



Nasdaq for Asset Owners

CIO Quarterly:

U.S. University Endowment Returns and Performance Drivers

Q4 2024



Introduction

As a continuation of the [Q3 2024 Asset Owner CIO Quarterly](#) which focused on U.S. public pension funds' asset allocations and comparative portfolios returns, the Q4 2024 Asset Owner CIO Quarterly examines performance and asset allocations amongst U.S. university endowments, and discusses the possible drivers of returns. Whether it be market and macro dynamics (e.g., market volatility, central bank and fiscal policies), increased educational and operational expenses which can strain distributions, and/or changing preferences on how donor contributions are utilized, university endowments face a variety of pressures. With the average cost of tuition and fees at public 4-year universities having risen by 141% and at private 4-year universities by 181.3% over the last 20 years, accompanying greater competition in attracting students and thereby higher staff and operating expenses, endowments only become more critical in mitigating the impact of these higher costs for students¹. Consequently, effective management and strategic allocation of endowment funds play a critical role in aiding universities in addressing the challenge of rising tuition and other costs.

About the data in this report:

The data in this report is sourced from Nasdaq eVestment Market Lens Wide Angle (MLWA) and our latest solution, Nasdaq eVestment Peer Benchmarking. MLWA is a one-stop-shop for institutional investment intelligence, surfacing over 600,000 manager-consultant-investor relationships as of Q4 2024. Peer Benchmarking is the only asset owner benchmarking solution offering transparent performance and asset allocation data for over 20,000 institutional investors and plans.

¹ Education Data Initiative

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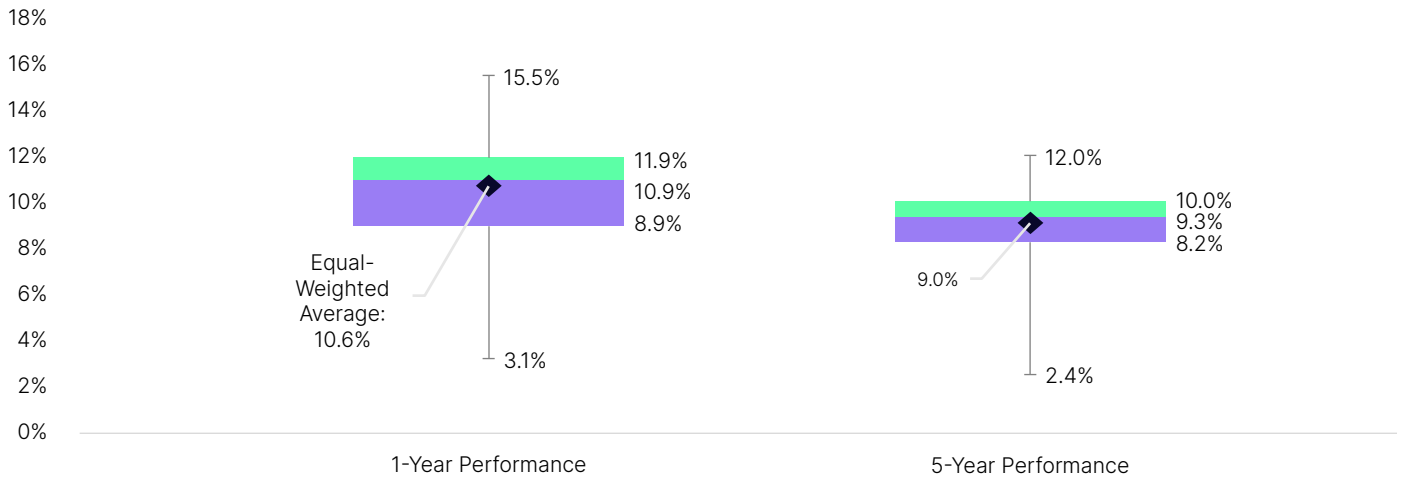
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U.S. University Endowment Performance

U.S. public equities finished with another strong year in 2024 as the Nasdaq-100® (NDX®) was higher by 25% following a return of nearly 54% in 2023—its best two-year stretch since 1998 and 1999. These elevated returns were also reflected in the total portfolio performance disclosed by 61 U.S. university endowments as the 1-year equal-weighted average was 10.6% while the 5-year average annualized return was 9.0% net of fees as of Q2 2024 (the most recent fiscal year end for most endowments and therefore the most complete performance data across this universe)

