AGB AND SEI

2022 Study on

OPERATIONS AND INVESTMENT PRACTICES OF INSTITUTIONALLY RELATED FOUNDATIONS

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

sei

ABOUT AGB

The Association of Governing Boards of Universities and Colleges (AGB) is the premier membership organization that strengthens higher education governing boards and the strategic roles they serve within their organizations. Through our vast library of resources, educational events, and consulting services, and with 100 years of experience, we empower 40,000 AGB members from more than 2,000 institutions and foundations to navigate complex issues, implement leading practices, streamline operations, and govern with confidence. AGB is the trusted resource for board members, chief executives, and key administrators on higher education governance and leadership. For more information, visit **www.AGB.org.**

ABOUT SEI'S INSTITUTIONAL GROUP

SEI's Institutional Group provides services across the continuum of institutional investors, ranging from those with internal investment operations to those that outsource investment management. As one of the first and largest global providers of outsourced investment management services, SEI's Outsourced CIO (OCIO) platform supports institutional investors looking to delegate investment management decisions through a flexible implementation model. SEI's Enhanced CIO (ECIO) platform supports internal investment teams through its global portfolio intelligence tool - SEI Novus - and the company's comprehensive investment and processing capabilities. The company delivers these integrated platforms to more than 480 institutional clients worldwide, including more than 40 educational institutions, as of December 31, 2021. For more information, visit **www.seic.com/highered.**

ACKNOWLEDGEMENTS

The Association of Governing Boards of Universities and Colleges (AGB) and SEI's Institutional Group are grateful to the 130 respondents. Special thanks also goes to the committee that helped review results, promote participation and share the results with institutionally related foundations (IRFs) including:

- **Steve Abbott,** Director of Partnerships, AGB
- **Mary Jane Bobyock,** CFA, Managing Director, Nonprofit Advisory Team, SEI's Institutional Group
- **John Grasso,** Director of Partnerships, North American Marketing, SEI's Institutional Group
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CONTENTS

Executive Summary

In 2021, the Association of Governing Boards (AGB) and SEI's Institutional Group collaborated to survey 130 institutionally related foundations (IRFs) in an effort to get a sense of the current landscape and identify common themes among these organizations. The study focused on two distinct areas—operations and investment management—and looked to share data that IRFs could use in their work. It was not intended to prescribe best practices but instead to provide a status report based on conditions at the time of the survey (July–September 2021).

On the operations front, we researched staffing, reporting structure, operating budgets in a post-pandemic environment, inflation expectations, spending rates and use of endowment management. Some high-level findings include:

- The size of the endowment appears to not only play a role in determining staff size but also reporting structure as most larger endowments report into the foundation board.
- While the functions performed by foundations did vary among respondents, there was a general agreement among most that IRFs should be the primary gift repository for contributions to the affiliated institution and manage the endowment.
- Beyond endowment management fees, many expect unrestricted annual giving, institutional support or shared service agreements, and gift fees as sources of dollars for the annual operating budget.
- At the time of the survey, respondents felt inflation would continue to increase in FY 2022 with the majority saying it would increase by at least 1.5%.
- Respondents expected spending rates to increase or stay flat in FY 2022.
- Almost all IRFs responding charge a flat endowment management fee and nearly half of that group charges 101 or more basis points.

When it comes to investment management of the endowment, we looked into expected returns, use of alternatives, overall asset allocations, use of SRI/ESG strategies and the types of investment management providers they use. Some high level findings include:

- For nearly half, the foundation's expected rate of investment return for FY 2022 increased from FY 2021.
- More than a third (37%) have an investment return objective between 7.5% and 8.5% for FY 2022, while conversely more than half (53%) have set return objectives below 7.5%.
- There is a high level of confidence in the investment committee's experience when it comes to alternatives.
- Almost all are investing in alternatives with the most common vehicle being private equity. About a third plan to increase use of alternatives.
- Use of Socially Responsible Investing (SRI) or Environmental, Social, & Governance (ESG) strategies is relatively low but interest seems high.
- The majority of the respondents use an Outsourced Chief Investment Officer or OCIO as their investment management partner.

