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## THE GOVERNANCE OF UNIVERSITY ENDOWMENTS: INSIGHTS FROM A TIAA-CREF INSTITUTE SURVEY

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### ABSTRACT

This paper summarizes a survey of university endowment funds, with a particular focus on the composition of endowment investment committees and how this composition is associated with a number of key activities. In general, we find that the typical investment committee member has financial credentials of some form and has experience as an executive or serving on other boards. We also find that most investment committee members are themselves donors to the university. We document a number of correlations between investment committees' characteristics (such as the number of non-donors on the committee) and key decisions of the committee (such as whether to outsource portfolio selection, or how much risk to take in the portfolio), and discuss some of the possible interpretations of these correlations.



Financial Services

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## INTRODUCTION

Over the past few decades, endowments have played an increasingly important role in supporting the operating budgets of colleges and universities in the United States.<sup>1</sup> Indeed, even after accounting for the recent substantial decline in endowment values due to the financial crisis and the Great Recession, the growth of endowments over the past 25 years has significantly outpaced the growth in university spending, with the result that endowment payouts constitute a larger share of university budgets than at any time in history. Endowments are also important to the broader economy as they are large institutional investors responsible for the allocation of hundreds of billions of dollars in financial assets. Relative to their importance to the economy and to the institutions which they serve, endowments have received little academic attention by researchers. This is particularly surprising given that a large fraction of academic researchers in the U.S. are employed by institutions that are supported, in part, by endowments.

In this paper, we examine one aspect of endowment governance – the composition of the investment committee – and how it is correlated with various decisions that the endowment board makes. Specifically, using a survey conducted by the TIAA-CREF Institute in September 2009, with 287 institutional respondents, we examine the role of investment committee members including alumni, donors, university employees, members having business credentials (e.g., MBA, CPA, etc), and members holding executives or board positions in other organizations.

We document several interesting characteristics of endowment investment committees as well as correlations of the composition of these committees with endowment decisions. Investment committees are comprised largely of donors to the endowment (almost 90% of members), with roughly half of members being alumni of the university. Over half of endowment investment committee members have an academic degree or certification in business including finance and two thirds serve on other boards or have executive experience. University employees constitute about one out of ten members. While endowment size is a very strong predictor of whether an endowment outsources investment decisions (large endowments are much less likely to outsource), the composition of the investment committee also matters. Specifically, committees with more donors as members are more likely to outsource investment decisions. The composition of the investment committee is also correlated with the asset allocation of the endowment - a higher presence of university employees and donors is associated with smaller allocations to alternative assets (e.g., hedge funds, venture capital, private equity, and natural resources), while the presence of committee members with other board or executive experience is associated with greater allocations to alternative assets.

## THE SIZE OF ENDOWMENTS

Endowments consist of both financial and real assets held to generate income for current and future operations of their associated universities (Ehrenberg (2009)). Typically, the size of the endowment reported by a university consists of both “true endowments,” i.e., assets specified by a donor to be held in perpetuity, as well as “quasi-endowments,” i.e., funds the university treats as an endowment but which could be spent should the university decide to do so.<sup>2</sup>

In Table 1, we report the distribution of endowment market values of our survey respondents as of June 2008, as reported by the National Association of College and University Business Officers (NACUBO). In the population of institutions in the NACUBO data, there is enormous variation in the size of endowments, with Harvard University in possession of the largest endowment at nearly \$36.6 billion dollars as of June 2008. As noted in Table 1, the average endowment in our survey has an endowment of just over half a billion dollars, with considerable variation around this average.

From the perspective of how endowments affect university operations, perhaps a more interesting variable is the ratio of the endowment size to the annual expenditures of the institution that the endowment serves. For the median institution in our sample, this ratio is just under one. But because of the long right tail of the distribution, the average is nearly 2. Indeed, there are a number of institutions for which the ratio of endowment to annual costs exceeds 10.

1 Throughout this paper, we will use the term “university” to refer to any institution of higher education supported by an endowment, including colleges.

2 Hansmann (1990) and Dimmock (2010) both use the term “quasi-endowment,” whereas Ehrenberg (2009) uses the term “funds functioning as endowments.”

