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III. Appendix
I. Overview and Key Takeaways
The annual NACUBO-TIAA Study of Endowments (NTSE) provides comprehensive information regarding the financial, investment, governance status and trends of US higher-education endowments.

The twelfth annual NTSE report represents information and data from 705 US higher-education institutions with endowment assets of $637.7 billion for fiscal year 2020 (July 1, 2019 – June 30, 2020).

The report is particularly meaningful due to the high number of repeat survey respondents, with 97% of 2020 NTSE participants taking part in last year’s NTSE. This is the largest repeat participation rate.

Key Takeaways

Returns
- The average net return for all reporting institutions in FY 2020 was 1.8%, significantly lower than the 5.3% return achieved in FY 2019 (all returns are reported net of fees).
- This decrease reflects the fact that few major areas of the investible universe were immune to the steep drawdowns during the early stages of the pandemic and that most markets had not fully recovered by the time the fiscal year ended on June 30.

Investment Objectives
- Long-term return objectives were up slightly from 7.0% in FY 2019 to 7.1% in FY 2020.

Asset Allocation
- In FY 2020, there was little change in the asset allocations for the NTSE participants compared to FY 2019.

Spending
- Effective spending rates for participants averaged 4.59% in FY 2020, up from FY 2019’s 4.36%.

Outsourcing
- In FY 2020, 41% of endowments reported using an outsourced chief investment officer (OCIO), up from 34% in FY 2010.

Environmental, Social and Governance (ESG)
- The COVID-19 pandemic and waves of social unrest expanded the ESG focus from environmental factors to social and governance factors during FY 2020.
- While endowments reported marginally increasing stakeholder interest in responsible investing issues in FY 2020, very few reported changes to their responsible investing practices as a direct result of COVID-19. It is likely that the impacts of these events were yet to be fully realized as of the end of FY 2020.

II. Summary and Analysis of Themes
A. Returns and Investment Objectives
Average Investment Return in FY 2020 was 1.8%

The average net return for all reporting institutions in FY 2020 was 1.8%, significantly lower than the 5.3% return achieved in FY 2019.

The largest endowments (those with more than $1 billion in assets) were the highest-performing cohort in FY 2020, with an average return of 2.51%. The smallest cohort (endowments with less than $25 million) was the second-best performer, just five basis points behind the $1 billion-plus funds.

1 Net of all management fees and expenses.
US Public Equities Outperformed Private Assets in FY 2020

- U.S equities and investment grade active were the best performing asset classes in FY 2020.
- The primary detractor of performance in FY 2020 was having allocations to marketable real assets.

Long-term Return Trends

- Long-term endowment returns suggest the era of lower returns have arrived as evidenced by Endowments’ one-year returns being significantly lower than their five and ten-year annualized returns.
- Longer performance periods are more reflective of endowments’ positioning whereas shorter performance periods are susceptible to noise.

10-Year Returns and Target Objectives Better Align in FY2020

- 7.0-7.5% has long been the standard target return for most endowments. The target is comprised of spending requirements, inflation expectations, and fees.
- The expectation of a muted return environment going forward may explain the long-term trend of decline in the return target.

B. Asset Allocation and Implementation
In FY 2020, there was little change in the asset allocations for the NTSE participants compared to FY 2019.

Our Moderate and Aggressive allocation to non-Investment Strategy Group’s (ISG) Moderate and Aggressive model portfolios have a lower allocation to marketable alternative strategies (i.e. hedge funds) compared to the $25 million+ cohorts. However, ISG’s marketable alternative strategies (i.e. private assets) is in-line with the $250 million – $1 billion cohorts.

Larger endowments tend to have lower exposure to US equities and fixed income and larger allocations to non-US equities, private equity, venture capital, real assets and marketable alternatives.

1 Data is dollar-weighted for NACUBO asset allocation information. Due to rounding, details may not sum to 100%. Investment Strategy Group (ISG) model portfolios are as of June 2020 and shown for illustrative purposes only. Source: 2020 NACUBO-TIAA Study of Endowments, as of June 30, 2020.
Target and range based rebalancing is the most popular rebalancing methodology followed by both calendar and market value based rebalancing.

Interestingly, cohort size does not seem to have an effect on rebalancing methodology.
C. Spending
The average annual effective spending rate for total institutions was 4.59% in FY 2020, up from FY 2019’s 4.36%.

Endowments fell short of their goals to earn investment returns that exceed spend plus inflation. The average investment return net of fees was just 1.82%, lower than even the inflation rate of 1.90% (based on the Commonfund Higher Education Price Index).

With spending rates plus inflation approaching 7.0%, institutions will need to be especially thoughtful about their strategic and tactical positioning.