The complete results of the study provide data that can be used to benchmark against, some insights into how IRFs are approaching varying aspects of their business and some potential trends to watch moving forward.

Demographics of participating IRFs

EXHIBIT 1: Size of foundation's total assets inclusive of property *(as of June 30, 2021) (n=129)*

<$50 million	22%
$51 million-$100 million	17%
$101 million-$500 million	35%
$501 million-$1 billion	12%
>$1 billion	14%

EXHIBIT 2: Size of endowment's total invested assets *(public markets, fixed income, alternatives) (as of June 30, 2021) (n=128)*

<$50 million	27%
$51 million-$100 million	17%
$101 million-$500 million	33%
$501 million-$1 billion	11%
>$1 billion	12%

Section I: OPERATIONS

SIZE OF STAFFS AT IRFs

As shown in Exhibit 3, more than half (56%) of all respondents said their organization has 10 or fewer full-time equivalent (FTE) employees at the foundation. More than a quarter (27%) have 30 or more FTEs.

EXHIBIT 3: Number of full-time equivalent *(FTE)* employees of the foundation.
(Does not include primary employees of the institution who provide services to the foundation.) (n=129)

0-5	41%
6-10	15%
11-20	11%
21-30	7%
31-40	5%
41-50	4%
51-60	3%
61-70	2%
71+	13%

Exhibit 4 shows a comparison of the number of FTEs based on the size of the foundation's endowments. The staff size or number of full-time equivalents (FTEs) employed appears to be directly correlated to the size of the endowment. Nearly two-thirds (65%) of those with an endowment with $100 million or less in assets have five or fewer FTEs. In contrast, 60% of those with an endowment over $1 billion have 70 or more FTEs.

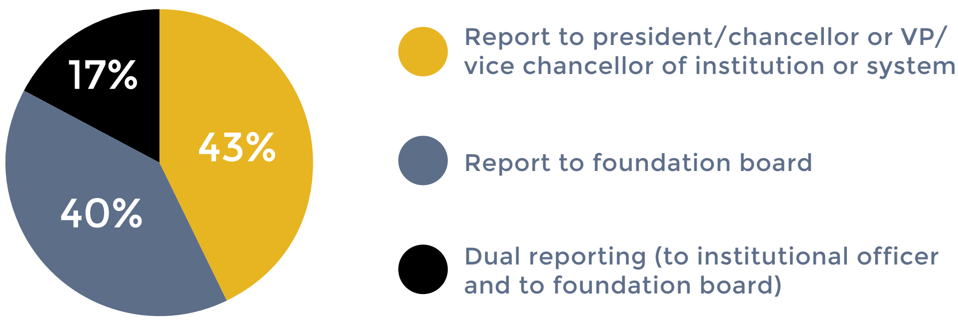
EXHIBIT 4: Comparison of the number of FTEs based on the size of the foundation's endowments.

SIZE OF FOUNDATION'S ENDOWMENT	TOTAL FTES								
	0-5	6-10	11-20	21-30	31-40	41-50	51-60	61-70	71+
<$50 million (n=35)	66%	31%	0%	3%	0%	0%	0%	0%	0%
$51 million-$100 million (n=22)	64%	4%	23%	9%	0%	0%	0%	0%	0%
$101 million-$500 million (n=42)	33%	14%	5%	7%	14%	14%	10%	0%	3%
$501 million-$1 billion (n=14)	7%	0%	43%	0%	0%	7%	0%	7%	36%
>$1 billion (n=15)	6%	7%	7%	20%	0%	0%	0%	0%	60%

REPORTING STRUCTURE FOR FOUNDATION LEADERSHIP

Institutionally related foundations are separate charitable organizations whose missions are focused on supporting students, research, and learning at the colleges and universities they serve. That being the case, the reporting structure for the foundation's leadership appears to vary. Exhibit 5 shows the most common structure (43%) has the foundation CEO or executive director reporting into the president/chancellor or VP/vice chancellor of institution or system. However, nearly as many respondents (40%) said the foundation CEO or executive director reports to the foundation board. Less than a fifth (18%) said they have a dual reporting to both the institutional officer and to the foundation board.

