis began, however, in FY08. Although that Study did not gather detailed data about operating budget support, the FY2009 Study did collect comparative data showing that in FY08 endowment support averaged 10.5 percent, thus FY09 represented a year-over-year increase in support of 28 percent. In the wake of the FY08 decline in endowment values, NACUBO and Commonfund sought to understand its impact by publishing the only follow-up survey in the history of the Study. While not inquiring directly about operating budget support, the Study found that a clear majority of institutions did not intend to lower their endowment withdrawals for the fiscal year (although some expressed concerns about potential longer-term effects).

The second highly disruptive period was brought on by the COVID-19 pandemic, which reached its height in FY20. All participating institutions reported funding an average of 12.3 percent of the operating budget from endowment, the median being 4.4 percent. The average for private institutions was 11.3 percent and for public institutions it was 6.6 percent. The most significant finding was that in a difficult and unprecedented operating environment, 49 percent of Study participants increased endowment support for the budget versus 26 percent that decreased it and 25 percent that left it unchanged.

Gifts and Donations

Data on gifts and donations first appeared in the second Study, for the 1975 fiscal year. That report observed, “Because each college and university and its alumni are unique, it is difficult to draw analogies relating to gift-giving among institutions. Some commonalities, however, can be identified even over a short time frame. It is hoped that from data gathered over longer periods of time many useful trends will appear.”

That FY1975 report showed that gifts as a percent of endowment market value averaged 4.3 percent for all participants, with the median being 2.6 percent. Institutions with the smallest endowments reported the highest rate of gifts as a percentage of endowment value—an average of 5.7 percent versus 3.1 percent for the largest participating institutions. Gifts and donations
held steady in the average 6.0 percent-plus range until FY89 when they eased to 5.5 percent before slipping to 4.8 percent for FY1991. For the remainder of that decade spending remained steady in the upper 4.0 to lower 5.0 percent range.

Data on gifts were not measured consistently over the 50 years covered here, as sometimes it was presented as a percentage of endowment values, sometimes in dollar terms and other times when funds raised through capital campaigns represented the only gifting data. That said, beginning in FY01 annual gifts were measured in dollars, a practice that continues today. Data in the accompanying table presents average new gifts to endowment over the decade FY14 – FY23.

**AVERAGE NEW GIFTS TO ENDOWMENT FY14 – FY23**

Dollars in billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (Billion)</th>
</tr>
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<tbody>
<tr>
<td>2014</td>
<td>5</td>
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<tr>
<td>2015</td>
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<td>2016</td>
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<tr>
<td>2022</td>
<td>13</td>
</tr>
<tr>
<td>2023</td>
<td>14</td>
</tr>
</tbody>
</table>

Average new gifts to endowment grew throughout the decade depicted with two exceptions. In FY20, gifts showed a one-year 14 percent decline that may be attributable to the COVID-19 pandemic. The reason for the 10 percent decline for FY23 is less clear—in any one year there is a range of variables, but calendar year 2022 produced negative returns for many investors, possibly impacting gift levels.

**Conclusion**

It is clear that the newly emerging endowment management trends captured by the NACUBO Endowment Study over the past 50 years have showcased the contributions of endowments, not only to higher education but to society more broadly. Colleges and universities have been at the forefront of institutional endowment management out of necessity; now these endowments must continue to grow, stand the test of time and provide vital resources to support future generations. With the advent of digital currencies, artificial intelligence and the increasing sophistication of financial markets, new trends continue to emerge and open new horizons for next 50 years. Whatever may come, NACUBO and Commonfund Institute look forward to the next half century of progress as we partner to analyze, monitor and discern the ever-growing and changing endowment management landscape.
About NACUBO
NACUBO, founded in 1962, is a nonprofit professional organization representing chief administrative and financial officers at more than 1,700 colleges and universities across the country. NACUBO works 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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