**TABLE 1**  
**ENDOWMENT FUNDS AND UNIVERSITY BUDGETS**

(\$'s Thousands)

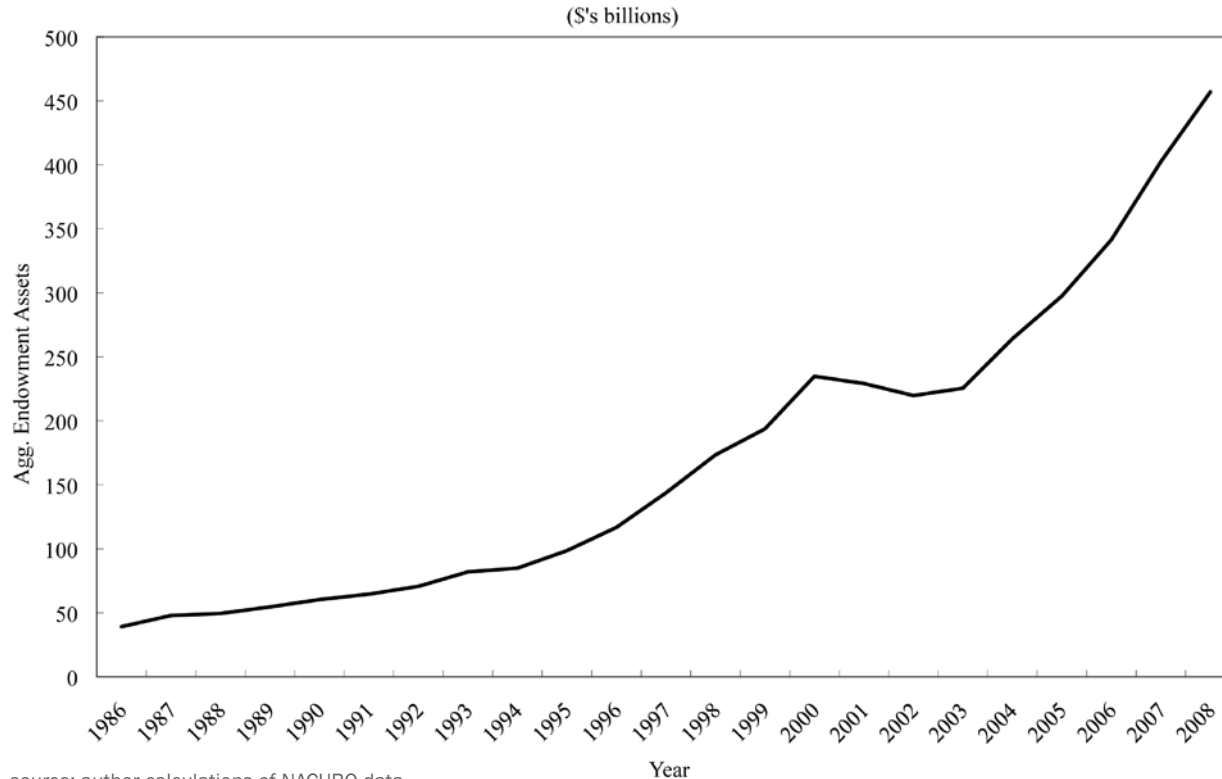
N= 224	Average	25 <sup>th</sup> %	Median	75 <sup>th</sup> %
Total University Costs	\$269,638	\$42,566	\$84,613	\$296,681
Endowment Size	\$545,567	\$40,675	\$89,362	\$231,919
Endowment Size-to-Costs	1.99	0.47	0.96	2.58

Source: author calculations of NACUBO data

The large size of university endowments is a fairly recent phenomenon. As illustrated in Figure 1, the total value of endowments among institutions in the U.S. has experienced tremendous growth over the past two decades, from \$47.9 billion in June 1987 to \$457 billion in June 2008.

During the recent financial crisis and associated recession, endowments lost substantial value. During the 2008-09 academic year, for example, the average endowment lost 18.7% of its value. There is considerable interest in how universities responded to this shock. While we do not yet have the data to answer this question definitively for the most recent recession, Brown et al (2010) document how universities responded to the bear market of 2000-2002 (the bursting of the NASDAQ bubble). Among other findings, the authors report that universities responded by reducing operational spending on, among other categories, faculty and support staff.

