Union College Endowment

An Analysis and Evaluation of Investment Strategy and Performance

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This is an update of my January 2021, "Union College Endowment: An Analysis and Evaluation of Investment Strategy and Performance." Here (see also here and here for supplementary notes). It is an update in three senses: (a) I am grateful to those members of the Board of Trustees and to Gerber-Taylor who suggested that my coverage period should extend back to 2000. I have done that. (b) I have included information about FY2021. (c) I have provided an extensive bibliography.

Consistent with principles of transparency and accountability, all my spreadsheets and econometric workfiles are available upon request.

Key Points

1. In FY2021 (July 1, 2020-June 30, 2021), Union College's investment managers underperformed S&P 500 (a widely used market benchmark) by 12 percentage points.

2. Union's endowment lost $109 million in 2009, and $39 million in 2016. The value of that $39 million, as of June 30, 2021 would have been $145 million (had it been invested in an S&P500 index fund). Union's investment strategy is supposed to protect it against "low-frequency/severe loss episodes." Losing $39 million, absent any economy-wide or market-wide adverse shocks, cannot be consistent with that strategy or with "fiduciary responsibility" as typically defined.

3. Union's endowment management fees (including incentive fees), as a percentage of the endowment, have increased by 491% during the 2000-2020 period. While performance, compared to S&P 500, has deteriorated by 198% during the same period. Thus, lower performance has been associated with higher fees. [See Appendix]

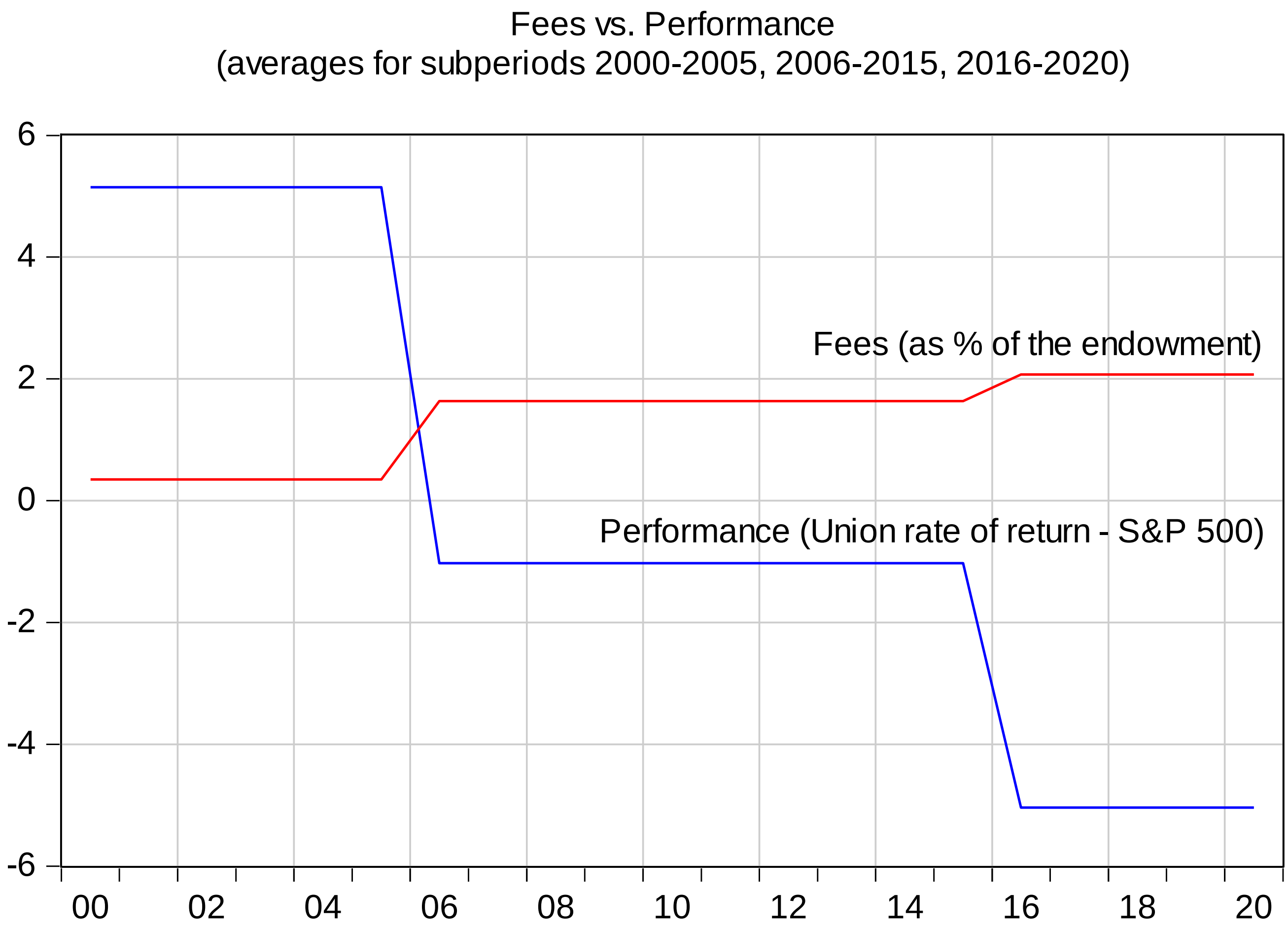
4. Union stopped providing information on investment management and incentive fees in its annual financial statements as of FY 21. (a) The College states that "this is not a number that is easy to produce" because there are 70+ investment managers. (b) Does the College not monitor the fees of 70+ investment managers? (c) How can it calculate its net endowment return without that information? (d) Can this be consistent with transparency, accountability, and fiduciary responsibility?