Figure 1: 1- and 5-Year Performance Returns Across 61 U.S. University Endowments

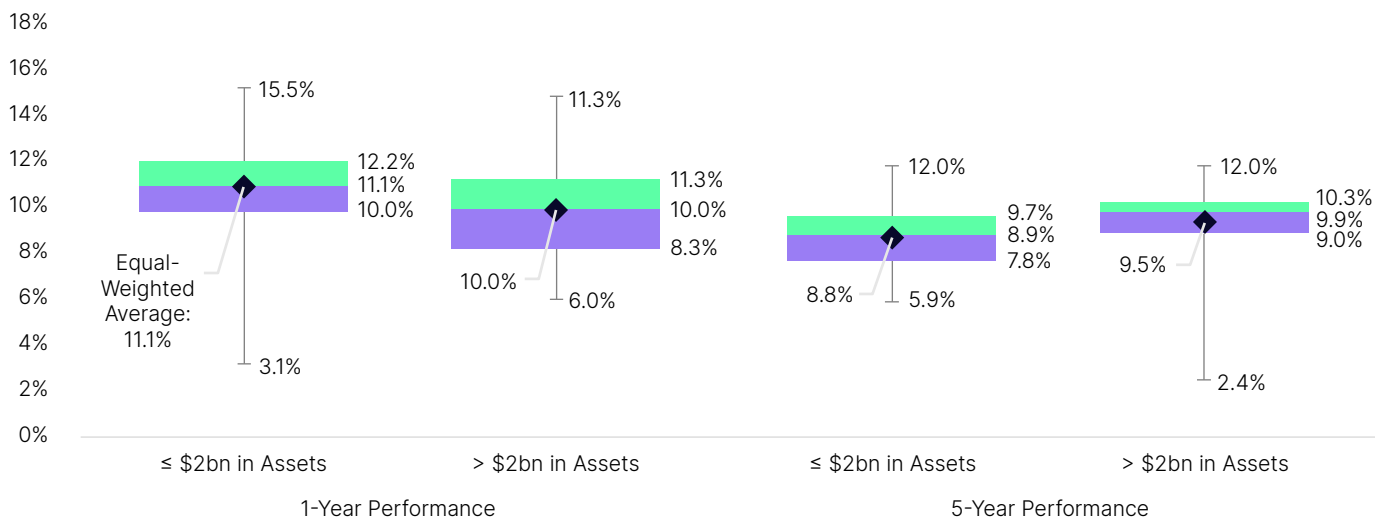


Source: Nasdaq eVestment Peer Benchmarking

Perhaps driven by a relatively larger exposure to public equities (more on plans' asset allocations further below), on average, smaller plans (\leq \$2 billion) outperformed larger plans ($>$ \$2 billion) on a 1-year basis by 1.1% with an equal-weighted average return of 11.1% (see Figure 2). While there is a notably broader dispersion of results amongst the smaller plans, this is driven by one extreme outlier. Drilling into the performance returns, smaller funds exhibited a very strong distribution of results with a 75th percentile return of 12.2%. Conversely, larger plans outperformed smaller plans by 0.70% with a 5-year equal-weighted average annualized return of 9.5%. This could possibly be attributed to a broader diversification of asset classes such as private markets and alternatives which tend to be longer duration assets. Both larger and smaller plans are exhibiting impressive performance at the top-end of the 5-year performance return distributions with 75th percentile annualized returns of 10.3% and 9.7%, respectively.



Figure 2: 1- and 5-Year Performance Returns Across 61 U.S. University Endowments, by AUM