**FIGURE 1**  
**AGGREGATE ENDOWMENT ASSETS - 1986 TO 2008**



## THE GOVERNANCE OF ENDOWMENTS

### OVERVIEW

Generally speaking, endowments can take on one of two types of legal structures: they can be part of the university or they can be set up as a foundation that is legally distinct from the university. If the endowment is structured as a part of the university, it has little in the way of separate legal requirements with which to abide. Alternatively, if the endowment is structured as a foundation, then it is required to have a board of directors, and these directors are required to follow basic fiduciary duties. Desai and Yetman (2006) show that there is substantial variation in state legal requirements for foundations. However, these minimum requirements for foundations are low enough in nearly all states that they are generally not believed to be binding for most university endowments. Indeed, while most foundations are required to pay out at least 5% of their endowments each year, university endowments are exempt from this requirement.

Unlike corporate and mutual fund boards whose primary role is monitoring management and employees, endowment boards actively participate in the endowments' decision making. Endowment boards make decisions regarding investment objectives, asset allocation, and the hiring and firing of external asset managers. Members of endowment boards are typically appointed by the college or university that the endowment supports. Unlike most corporate boards, the members of endowment boards (other than university employees) typically do not receive any direct compensation for serving on the board, and thus there is no direct link between endowment performance and compensation. Of course serving on an endowment board provides other benefits (e.g., showing pride for their alma mater, networking, building their human capital, etc.), and to the extent that there are reputational effects linked to endowment performance, board members still have clear incentives to ensure good performance.

### THE COMPOSITION OF ENDOWMENT BOARD INVESTMENT COMMITTEES

In Table 2, we report the distribution of responses to questions about the basic composition of endowment boards, based on survey responses. The average endowment board size is 12.6 members, with just over 8 of these members serving as voting members of the investment committee. Perhaps unsurprisingly, nearly 90% of investment committee members are donors, although we cannot infer from cross-sectional data whether this is because the university asks major donors to join the endowment investment committee or because endowment board members are expected to donate to the endowment upon becoming board members (or both).

On average, about half of the investment committee members are alumni of the institution that the endowment serves. Parents of current students comprise about 15% of endowment board members on average. University employees comprise only 9% of investment committee members, with fewer than half of endowments including any employees on their investment committee.

The typical member of an endowment investment committee appears has some sort of formal business "credential." Specifically, we find that over half of investment committee members hold an MBA, another degree in business or economics, or have a formal designation such as a CPA, CFA, CIMA or CAIA.<sup>3</sup> In addition, two out of every three investment committee members serves on other boards and/or are executives. In short, the typical investment committee appears to be comprised of individuals with substantial experience in business and in board governance. Finally, it is worth noting that members of investment committees are overwhelmingly volunteers, and are not paid for their time.

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<sup>3</sup> Chartered Public Accountant (CPA); Chartered Financial Analyst (CFA), Chartered Institute of Management Accountants (CIMA); or Chartered Alternative Investment Analyst (CAIA)

**TABLE 2**  
**COMPOSITION OF ENDOWMENT FUND INVESTMENT COMMITTEES**

N= 256	Average	25 <sup>th</sup> %	Median	75 <sup>th</sup> %
Total Board Members	12.6	7.0	9.0	13.0
Voting Board Members	8.2	6.0	8.0	10.0
Alumni	4.3	1.0	4.0	6.0
Percent Alumni	48.2%	16.7%	50.0%	80.0%
Parents	1.4	0.0	1.0	2.0
Percent Parents	15.6%	0.0%	10.0%	25.0%
Donors	7.8	5.0	7.0	9.0
Percent Donors	89.7%	100.0%	100.0%	100.0%
University Employees	0.8	0.0	0.0	1.0
Percent University Employees	8.9%	0.0%	0.0%	12.5%
None of the above	0.8	0.0	0.0	0.0
Percent None of the above	9.5%	0.0%	0.0%	0.0%
Members with Formal Credentials (e.g., MBA)	4.6	2.0	4.0	7.0
Percent Members with Formal Credentials	56.5%	33.3%	58.3%	87.5%
Members Holding Executive or Other Board Positions	5.8	4.0	5.5	7.0
Percent Members Holding Executive or Other	67.5%	70.0%	75.0%	100.0%
Percent Members Compensated	1.2%	0.0%	0.0%	0.0%

