



Cambridge Endowment for Research in Finance

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*The form should be completed and returned in electronic form by
Monday 1 September 2014
 to the email address above.*

Please note that information submitted in this form may be used on the CERF website

Project Title	
Endowment Investing Over the Very Long Run	
Investigator(s)	
Justin Foo	
Faculty/Department	
CERF	
Award start date: 7 Jan 2014	Expected Award End Date: 7 Sep 2014
Total amount awarded: £3960	Total amount expended: £2859.89 (30 Jun 2014)

Principal award holder's contact details:


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Declaration One: Conduct of the Research

This Report is an accurate statement of the objectives, conduct, results and outputs (to date) of the research project funded by CERF.

Award Holder(s) Signature

NB. This must include anyone named as a co-applicant in the research proposal.

Title	Initials	Surname	Signature
Dr	J	Foo	
Date:	29 Aug 2014		

Declaration Two: The CERF Database

The CERF Database is a publicly available online research database, containing summary details of all CERF research projects and their associated publications and outputs.

Please sign at either A or B below.


A. Details of relevant outputs of this award have been submitted to the CERF Database and details of any ensuing outputs will be submitted in due course.

Signature of Principal Award Holder

	Date:
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B. This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature of Principal Award Holder

	Date: 29 Aug 2014
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1. Activities and Achievement Questionnaire

Non-Technical Summary

A 500 word (maximum) summary of the main research results, in non-technical language, should be provided below. It should cover the aims and objectives of the project, main research results and significant academic achievements, dissemination activities and potential or actual impacts on policy and practice.

Funding was requested to support a research trip to the US for archival data collection at various universities. This was successfully completed and produced a long run panel dataset spanning the early twentieth century to current encompassing endowment asset allocation, investment performance, donations and operating expenditure for a sample of 12 elite private universities – Ivy League and Chicago, Johns Hopkins, MIT and Stanford.

Preliminary results are summarised as follows:

- 1) For the period 1926-2013, the market value of the sample of US endowments has grown by 7.1% annually. For the shorter period 1957-2013 when more detailed donations data is available, the market value in aggregate has grown by 8.1% annually. Of this 8.1%, gifts contributed 2.1%, investment performance 10.9% and spending -4.9%. There is no ex ante evidence that wealthier universities grew faster.
- 2) For the period 1974-2013 when investment performance data is reported to NACUBO/Commonfund (the leading university endowment data aggregator), the endowments produced an average total return of 11.1%, outperforming the S&P500's return of 10.4% and a balanced 60/40 portfolio return of 10.1%. Tests do not reveal any persistence in performance among the highest and lowest performing endowments.
- 3) For the period 1926-2013, initial tests suggest that lower endowment returns is associated with higher changes in asset allocation. This is consistent with the idea that endowment managers are more inclined to make asset allocation changes (“do something”) when returns are poor.
- 4) For the period 1957-2013, initial tests show that current-use donations are not significantly related to local economic conditions and endowment returns. Instead, they respond significantly to endowment shocks (endowment returns scaled by the importance of endowment to expenditure) – current use donations increase when universities are affected by negative endowment shocks. This effect is concentrated in restricted current-use donations rather than unrestricted current-use donations. Capital use donations are not significantly related to local economic conditions, endowment returns nor endowment shocks.

2. Dissemination

A. Please outline any specific plans you have for further publication and/or other means of dissemination of the outcomes and results of the research.

A working paper is currently being drafted in collaboration with Dr David Chambers and Prof Elroy Dimson. Selected results were disseminated at the recent Endowment Asset Management Conference co-organised by the Centre for Endowment Asset Management (CJBS) and Vienna University of Economics and Business.

B. Discuss any potential or actual impacts on policy and practice that your work may have.

Initial results showing that the wealthiest universities did not get wealthier over the very long-run contradicts Thomas Piketty's highly publicised assertion in his book *Capital in the Twenty-First Century* that wealth inequality is exacerbated as the rich get richer and the poorer are worse off. Further, there is a lack of evidence showing persistence in investment performance. The advantage gained by universities' whose endowments exhibit superior investment performance during an initial period is not sustained in the next period.

Endowment managers should be cautious of the temptation to “do something” when returns are poor as the larger asset allocation changes they make following poor returns are not associated with better subsequent returns.

3. Outputs

Please give full details of the outputs which should accompany this report. For each research paper, please, provide:

- a) the title
- b) an abstract
- c) web link where the paper can be downloaded
- d) bibliographical reference in case the paper is accepted for publication
- e) details regarding conferences or seminars where the paper has been presented

For other outputs (such as software, datasets), please, provide a description of the output and a web link through which the output can be downloaded. If a web link is not available then provide an electronic copy with this report. If the grant included arranging conferences, please complete the separate conference form as well.

Working paper is currently being drafted.

4. Major difficulties

Please detail below any major difficulties, scientific or administrative/logistical, encountered during your research and comment on any consequent impact on the project. Further details can be included in section 11 at the end of this report, including any advice you might have for resolving such problems in future projects.

None

5. Other issues and unexpected outcomes

Please describe any outcomes of your research, beneficial or otherwise that were not expected at the outset or other issues which were important to the research, where these are not addressed above. Further details can be included in section 11 at the end of this report.

None

6. Web Links

Please insert here any web links to relevant outputs and web pages.

N/A

7. Mid-of-Award Report

This final section can be used to provide any additional information that may be relevant.

In addition to the project described above, work was also done on another paper (“Keynes, King’s and Endowment Asset Management” co-authored with David Chambers and Elroy Dimson). This paper is in the final stages of publication as a book chapter and will be available in

print by the end of 2014. Please see <http://press.uchicago.edu/ucp/books/book/chicago/H/bo19198130.html> for details. The author biography acknowledges my CERF Postdoctoral Fellowship.