



The Governance of University Endowments

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Theme

Endowments are stocks of financial and real assets designed to generate income for financing an institution's current and future operations. Over the past 30 years, endowments have become increasingly critical to the operating budgets of most U.S. colleges and universities.

But despite their importance, endowments have received surprisingly little research attention, particularly in terms of understanding endowment governance practices. To help close this knowledge gap, the TIAA-CREF Institute fielded a survey in September 2009 that examined the role and characteristics of endowment board investment committees in charge of governance.

This research overview highlights the survey findings. To read the full report, see [The Governance Of University Endowments: Insights From A TIAA-CREF Institute Survey](#).

Investment committee makeup affects governance practices

To gauge the typical composition of endowment board investment committees, and how the committee structure affects governance decisions, the TIAA-CREF Institute surveyed 287 institutional respondents in September 2009. Below is the distribution of responses to questions about investment committee membership.

Who Serves on the Endowment Board's Investment Committee?

N= 256	Average	25 th %	Median	75 th %
Total Endowment Board Members	12.6	7.0	9.0	13.0
Voting Investment Committee Members	8.2	6.0	8.0	10.0
Alumni	48.2%	16.7%	50.0%	80.0%
Parents	15.6%	0.0%	10.0%	25.0%
Donors	89.7%	100.0%	100.0%	100.0%
University Employees	8.9%	0.0%	0.0%	12.5%
None of the Above	9.5%	0.0%	0.0%	0.0%
Members with Formal Credentials (e.g., MBA)	56.5%	33.3%	58.3%	87.5%
Members with Executive or Other Board Position	67.5%	70.0%	75.0%	100.0%
Members Compensated	1.2%	0.0%	0.0%	0.0%

The investment committee's characteristics as shown above tend to correlate with certain governance practices. For instance:

- Committees with a higher proportion of donors are more likely to outsource investment decisions and less likely to invest in alternative assets, such as hedge funds.
- A higher proportion of members who sit on other boards or who have executive experience is associated with a substantially higher allocation to alternative assets.
- A higher proportion of university employees is strongly associated with larger allocations to cash and fixed income.

In terms of endowment investments, the survey findings indicate that:

- Equity market participation is nearly universal. U.S. equity constitutes about 33% of the average portfolio, and foreign equity is nearly 16%, bringing the average total public equity allocation to nearly 50% of assets.
- About a quarter of the average endowment is allocated to fixed-income securities (21%) and cash (4.4%).
- More than 85% of endowments invest in alternative assets, most commonly hedge funds, followed by private equity funds.



Size of endowment linked to investment choices

The 224 endowments in the sample were divided evenly into four quartiles based on endowment fund size. The table below shows how asset allocation varies at each quartile. The most striking finding is that the probability of investing in alternative asset classes rises significantly with the size of the endowment.

For example, moving from the smallest size quartile to the 3rd quartile, the probability of owning each of the alternative asset classes roughly doubles. Interestingly, the probability of holding cash also increases, which may be explained by the need to maintain liquidity to back future capital commitments, such as for private equity or venture capital funds.

Average Asset Allocation by Endowment Fund Size Quartiles

N= 56 for Each Size Quartile	Smallest	2 nd	3 rd	Largest
Avg. Endowment Fund Size (<i>thousands</i>)	\$23,284	\$63,619	\$141,494	\$1,954,229
U.S. Equity (%)	100.0	100.0	98.2	100.0
Foreign Equity (%)	85.7	96.4	91.1	98.2
Fixed Income (%)	100.0	100.0	94.6	100.0
Alternative Assets (%)	58.9	89.3	94.6	98.2
Hedge Funds	37.5	69.6	76.8	89.3
Venture Capital	16.1	16.1	33.9	62.5
Private Equity	30.4	42.9	62.5	92.9
Natural Resources	25.0	44.6	51.8	78.6
Cash (%)	78.6	78.6	80.4	94.6
Other (%)	10.7	21.4	28.6	30.4

For more information

To learn more about endowments and other aspects of the business of higher education, please visit our website at www.tiaa-crefinstitute.org > Audiences > Higher Education.



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