5. Academic research in peer-reviewed journal articles, in the field of portfolio/investment management, and writings by market participants indicate that the type of endowment management pursued by Union, especially post-2008, is highly cost-ineffective. [See Bibliography]

6. The College promotes breaking down silos, thinking outside the box, "becom[ing] more comfortable being uncomfortable". And yet, simultaneously, stays with outdated, pre-2008 investment strategies that have demonstrably failed, and appears reluctant to consider some modest proposals for innovation. [See Appendix and Bibliography]

7. Cost to Union: Union continues to hemorrhage money and slip in rankings continually. The amount of money lost during last year alone could have enabled the College to create several new tenure lines and make other vital investments in human capital that guarantee Union's long-term sustainability.

Appendix
Endowment Performance, 2000-2020



Notes:

1. Data Sources: "Fees", "endowment", and "Union rate of return" are from Union's annual *Financial Statements*. "S&P 500" is from *Bloomberg.*[1]

2. The rationale for choosing the subperiods is based on the examination of underlying data, and other relevant information. Details will be provided upon request.

3. The actual averages for the sub-periods are:

2000-2005	Fees as % of endowment: 0.35%	Performance: +5.15 percentage points
2006-2015	Fees as % of endowment: 1.64%	Performance: -1.03 percentage points
2016-2020	Fees as % of endowment: 2.07%	Performance: -5.04 percentage points

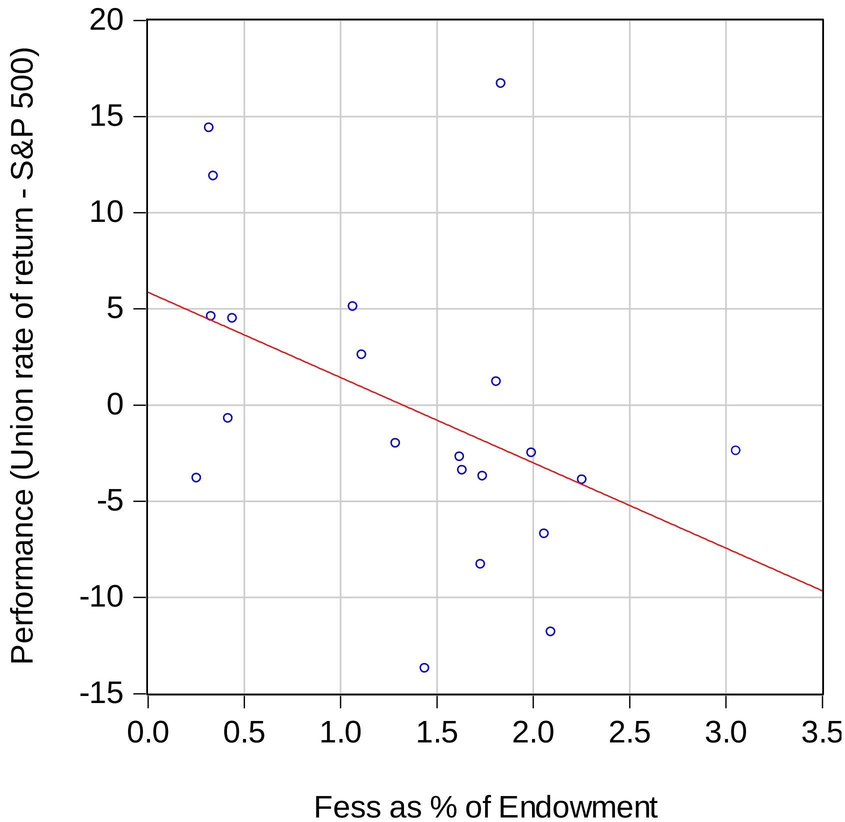
[1] Full definitions of these variables, from the annual *Financial Statements*, are as follows:
"Fees": "Investment management fees (including any incentive fees)."
"Endowment": "Endowment and similar funds balances."
"Union rate of return": "The pooled endowment total return."
"S&P 500" is SPX Index fiscal year total returns. This methodology replicates Gerber-Taylor data, p. 3.
Spreadsheet available upon request.

Analysis:

1. There is a negative correlation between fees and performance: The worse the performance, the higher the fees, and/or vice versa.

2. On average, fees as a percentage of the endowment have increased by 491% during the 2000-2020 period, while, during the same period, performance has deteriorated by 198%.[2]

3. For the period 2000-2020, the scattergraph of the relationship between fees as a percentage of the endowment and performance is as follows (based on actual data, not averages):



Endowment Performance, FY 2021
Highlights

- Rate of return for Union: 29%
- S&P 500 rate of return: 41%
- The amount of money Union lost for every $100 million not invested in an S&P 500 index fund: $12 million
- Median return for endowments of more than $500 million in assets: 34%
- Median return for US colleges: 27%
- Value of the endowment as of June 30, 2021: $598,700,000
- Investment management fees (including incentive fees): censored

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[2] 100x(2.07 – 0.35)/0.35 = 491%. 100x(-5.04 – 5.15)/5.15 = 198%.

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