FUNDfire
A Financial Times Service

Endowments and Foundations Look Set for 'Crazy' Returns Bonanza

By Justin Mitchell

August 16, 2021

The 2020-2021 fiscal year is shaping up to be the best year in memory for U.S. endowments and foundations, according to preliminary data and sources within the industry.

The early results are a stark turnaround from the prior year that absorbed much of the impact of the Covid-19-fueled volatility.

"It's going to be crazy," said **Brad Alford**, founder of search firm **Alpha Capital Management**, which also maintains peer universes for endowments and foundations. "There's never been a year like this in history."

The currently available numbers are preliminary, and don't include private equity, which lags a quarter, but they still tell quite the story.

As of June 30, U.S. endowments overall had a one-year return of 27.19%, gross of fees, according to the Wilshire Trust Universe Comparison Service. The results are up from 3.2%, gross of fees, at the end of the same period in 2020. Large endowments, those over $500 million, did even better, returning 34%.

While Cambridge Associates does not have final numbers, the median return for endowments right now is tracking in the "low to mid-30s," net of fees, the firm told FundFire.

As for foundations, a recent report prepared by Crewcial Partners for the Finance, Administration & Operations Group on community foundations showed strong returns too, with over 100 participants reporting a 32.4% one-year return as of June 30, net of fees. Community foundations returned 0.8% net over the one-year period ending June 30, 2020.

This is a remarkable turnaround. The end of the 2019-2020 fiscal year saw some of the worst returns on record for endowments since the 2008 global financial crisis, as reported.

An annual study from the National Association of College and University Business Officers found average endowment returns of 1.8% last year, net of fees, the lowest since 2016. These institutions have also faced intense financial pressure during the coronavirus pandemic, as reported.

Sources said the turnaround was predictable given the strong public equity market returns over the last year, with the added bonus of higher allocations to private equity in many endowment portfolios, which have also performed well.

“Endowments definitely are more equity forward in their portfolio than other types of investors,” said **Kristin Reynolds**, partner and leader of the endowments and foundations practice at NEPC. Her firm’s preliminary median number for endowments was in the high 20s, net of fees.

Mercer partner **Texas Hemmaplardh**, co-lead of the consultant’s endowment practice, said his firm’s preliminary median number for endowments and foundations was about 27%, net of fees. Mercer recorded heavy dispersion between larger and smaller institutions, however, especially larger ones with heavy investments in venture capital.

“It’s been venture that’s been pushing a lot of the astronomical returns that we’ve seen so far,” he said.

A big part of the improvement has to do with where the fiscal year picked up, said **Kane Brenan**, CEO of TIFF Investment Management, an outsourced CIO that works with nonprofit organizations. It was right on the heels of the disruption that rocked the markets in the first part of 2020, meaning there was a lot of room for upward growth.

But, he also said the results are an endorsement of the so-called “endowment model,” an investment approach he defined as being comprised of significant growth assets, maintaining or seeking active returns, and seeking alternative investments.

“The last fiscal year, all three of those attributes paid off in spades,” he said. “The endowment model weathered this storm particularly well.”

This came after a period where returns for endowments were looking weak. Now, the pressure might be on to show positive performance.

“If you aren’t up high thirties to low forties, then you may have some disappointed endowment clients,” Alford said.

Reynolds said most of her clients have their eyes on their commitments from about 2015 to 2017, which are starting to pay off now.

“That’s really when people started to increase their commitment pacing as well, so I think people are patient and certainly giving private equity some time,” she said.

Brenan suggested some institutions may begin thinking about putting more into private markets due to the low returns on bonds.

“If at any time you need active returns, it’s now,” he said.

Hemmaplardh said those kinds of conversations were part of the business, but that it was difficult to change course on a private investment program due to the long timeline and illiquid nature of those investments. Plus, it is important keeping a steady course through ups and downs as opposed to chasing the highest returns possible.

“Going forward, the successes are going to be [with] those that remained disciplined, and success has to be [judged on] how is the portfolio performing for the institution and supporting the institution,” he said. “I think that’s going to be psychologically a challenge for everyone.”

Contact the reporter on this story at jmitchell@fundfire.com or 212-390-7315.