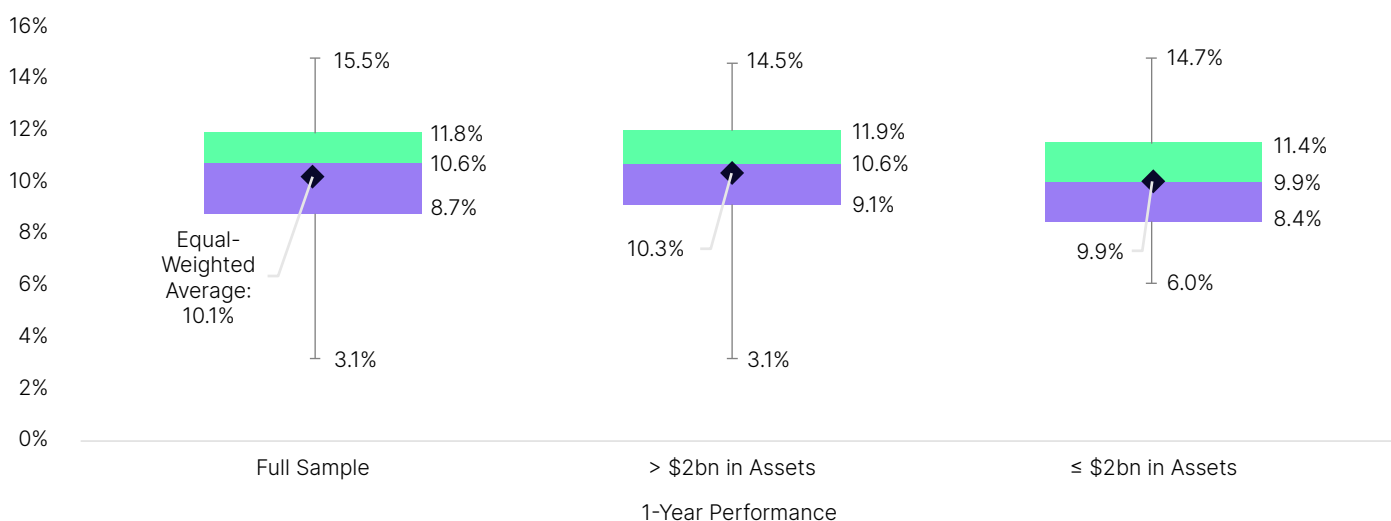


Source: Nasdaq eVestment Peer Benchmarking

Asset Allocation Trends Amongst U.S. University Endowments

While difficult to ascertain the exact drivers of returns amongst small and large endowment funds based on respective asset allocations, we can hypothesize. As mentioned earlier, returns across endowments with ≤\$2 billion in AUM were stronger on a 1-year basis. When examining the results of those endowments which have reported 1-year performance and their asset allocation mix as of Q2 2024 (full sample size of 35 funds), this outperformance on an equal-weighted average basis persists amongst smaller endowments—though by not as wide of a margin (0.40%; Figure 3).

Figure 3: 1-Year Performance Returns Across U.S. University Endowments With Disclosed Asset Allocations, by AUM



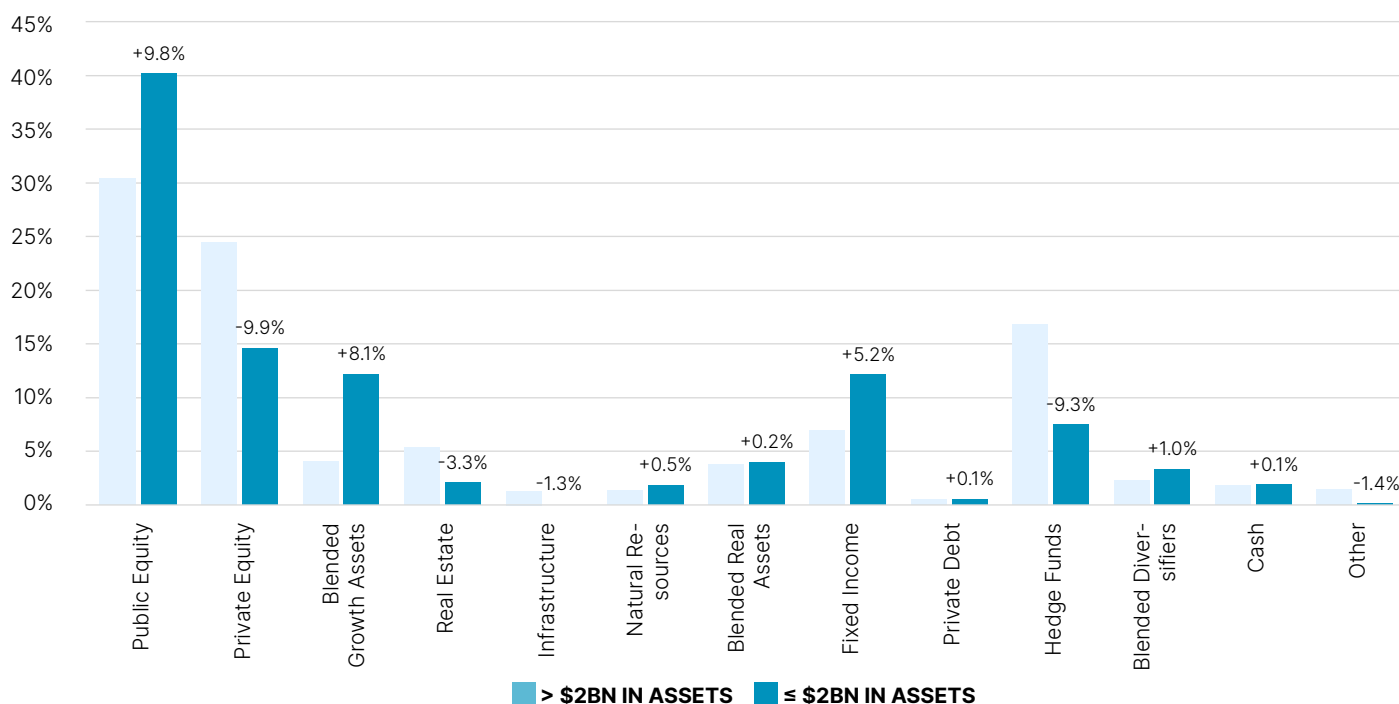
Source: Nasdaq eVestment Peer Benchmarking