source: author calculations of TIAA-CREF Endowment Survey

In Table 3, we explore how the composition of endowment boards varies with the characteristics of the educational institution with which endowment is affiliated. Specifically, we run simple OLS (Ordinary Least Squares) regressions of board characteristics against university characteristics.<sup>4</sup> Each column of Table 3 corresponds to a separate regression with a different dependent variable. We consider six dependent variables in all – size of the investment committee, fraction of alumni, fraction of donors, fraction of university employees, fraction having investment credentials, and fraction holding executive or other board positions. We then compute the conditional correlations with a wide range of university characteristics that come from matching the survey responses with data from the Integrated Postsecondary Education System (IPEDS), produced by the U.S. Department of Education.

We find that doctoral institutions tend to have larger investment committee members and a higher fraction of alums, whereas liberal arts colleges tend to have more alumni and a higher share of members who serve as executives or on other boards. There is not much difference in the boards of public versus private institutions, with the exception being that publics are more likely than privates to include a university employee on the investment committee.

4 Standard errors are reported in parentheses.

**TABLE 3**  
**EXPLAINING THE VARIATION IN INVESTMENT COMMITTEE (IC) CHARACTERISTICS**

	ln (# IC members)	Fraction of				
		Alumni	Donors	University Employees	Members with Inv. Creds	Other Boards or Executive
Doctoral Institution	0.15* (0.08)	0.20** (0.08)	-0.02 (0.10)	-0.05 (0.05)	0.06 (0.09)	0.11 (0.10)
Liberal Arts Institution	0.04 (0.11)	0.16** (0.08)	-0.02 (0.10)	-0.01 (0.03)	0.1 (0.09)	0.23** (0.10)
Private Institution	-0.04 (0.07)	-0.09 (0.07)	-0.05 (0.08)	-0.09** (0.04)	0.05 (0.08)	0.03 (0.08)
Freshman SAT/1000	0.80** (0.40)	0.90*** (0.31)	-0.35 (0.46)	0.06 (0.16)	0.40 (0.42)	0.21 (0.44)
Admission Rate	0.30* (0.18)	0.25* (0.15)	0.2 (0.22)	0.02 (0.08)	0.23 (0.19)	0.43* (0.23)
ln(#MBA Grads)	-0.002 (0.01)	-0.01 (0.01)	0.003 (0.01)	0.002 (0.00)	0.03** (0.01)	0.01 (0.01)
ln(#Undergrad Bus Grads)	-0.01 (0.01)	0.02 (0.01)	-0.02 (0.02)	0.002 (0.01)	-0.02 (0.02)	0.01 (0.02)
ln(#Law Grads)	0.01 (0.01)	-0.01 (0.01)	0.01 (0.01)	0.002 (0.01)	0.01 (0.01)	-0.02** (0.01)
Pell Grants / Inst. Costs	0.95 (1.21)	-2.39** (1.20)	-1.67 (2.23)	0.4 (0.71)	0.39 (1.67)	0.61 (1.84)
Rural	-0.06 (0.06)	0.15** (0.06)	0.11* (0.06)	-0.03 (0.03)	0.07 (0.07)	-0.13* (0.07)
Financial Center	-0.002 (0.06)	0.04 (0.06)	-0.02 (0.08)	0.02 (0.03)	0.06 (0.07)	0.11 (0.08)
Adjusted-R <sup>2</sup>	0.089	0.31	0.056	0.075	0.072	0.071
# Observations	196	194	194	194	194	194

\*\*\*, \*\*, \* denote statistical significance at the 1-percent, 5-percent, and 10-percent levels, respectively

Results meant to proxy for a university's selectivity provide mixed results. Higher average SAT scores are associated with larger board sizes and a larger fraction of alumni. On the other hand, a higher admission rate (i.e., a less selective university) is also associated with larger boards and a higher concentration of alumni.

We find that universities with more MBA graduates have a significantly higher fraction of credentialed members of the investment committee. This effect is unsurprising, given that having an MBA is one of the credentials measured. We find no relation with the number of undergraduate business graduates.

We proxy for the wealth of a university's student body by computing the ratio of total Pell Grants given to students at the university to the university's total costs. A larger ratio is an indicator for a large number of students from the lower end of the income and wealth distribution. We find that universities with "poorer" student bodies tend to have fewer alumni on their investment committees.