EXHIBIT 5: To whom does the foundation CEO/executive director report? *(n=129)*



CLOSER LOOK: Size plays a role in reporting structure

We took a closer look to see if the size of the foundation's total assets influences the reporting structure of the foundation's leadership. Exhibit 6 shows that smaller sized endowments are more likely to have a reporting structure to the institution or system while larger endowments report directly to the foundation board.

EXHIBIT 6: Reporting structure of IRFs based on size of foundation's total assets inclusive of property

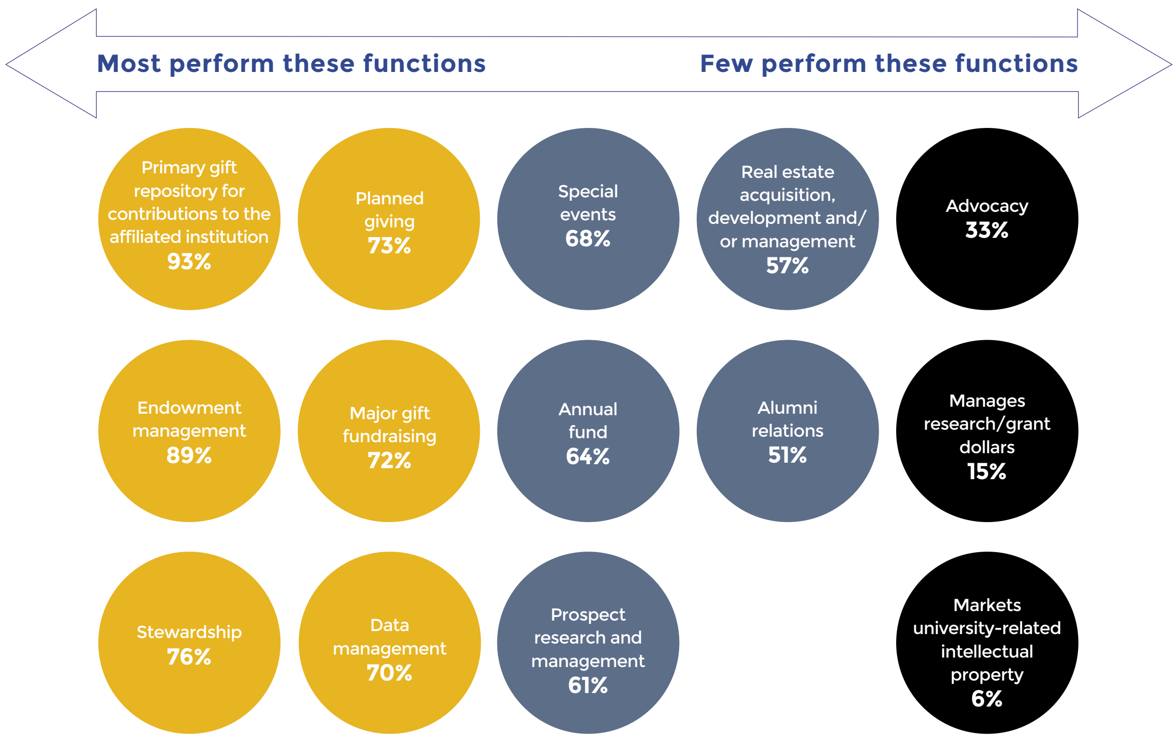
SIZE OF FOUNDATION'S TOTAL ASSETS INCLUSIVE OF PROPERTY	REPORTING STRUCTURE OF IRF		
	Into institution/ system	Foundation	Dual reporting
<$50 million (n=29)	52%	20%	28%
$51 million-$100 million (n=22)	77%	18%	5%
$101 million-$500 million (n=45)	38%	42%	20%
$501 million-$1 billion (n=15)	20%	60%	20%
>$1 billion (n=18)	17%	72%	11%