Augmenting performance results with available asset allocation for those endowments which have disclosed 1-year performance and asset allocations as of Q2 2024 (Figure 4), we can attempt to triangulate the drivers of returns based on their asset-weighted allocations:



- Smaller endowments have 40.2% allocated to public equities—or, 9.8% more relative to larger endowments. This asset class is more appealing to smaller funds who may have more limited investment and research resources, and tend to be more fee conscious when expressing investment strategies. Consequently, the strong return in public equities over the past two years has likely been a tailwind for performance amongst this smaller cohort—similar to the analysis of smaller U.S. public pension funds in last quarter's report.
- Contrarily—similar to the allocation trends amongst larger U.S. public pension funds—larger endowments have notably higher exposures to private equity at 24.4%, and greater allocations to real estate (5.3%) and infrastructure (1.3%). As cited earlier, favorable returns from the likes of private equity can take longer to harvest while real estate and infrastructure allocations could have provided hedges for investors as inflation reached 40-year highs by mid-2022. Consequently, these private equity and real assets allocations may have beneficially impacted the longer-term 5-year returns discussed earlier amongst larger endowments.
- However, there is a nuance in terms of “Blended Growth Assets” to which smaller endowments have a +8.1% greater allocation. This category is for asset allocation disclosures which are not granular enough to attribute to one asset class—for example, there are instances of “Private Alternatives” in this grouping which is likely to predominantly consist of private equity exposure. Consequently, while it is likely that larger endowments have a greater allocation to private markets and alternatives relative to their smaller contemporaries, the gap may not be as extreme due to their more limited disclosure, and our classification, of investment strategies.
- One final observation regarding asset allocation bifurcations amongst small and large endowments are exposures to hedge fund and fixed income strategies. Smaller endowments, relatively to their larger contemporaries, have lower allocations to hedge funds and higher allocations to fixed income strategies with gross portfolio exposure differences of -9.3% and +5.2%, respectively. A possible read through is that the larger endowments are exposed to fixed income and macro strategies to capitalize on still elevated interest rate volatility, but via hedge fund investments given their greater staff resources to diligence these investments and their ability to withstand higher fees given their size. Exposure to non-traditional factors, such as merger arbitrage or trend following, may also be the impetus for these allocations. The accuracy of these statements require examining individual portfolio implementations, which requires delving into each endowment’s exposure strategy-by-strategy.

Figure 4: Delta in Asset Allocations Between Small and Larger U.S. University Endowments