The "rural" variable is an indicator for whether the university is located outside of a greater metropolitan area of a large city. We find that at such universities, investment committee members are less likely to serve on other organizations boards or to have executive experience.

**HOW INVESTMENT COMMITTEE COMPOSITION INFLUENCES DECISION-MAKING**

The previous section focused on the composition of endowment investment committees. In this section, we focus on what these committees actually do. We begin with a simple tabulation of the frequency of meetings, and then discuss the extent to which these committees outsource key functions of endowment management.

As indicated in Table 4, the typical investment committee meets quarterly. The very limited variation in meeting frequency is generally in the direction of having an additional meeting each year (so that the average is 4.4 meetings per year). More than 86% of investment committees use the services of a consultant, and the median investment committee meets with the consultants quarterly, presumably in conjunction with regular committee meetings.

We observe significant heterogeneity in the extent to which investment committees outsource asset allocation and also in the extent to which they outsource the selection of investment managers. We find that approximately a third of the sample “completely” outsources asset allocation, while another third partially outsource asset allocation. Very similar proportions completely or partially outsource the selection of investment managers.

**TABLE 4  
INVESTMENT COMMITTEE (IC) DECISION MAKING AND PROCEDURES**

N= 256	Average	25 <sup>th</sup> %	Median	75 <sup>th</sup> %
IC Meetings per Year	4.4	4	4	4
Use Consultant	86.4%			
Meetings with Consultant per Year	3.3	0	4	4
Outsource Asset Allocation				
Partially	31.1%			
Completely	35.1%			
Outsource Investment Manager Selection				
Partially	31.1%			
Completely	31.9%			

source: author calculations of TIAA-CREF Endowment Survey

In Table 5, we further explore the outsourcing decision by running a simple ordered logit model<sup>5</sup> in order to determine what investment committee characteristics, if any, are correlated with outsourcing decisions. Two significant correlations appear from this simple exercise. First, larger endowments are less likely to outsource key decisions. This is not surprising if one considers the development of “in-house” expertise as a fixed cost that can be justified only if it can be spread across a sufficiently large asset base.

Second, we find endowments with a high proportion of donors on the investment committee are more likely to outsource activities. There are at least three possible explanations of this correlation. First, it may be that this says more about non-donors than donors. Specifically, it may be that the presence of non-donors on the board is an indication that these individuals were placed on the board precisely because they provide investment expertise that can serve as a substitute for external advisory services. Second, the causality could run the other direction, if, for example, investment committees that already outsource decision-making feel more comfortable inviting large donors onto the board even if those donors do not have investment experience. Third, there could be psychological factors at play. For example, endowments may find outsourcing investment decisions to external managers desirable if internal investment decisions would potentially be affected by donors being overly sensitive to gains and losses to the endowment because it is “their” money at risk.

<sup>5</sup> The excluded category in the ordered logit model is no outsourcing. The dependent variable equals one if the board uses a “combination of outsourcing and in-house”. The dependent variable equals two if the board primarily outsources the decision. Standard errors are reported in parentheses.

**TABLE 5**  
**INVESTMENT COMMITTEE (IC) CHARACTERISTICS AND DECISION OUTSOURCING**

	Outsource Asset Allocation	Outsource Investment Manager Selection
ln(# IC Voting Members)	0.63 (0.41)	0.33 (0.38)
IC Alumni %	-0.04 (0.37)	0.06 (0.35)
IC Donors %	0.88** (0.37)	1.13** (0.45)
IC University Employees %	0.84 (0.64)	0.21 (0.74)
IC Investment Credentials %	-0.23 (0.37)	0.1 (0.35)
IC Other Boards / Executive %	0.59* (0.34)	0.26 (0.33)
ln(Endowment Size / 1,000)	-0.33*** (0.10)	-0.29*** (0.11)
Pseudo-R <sup>2</sup>	0.06	0.06
# Observations	231	231

\*\*\*, \*\*, \* denote statistical significance at the 1-percent, 5-percent, and 10-percent levels, respectively.

