



CORE|DATA
research

University Endowments

Graduating from Covid-19

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BACKGROUND

Endowments, with an estimated market size of \$630 billion, represent a potentially lucrative source of growth for asset managers. Using data from NACUBO's 2019 Study of Endowments and other secondary sources, this paper examines the challenges facing endowments and the opportunity set presented to asset managers that can provide solutions to these challenges.

While endowments face similar challenges to other institutional investors, such as volatility and low interest rates, they also need to overcome a more specific set of hurdles. For instance, they must maintain certain levels of liquidity for the institutions they support while also seeking to last in perpetuity.

Meanwhile, the Covid-19 pandemic has introduced new challenges and uncertainties such as how long universities will remain closed and how this will impact endowment spending. The pandemic presents a greater challenge for smaller endowments compared to their bigger counterparts which have demonstrated their resilience during past recessions.

Elsewhere, the struggle to find yield in the low interest rate environment is seeing endowments of all sizes reallocate to risk assets. But smaller endowments unable to take on as much leverage as their larger peers are constrained in their ability to eke out higher returns from alternatives. The pressures facing smaller endowments are compounded by the fact they have increased spending over the last decade, while larger endowments have either reduced spending or kept it level.

Asset managers can help endowments navigate these challenges. In particular, they can help smaller endowments access diversifying alternatives and sustainable investments that align with the values of university communities. But to win their business asset managers will need to articulate the benefits of partnering with them through targeted sales and marketing initiatives.

FIVE KEY TAKEAWAYS

1

The struggle to find yield in the low rate environment is seeing endowments reallocate to risk assets as they look to generate higher returns to keep pace with university spending. But endowment funds taking on more risk during the Covid-19 crisis face a difficult balancing act in terms of generating returns, managing volatility and providing liquidity for their institutions.

2

Investing in alternative assets has fueled the growth of the top endowments. However, endowments looking to double down on alternatives amid the Covid-19 crisis should take a cautionary look at Harvard, whose bets during the 2008 financial crisis failed to pay off. Investing in illiquid assets represents a high-risk strategy which could ultimately undermine the ability of endowments to provide funding to institutions.

3

Universities are increasingly relying on endowments to fund their operations. Endowments consequently face a tug of war between maintaining their long-term investment principles and providing universities with funds to cover current expenses. The reliance on endowment funding has been exacerbated by the impact of Covid-19 on university revenues.

4

Asset allocation decisions are the primary reason that larger endowments outperform their smaller peers. This provides an opportunity for external asset managers to partner with smaller endowments to develop both tactical and strategic asset allocation strategies. The ability to provide niche product offerings will also help managers win new business. The endowment sector represents a lucrative and long-term business opportunity for asset managers who have seen their margins squeezed amid fee compression and the rise of passives.

5

The largest endowments tend to make the highest returns. These funds have steadily increased their exposure to equities and alternatives, while smaller endowments still have a comparatively large share of assets in fixed income. But chasing higher returns in the equity markets exposes endowments to volatility swings — particularly in times of crisis.

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About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

CoreData Group has operations in Australia, the United Kingdom, the United States of America, Colombia, Sweden, Malta, Singapore, South Africa and the Philippines. The group's expansion means CoreData Research has the capabilities and expertise to conduct syndicated and bespoke research projects on six different continents, while still maintaining the high level of technical insight and professionalism our repeat clients demand.

With a primary focus on financial services CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

The team is a complimentary blend of experienced financial services, research, marketing and media professionals, who together combine their years of industry experience with primary research to bring perspective to existing market conditions and evolving trends.

CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.



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