<u>Project summary for “Endowment Investing Over the Very Long Run”</u>

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