## IS THERE A RELATION BETWEEN GOVERNANCE AND PORTFOLIO ALLOCATION?

### PORTFOLIO ALLOCATION OF ENDOWMENTS

In Table 6, we report the asset allocations of the endowments in our sample as of June 2008. We begin in column 1 by reporting the fraction of the endowments that report any positive holdings of that asset class. In column 2, we report the average allocation across all 224 endowments. In the remaining columns, we report the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile of the distribution of allocations. Note that each of asset class distributions is sorted separately when computing these percentiles. Thus, while the asset allocation percentages will add to 100% for the “average” column, they will not add to 100% for the percentiles (indeed, by construction, they will add to less than 100% for the 25<sup>th</sup> percentile, and to more than 100% for the 75<sup>th</sup> percentile).



**TABLE 6**  
**ENDOWMENT FUND PORTFOLIOS**

N= 224	Participate	Average	25 <sup>th</sup> %	Median	75 <sup>th</sup> %
Endowment Fund Size (\$'s thousands)		\$545,567	\$40,675	\$89,362	\$231,919
U.S. Equity (%)	99.6	33.5	22.7	32.6	43.6
Foreign Equity (%)	92.9	15.7	10.8	16.1	20.9
Fixed Income (%)	98.7	21.0	13.4	20.0	27.1
Alternative Assets (%)	85.3	23.3	9.2	20.0	36.6
Hedge Funds	68.3	12.6	0.0	12.0	20.4
Venture Capital	32.1	1.2	0.0	0.0	1.0
Private Equity	57.1	3.7	0.0	1.7	5.4
Natural Resources	50.0	2.3	0.0	0.0	4.0
Cash (%)	83.0	4.4	0.5	2.3	5.9
Other (%)	22.8	2.0	0.0	0.0	0.0

source: author calculations of NACUBO and TIAA-CREF Endowment Survey

Several findings emerge from this simple tabulation. First, equity market participation is nearly universal among endowments. U.S. equity comprises approximately one-third of the average portfolio, and foreign equity is nearly 16%, bringing the total public equity allocation to nearly one-half of assets on average.

Second, only a quarter of the average endowment is allocated to fixed income securities (21%) and cash (4.4%). Thus, the typical endowment portfolio is positioned in a reasonably aggressive region of the risk-return frontier.

Third, more than 85% of endowments invest in alternative assets, although there is substantial variation in the types of alternative assets in which they invest. The largest alternative asset allocation is for hedge funds, with more than two out of three endowments investing in these funds, and with the average allocation accounting for about one out of every eight dollars invested. These holdings are highly skewed, however, with a quarter of all endowments surveyed reporting an allocation to hedge funds in excess of 20% of the portfolio.

Within alternative assets, the second highest allocation is to private equity funds. About 57% of endowments hold private equity, and it accounts, on average for 3.7% of assets. Again, however, these holdings are highly skewed, with a quarter of all funds holding more than 5% of all assets in private equity.

In comparison, holdings of venture capital and natural resources are not very high. However, it should be noted that these small numbers mask a significant trend. In 2003, fewer than 15% of all endowments invested in natural resources. Today, half do.

In Table 7, we report how the fraction of endowments owning each asset class varies by the size of the endowment. Specifically, we divide the 224 endowments in our sample into four quartiles of 56 endowments each. The most striking finding is that the probability of investing in alternative asset classes rises significantly with the size of the endowment. For example, as one moves from the 1<sup>st</sup> (smallest) size quartile to the 3<sup>rd</sup> size quartile, the probability of owning each of the alternative asset classes roughly doubles. Interestingly, the probability of holding cash also increases: this may be due to the need to maintain liquidity to back future capital commitments to private equity or venture capital funds, for example.

**TABLE 7**  
**AVERAGE ASSET ALLOCATION BY ENDOWMENT FUND SIZE QUARTILES**

N= 56 for Each Size Quartile	Smallest	2nd	3 <sup>rd</sup>	Largest
Avg. Endowment Fund Size (\$'s Thousands)	\$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

source: author calculations of NACUBO and TIAA-CREF Endowment Survey

### IS BOARD GOVERNANCE CORRELATED WITH ENDOWMENT PORTFOLIO SHARES?

In Table 8, we explore the extent to which broad asset allocation decisions are correlated with investment committee characteristics.<sup>6</sup> We caution that the reader should not make causal inferences from these correlations, as it is quite possible that decisions regarding the composition of the investment committee could be a function of the types of investments an endowment wishes to make, rather than the reverse. Nonetheless, we view these correlations as an interesting starting point for future research.