The percentage of operating costs that are funded by endowment portfolios increased to 12.3% in FY 2020 from 11.9% in FY 2019. While the average percentage of the operating budget funded by endowments is 12.3%, there is significant dispersion among reporting institutions.

Similar to previous years, larger institutions funded a higher percentage of operating costs with endowment assets than smaller institutions.

D. Governance
Demand for Outsourcing Investment Management Continues

- We continue to see increased adoption of the OCIO model with 41% of endowments reported using an outsourced chief investment officer (OCIO) in FY2020, up from 34% in FY 2010.
- Endowments at either end of the size spectrum are less likely to adopt. At the $500mm and above segment, endowment likely have enough internal resources. At the $25mm and below segment, OCIO trends are driven more by supply and demand. Asset managers are less likely to offer OCIO services at this level and endowments are less likely to be able to afford them as well.

Responsible Investing Practices Continue to Evolve

While the majority of endowments continue to remain in the early stages of implementing responsible investing, most have begun to take some steps towards incorporating responsible investing, primarily in their Investment Policy Statements.

With respect to investment manager due diligence and evaluation, a large number of respondents reported incorporating responsible investing into their decision making, however this practice was particularly high for the largest endowments (60-70%).

In the case where endowments are incorporating responsible investing criteria into their portfolio, 19% do so in US equities and 16% in global equities.

III. Appendix
Important Information

Thank you for reviewing this presentation. Please review the important information below.

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- **Fixed Income.** Fixed income securities investments are subject to the risks associated with debt securities generally, including credit/default, liquidity and interest rate risk. Any guarantee on an investment grade bond of a given country applies only if held to maturity.

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- **Money Market Funds.** Money market fund investments are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money.
Important Information

- **Non-US Securities.** Non-US securities investments involve the risk of loss as a result of a range of factors, including less developed financial markets, less information availability, less established legal and regulatory systems, and greater political risk. In addition, the laws of non-US jurisdictions may be subject to change, which may affect the value of an investment. Non-US securities investments may also be denominated in foreign currencies, which may affect their value due to currency fluctuations.

- **Options.** Options involve risk and are not suitable for all investors. The purchase of options can result in the loss of an entire investment and the risk of uncovered options is potentially unlimited. You must read and understand the current Options Disclosure Document before entering into any options transactions. The booklet entitled Characteristics and Risk of Standardized Options can be obtained from your PWM team or at [http://www.theccc.com/about/publications/character-risks.jsp](http://www.theccc.com/about/publications/character-risks.jsp). A secondary market may not be available for all options. Transaction costs may be significant.

- **Real Estate.** Real estate investments involve additional risks not typically associated with other asset classes, such as sensitivities to temporary or permanent reductions in property values for the geographic region(s) represented. Real estate investments (both through public and private markets) are also subject to changes in broader macroeconomic conditions, such as interest rates.

- **Structured Investments.** Structured investments are complex, involve risk and are not suitable for all investors. Investors in structured investments assume the credit risk of the issuer or guarantor. If the issuer or guarantor defaults, you may lose your entire investment, even if you hold the product to maturity. Structured investments often perform differently from the asset(s) they reference. Credit ratings may pertain to the credit rating of the issuer and are not indicative of the market risk associated with the structured investment or the reference asset. Each structured investment is different, and for each investment you should consider 1) the possibility that at expiration you may be forced to own the reference asset at a depressed price; 2) limits on the ability to share in upside appreciation; 3) the potential for increased losses if the reference asset declines; and 4) potential inability to sell given the lack of a public trading market.

- **Tactical Tilts.** Tactical tilts may involve a high degree of risk. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. Prior to investing, you must determine whether a particular tactical tilt is suitable for them.

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The following table provides an example of the effect of management and incentive fees on returns. The magnitude of the difference between gross-of-fee and net-of-fee returns will depend on a variety of factors, and the example has been simplified.

<table>
<thead>
<tr>
<th>Period</th>
<th>Gross Return</th>
<th>Net Return</th>
<th>Differential</th>
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<tbody>
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<td>1 year</td>
<td>6.17%</td>
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<tr>
<td>5 years</td>
<td>81.94%</td>
<td>69.97%</td>
<td>11.97%</td>
</tr>
<tr>
<td>10 years</td>
<td>25.05%</td>
<td>22.53%</td>
<td>2.52%</td>
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</tbody>
</table>
Important Information

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Asset Classification. We display holdings and provide market value and performance by asset class. A description of our asset classification schema is available upon request. When you have separately managed accounts, the value of all assets invested in the strategy is displayed in the asset class of the strategy. In those instances, the market value and performance displayed for each asset class may also include cash that is not separately reflected under Cash, Deposits and Money Market Funds.

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