THE STAFF SIZE OR NUMBER OF FULL-TIME EQUIVALENTS (FTES) EMPLOYED APPEARS TO BE DIRECTLY CORRELATED TO THE SIZE OF THE ENDOWMENT.

FUNCTIONS PERFORMED BY THE FOUNDATION

As shown in Exhibit 7, the two functions most commonly performed by the foundation were acting as the “primary gift repository for contributions to the affiliated institution” and “endowment management.” While most perform those functions, very few are involved in “managing research/grant dollars” and “marketing university-related intellectual property.”

EXHIBIT 7: Functions performed by the foundation *(n=130)*

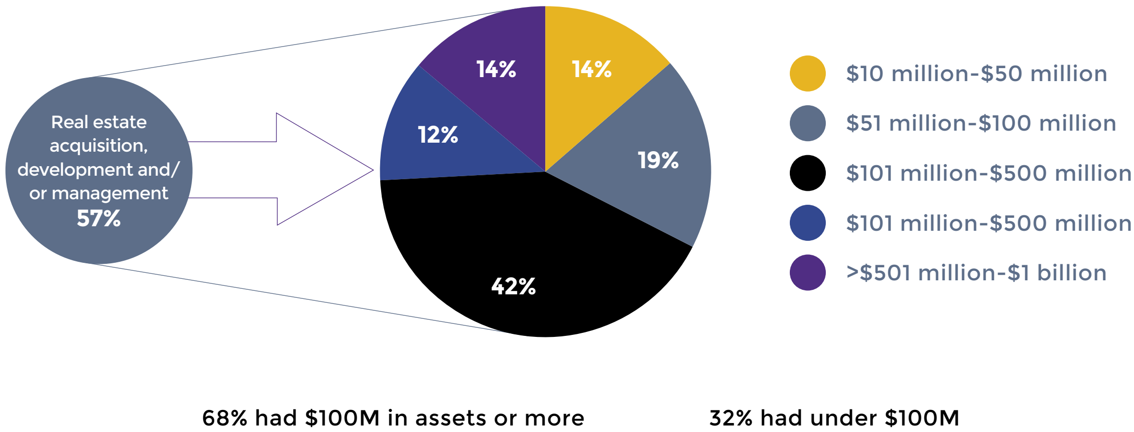


CLOSER LOOK: Real estate and the role of the foundation

Of interest was that more than half (57%) of the respondents noted that the foundation performed the function of “real estate acquisition, development and/or management.” We wanted to look further into whether or not the size of the organization’s total assets (inclusive of property) factored into the foundation performing this function.

As shown below in Exhibit 8, the size of assets appears correlated as more than a third (42%) of those that perform this function do so for an organization with between $100 million and $500 million in assets inclusive of property.

EXHIBIT 8: Of the 57% that said they perform the function of "Real estate acquisition, development and/or management," what is the size of their foundation's total assets inclusive of property? *(n=74)*



SIZE OF ANNUAL OPERATING BUDGET

Following a year in which the pandemic had a significant impact on fundraising and overall revenues, institutionally related foundations must find ways to be prudent when it comes to operational expense. Shown in Exhibit 9, more than two-thirds (69%) of the respondents have an approximate annual operating budget (excluding gifts/grants/endowment spent by institution) of under $5 million. In contrast, less than one in ten (8%) have an operating budget of $20 million or more.