There are a number of interesting correlations. First, consistent with Table 7 above, we find that endowment size is correlated with portfolio allocation. Specifically, larger endowments are substantially more likely to invest in alternative asset classes.

Second, we find that having a higher fraction of university employees on the endowment investment committee is strongly associated with lower allocations to risky asset classes. Specifically, having a higher fraction of university employees on the committee is strongly associated with a larger allocation to cash and fixed income, and a smaller allocation to alternative investments, especially hedge funds and private equity.

Third, we find that the larger presence of donors on the investment committee is associated with a smaller allocation to alternative assets. This could be because donors are more cognizant of risk, given it is “their money.” Alternatively, it could also reflect that non-donors are brought onto boards only when they can add significant expertise that is not present in the donor base, such as experience with alternative assets.

Fourth, we find that investment committees with a higher proportion of board members who sit on other boards or who have executive experience have a substantially higher average allocation to alternative assets.

<sup>6</sup> Table 8 reports coefficients from separate Tobit regressions where the dependent variable is the share of the portfolio held in the asset listed in the column header. Standard errors are reported in parentheses.

**TABLE 8**  
**INVESTMENT COMMITTEE (IC) CHARACTERISTICS AND ENDOWMENT PORTFOLIO SHARES**

	Shares of the Portfolio Held in					
	Fixed Income & Cash	Alternative Investments	Hedge Funds	Venture Capital	Private Equity	Natural Resources
ln(# IC Voting Members)	-0.28 (2.24)	0.11 (4.03)	0.74 (3.33)	0.05 (1.67)	-0.26 (1.65)	-1.81 (2.20)
IC Alumni %	1.45 (2.27)	-3.42 (3.01)	-3.69 (3.05)	-0.41 (1.52)	0.52 (1.48)	3.44* (1.80)
IC Donors %	1.04 (2.28)	-6.95** (3.30)	1.3 (2.90)	-0.42 (1.40)	-1.16 (1.43)	-1.76 (2.11)
IC University Employees %	11.57** (5.11)	-20.34*** (5.30)	-12.08** (5.32)	-3.09 (2.51)	-6.72** (2.60)	-1.7 (3.47)
IC Investment Credentials %	0.72 (2.18)	0.54 (2.93)	-2.17 (2.88)	-0.88 (1.27)	0.2 (1.35)	0.1 (1.39)
IC Other Board/Exec. %	-1.65 (1.99)	5.91** (2.72)	5.80** (2.52)	0.05 (1.31)	0.67 (1.13)	1.45 (1.25)
log(Endowment Size/1,000)	-3.47*** (0.54)	9.18*** (0.90)	5.57*** (0.88)	1.88*** (0.43)	3.10*** (0.45)	1.82*** (0.54)
Pseudo-R <sup>2</sup>	0.03	0.07	0.04	0.05	0.09	0.03
# Observations	231	231	231	231	231	231

\*\*\*, \*\*, \* denote statistical significance at the 1-percent, 5-percent, and 10-percent levels, respectively.

### SURVEY RESPONSES ABOUT FUTURE CHANGES IN ENDOWMENT MANAGEMENT

At the time this survey was fielded, endowments were in the midst of turbulent times. As noted earlier, over the 2008-2009 academic year, the average endowment lost 18.7% of its market value. Thus, during our survey we asked respondents what types of changes they were planning to make in the coming years. In this section, we briefly summarize some of these findings.

We begin in Panels A and B of Table 9 by showing summary statistics on responses to whether and how endowments were planning to make changes to the payout rate in their spending policy and/or their asset allocation.

With regard to spending rate, about two-thirds of endowments surveyed had no plans to change their spending rate. However, over 20% of endowments reported that they planned to *decrease* their spending rate, whereas only 5.5% planned an increase. This finding is consistent with research by Brown et al (2010) who document that, in response to negative financial shocks to endowments in the 2000-2002 period, endowments actively manage their payout rates downward. This finding is interesting because it suggests that endowments reduce their spending rates at exactly the time when those additional dollars are presumably most valuable to the university, given the broader economic downturn. This suggests that investment committees place some value on preserving the size of the endowment even when doing so imposes additional budgetary pressure on the universities that they serve.