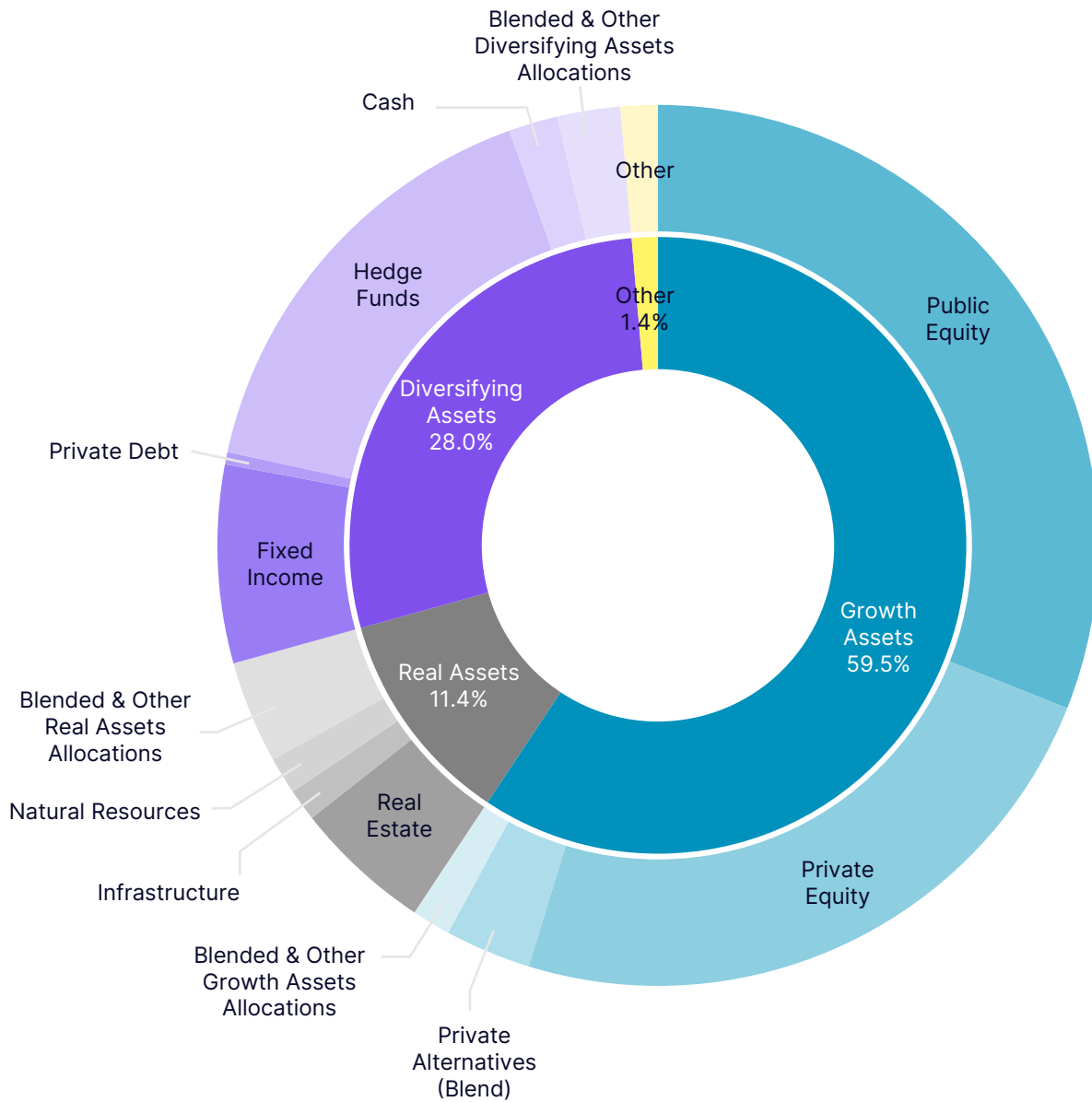


Source: Nasdaq eVestment Peer Benchmarking



For a holistic view of those 35 large and small university endowments which have disclosed 1-year performance returns and asset allocations as of Q2 2024 (available at the time of writing), Figure 5 illustrates top-level allocations on an asset-weighted basis.

Figure 5: Asset-Weighted Asset Allocation Mix as of Q2 2024



Source: Nasdaq eVestment Peer Benchmarking



Conclusion

This analysis of a subset of U.S. university endowment funds provides a look at performance trends amongst larger and smaller cohorts, as well as insights into asset allocation mixes and differences therein. While there are admittedly some assumptions being made as it pertains to returns and possible asset allocation drivers (e.g., smaller endowments performing better on a 1-year basis given their higher public equity exposures), it is possible to hypothesize about these drivers of performance when layering asset allocation on top of returns. Transparency in this regard is key for endowment professionals, and other asset owners, as attempts to compare performance within its broader context will prove more meaningful than without.

As institutional investors continue to adapt to evolving market dynamics, it is crucial to leverage tools like Nasdaq eVestment Peer Benchmarking and Market Lens to gain insights into asset allocation trends, performance metrics, and manager selection. By arming themselves with transparent peer data, investors can make informed decisions that align with their strategic objectives and enhance their long-term investment performance.





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