EXHIBIT 9: Foundation's approximate annual operating budget *(excluding gifts/grants/endowment spent by institution). (n=129)*

$0 (wholly funded by institution/system)	0%
<$1 million	29%
$1 million-$5 million	40%
$6 million-$10 million	17%
$11 million-$15 million	5%
$16 million-$20 million	1%
>$20 million	8%

CLOSER LOOK: Factors influencing operating budget

As shown below in Exhibit 10,we took a closer look at annual operating budgets based on size of the IRFs' assets as well as the reporting structure of the senior management. According to respondents, more than half (51%) of the IRFs with $100 million or less in total assets, inclusive of property, had an operating budget of $1 million or less. In contrast, more than three-quarters (76%) of those with total assets of $500 million or more had an operating budget of over $5 million.

EXHIBIT 10: Operating budgets based on size of foundation's total assets inclusive of property

SIZE OF FOUNDATION'S TOTAL ASSETS INCLUSIVE OF PROPERTY	FOUNDATION'S APPROXIMATE ANNUAL OPERATING BUDGET (EXCLUDING GIFTS/GRANTS/ENDOWMENT SPENT BY INSTITUTION)					
	<$1M	$1M to $5M	$6M to $10M	$11M to $15M	$16M to $20M	>$20M
<$50 million (n=29)	66%	34%	0%	0%	0%	0%
$51 million-$100 million (n=22)	32%	68%	0%	0%	0%	0%
$101 million-$500 million (n=45)	22%	44%	27%	7%	0%	0%
$501 million-$1 billion (n=15)	0%	33%	47%	20%	0%	0%
>$1 billion (n=18)	5%	12%	17%	5%	5%	56%

In looking at reporting structure, a similar trend emerges. Exhibit 11 shows all the IRFs whose head reports directly to the foundation board have an annual operating budget of $5 million or less. This is of relevance because as reported earlier, the larger the size the more likely they report to the foundation. Of interest was that more than a third (34%) of those with a dual reporting structure have operating budgets of $6 million or more.

EXHIBIT 11: Foundation's approximate annual operating budget based on reporting structure

SIZE OF FOUNDATION'S TOTAL ASSETS INCLUSIVE OF PROPERTY	FOUNDATION'S APPROXIMATE ANNUAL OPERATING BUDGET (EXCLUDING GIFTS/GRANTS/ENDOWMENT SPENT BY INSTITUTION)					
	<$1M	$1M to $5M	$6M to $10M	$11M to $15M	$16M to $20M	>$20M
Into institution/system (n=55)	42%	45%	2%	7%	0%	4%
Foundation (n=51)	32%	68%	0%	0%	0%	0%
Dual reporting (n=22)	22%	44%	27%	7%	0%	0%

SOURCES OF ANNUAL OPERATING BUDGET

As shown in Exhibit 12, respondents identified all of the sources that contribute dollars to the organization's annual operating budget. Not surprisingly, all of the survey respondents listed the endowment fee as a source. Some IRFs assess one-time gift fees on donations to non-endowed funds to support the foundation's operating administrative and fundraising costs. Nearly two-thirds (60%) of all respondents identified gift fees as a revenue source.

EXHIBIT 12: Sources of foundation's approximate annual operating budget *(excluding gifts/grants/ endowment spent by institution). (n=129)*

Endowment management fee	100%
Unrestricted annual giving	69%
Gift fee	60%
Leases	37%
Entrepreneurial activities	32%
institutional support/shared service agreement	59%

INFLATION EXPECTATIONS

Inflation's impact on endowments is meaningful, as it needs to be offset with new gifts or investment returns to continue to grow or maintain the endowment. Inflation expectations continue to change but at the time respondents were completing the survey, a significant number expected inflation to be greater in fiscal year 2022 compared with recent years. Shown in Exhibit 13, more than a third (39%) of all respondents said they expect inflation to increase by at least 2% in FY 2022. Nearly two-thirds (61%) expect inflation to increase by at least 1.5% in FY 2022.