Similarly about two-thirds of endowments expected no change in their investment allocation. Of the remaining one-third, about half responded “don’t know.” In Panel C, we report the changes that they expect to make. Perhaps the most interesting finding to come out of these responses is that nearly 9% of endowments expect to change their portfolio in the direction of *increasing* their allocation to alternative investments.

**TABLE 9**  
**SUMMARY STATISTICS OF PLANNED CHANGES IN SPENDING RATES AND ASSET ALLOCATIONS**

<i>Panel A: Change Spending Rate in Payout Policy</i>				
N= 235	Increase	Decrease	No Change	Don't Know
Expect Change Spending Rate	5.5%	20.9%	65.5%	8.1%

<i>Panel B: Make Material Changes to Asset Allocation</i>			
N= 235	Yes	No	Don't Know
Expect Change Asset Allocation	17.5%	65.1%	17.5%

<i>Panel C: Intended Change to Asset Allocation</i>			
N= 235	Increase	Decrease	No Change
Equity	3.4%	6.4%	90.2%
Fixed Income	3.8%	3.8%	92.3%
Alternative Assets	8.9%	1.3%	89.8%

source: author calculations of TIAA-CREF Institute Endowment Survey

In Table 10, we analyze how the expectations about changes to payouts and asset allocation are related to the characteristics of the investment committee.<sup>7</sup> We find that having a larger investment committee is associated with being more likely to plan to change payout rates. We find that endowments that have a higher fraction of board members with other executive/board experience are more likely to make changes to their payout rates, but that these changes are equally likely to be increases or decreases in payouts. The only other finding of significance is that larger endowments are less likely to change the payout rate.

**TABLE 10**  
**PLANNED CHANGES IN SPENDING RATES AND ASSET ALLOCATIONS**

	Change Payouts	Increase Payouts	Decrease Payouts	Change Asset Alloc.	Increase Alt Assets
ln(# IC Voting Members)	1.82*** (0.65)	2.12 (1.35)	1.41** (0.62)	0.48 (0.57)	0.35 (0.76)
IC Alumni %	0.32 (0.51)	1.16 (1.11)	0.05 (0.54)	0.45 (0.51)	0.6 (0.73)
IC Donors %	-0.51 (0.52)	0.5 (0.85)	-0.62 (0.55)	0.04 (0.48)	0.1 (0.71)
IC University Employees %	0.17 (1.39)	2.64 (2.13)	-0.92 (1.67)	0.16 (1.02)	0.73 (1.36)
IC Investment Credential %	-0.53 (0.52)	0.17 (0.89)	-0.66 (0.56)	0.17 (0.50)	0.19 (0.71)
IC Other Board/Executive %	1.72*** (0.44)	1.46** (0.72)	1.58*** (0.48)	0 (0.43)	0.42 (0.60)
Log(Endowment Size/1,000)	-0.38** (0.16)	-0.36 (0.31)	-0.33** (0.17)	0.13 (0.13)	0.22 (0.18)
Pseudo-R <sup>2</sup>	0.11	0.13	0.08	0.02	0.04
# Observations	231	231	231	231	231

\*\*\*, \*\*, \* denote statistical significance at the 1-percent, 5-percent, and 10-percent levels, respectively.

<sup>7</sup> Table 10 shows the results of logit regressions. The dependent variable is one for universities that plan to make changes to spending rates or asset allocation, and zero otherwise. Standard errors are reported in parentheses.

## **SUMMARY**

Endowments are important players in our economy: the assets held represent a significant source of financial capital, and the spending from college and university endowments is used to support the creation of human capital. Yet there is little research on how these important institutions are governed. This paper provides an initial exploratory look at the characteristics of endowment fund investment committees and how these characteristics are correlated with broad decisions about the outsourcing of endowment management, portfolio allocation decisions, and payout decisions.

We document important differences in key decisions across endowments based on the composition of the investment committee such as the fraction of university employees, the fraction of alumni, the fraction of donors, the extent to which investment committee members have business or investment credentials, as well as the extent of their experience serving as executives or on other corporate boards. While we stress that these results are exploratory in the important sense that we stop short of drawing causal inferences, we believe that many of these correlations are sufficiently interesting and significant to warrant future research.

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