

# Top Endowment & Foundation Returns Tower over FY'21 Laggards

By **Justin Mitchell**

September 15, 2021

Endowments and foundations boasted some of the best one-year returns ever in the last fiscal year, according to early data. But the wide disparity between the best and worst performers reveals how different institutions' investment decisions can impact their relative positions.

"The one-year dispersion seems unusually wide this year," said Texas Hemmaplardh, a partner with Mercer who co-leads the consultant's endowments practice. "There are reasons for the high side and reasons for the low side really having to do with what the response was after the Covid crisis."

Across 399 institutions that use outsourced chief investment officers, or OCIOs, the one-year median return was 28.8% during the most recent fiscal year, according to data from Alpha Capital Management, an investment consultant search firm that maintains peer universes for endowments and foundations.

But, the institutions in the top-performing percentile generated a 35.66% return net of fees, roughly double that of the lowest percentile, which returned 17.72%.

That roughly 18% spread is 10 percentage points higher than the year before, where top-percentile returns were 6.12% and bottom-percentile returns -1.91%, for a spread of 8.03%.

The wider spread is also apparent when looking at top and bottom quartiles as opposed to percentiles. Alpha Capital's data shows a 5.02% spread between the top and bottom quartiles this year, compared to 4.15% the year before.

This is in contrast to the 3.4% average spread between top and bottom quartiles since 2003, Hemmaplardh said, citing figures from the annual National Association of College and University Business Officers reports, which are also net of fees. The report for the most recent fiscal year has not yet been released. The most recent report -- for year 2020 - - included 705 institutions and covers only university endowments.

The dispersion has to do with which institutions chose to maintain or increase their exposure to equities in general and alternatives, consultants told FundFire.

“Those who shortened duration, who trimmed fixed income, [and] stayed in risky assets did well, but those who didn’t, didn’t do as well,” said Heather Myers, a partner and leader of nonprofit solutions at Aon. “Overall, equities really screamed relative to other areas.”

On the high side, larger institutions that already had larger allocations to venture capital and private investments, as well as those that rebalanced or even added to their equity exposure, drove performance Hemmaplardh said.

Some institutions struggled with the market volatility as it created enormous pressure on their operations, Hemmaplardh said. The state of their balance sheets during the chaos ultimately drove investment decisions, he added.

“It’s easy to say.... one way or the other was right, or wrong, but... ‘was there the right investment strategy to support the institution and what the institution needed at the time?’” Hemmaplardh said. “That has to be an ongoing decision for every investor.”

Larger foundations and endowments, especially university endowments, tend to have larger allocations to private investments and think more long-term, which is necessary for success in long-term asset classes like private equity or venture capital, Hemmaplardh noted.

“A lot has to do with your ability to pick great managers and stick with it,” said Myers.

Still, private equity returns are generally reported on at least a one-quarter lag, so final numbers are not yet in. **Brad Alford**, the founder of Alpha Capital Management, said some institutions might have questions, should their private portfolios not perform as well as their peers.

“Private equity is where the most consultants and OCIOs think... you can add alpha,” he said. “Given that spread, it shows something’s going on.”

Myers and Hemmaplardh both maintain such discussions are always happening at foundations and endowments. The bigger question is whether or not private investments are providing a premium over the public markets, which he called the “reason for being,” Hemmaplardh said.

Other illiquid asset classes can be harder to predict, he added.

“The typical venture capital portfolio has some strikeouts, a bunch of singles and doubles, and a few home runs,” Hemmaplardh said. “I think everyone who invests in venture realizes that sometimes some investors get lucky with allocating to a particular fund or a particular sector that has a home run.”

*Contact the reporter on this story at [jmitchell@fundfire.com](mailto:jmitchell@fundfire.com) or 212-390-7315.*