EXHIBIT 13: Inflation expectations for FY 2022 *(n=120)*

0.0-0.5% increase	8.33%
0.5-1.0% increase	14.17%
1.0-1.5% increase	16.67%
1.5-2.0% increase	22.50%
2.0-2.5% increase	16.67%
Greater than 2.5% increase	21.67%

NEARLY TWO-THIRDS (60%) OF ALL POLL RESPONDENTS IDENTIFIED GIFT FEES AS A REVENUE SOURCE.

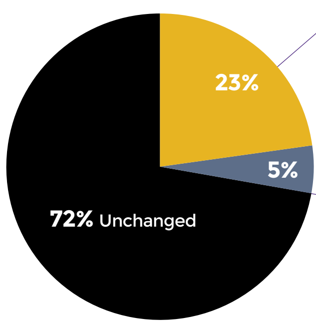
SPENDING AND METHODOLOGIES USED

Spending practices dictate the cash outflows used for a variety of purposes like scholarships, financial aid, operational support, capital improvements, and professional development, but they need to balance with the necessity for foundation assets to last in perpetuity and help future beneficiaries. This creates the challenge of deciding what spending policy is the right number, which then influences how high a return objective should be, and of course, the higher the return needs, the more risks investors take on.

FAST FACTS: Of those making a change, 26% said it was because their foundation is considering changing the methodology used for our spending policy.

In an effort to gauge the spending outlook, we asked each organization if it expected to increase, hold steady or reduce spending in FY 2022. According to the foundations surveyed, most (72%) do not plan to make spending changes. Nearly a quarter (23%) did say they plan to increase spending this coming fiscal year.

EXHIBIT 14: For FY 2022, which of the following would best describe your planned spending rate compared with FY 2021 *(n=116)*



Increased–Reasons for change:	
External issues had no impact on my foundation's spending policy.	54%
My foundation is considering changing the methodology used for our spending policy.	26%
My foundation achieved a spend rate above our target.	15%

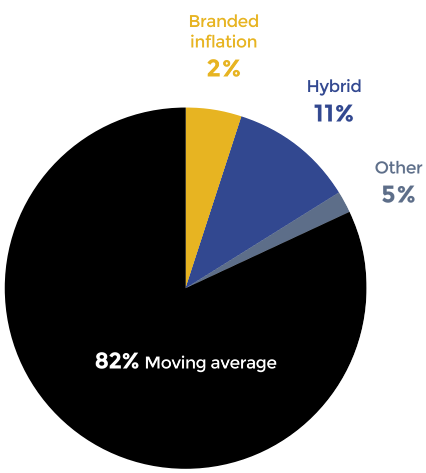
Decreased–Reasons for change:	
External issues had no impact on my foundation's spending policy.	50%
My foundation is considering changing the methodology used for our spending policy.	33%
My foundation did not meet our spending target.	17%

An IRF's endowment portfolio and spending approach should be unique to the financial goals and risk profile of the organization; there is no one-size-fits-all approach. A way to be sure your organization has chosen the right methodology moving forward is to look at past performance and spending to project future outcomes.

FAST FACTS: 67% said there is not a separate spending policy for non-endowed assets (vs. aggregated into existing spend) while a third (33%) said there is.

Exhibit 15 shows what methodologies IRFs are using to determine their spending rates. According to the survey, 82% of participants use the moving average method, 2% use a banded inflation model and 11% use a hybrid model.

EXHIBIT 15: Methodology used to determine spending rate *(n=123)*



Moving average	
Formula is based on a percentage of a moving average of past endowment market values over a specified multiyear time frame.	
Banded inflation	
Formula is calculated by taking last year's dollar amount and inflating it by either the Consumer Price Index or the Higher Education Price Index and imposing upper and lower bands.	
Hybrid	
A middle-of-the-road approach in which the predominant weighting is given to the banded inflation model, with the remainder calculated using the moving average method.	

ENDOWMENT MANAGEMENT FEE CHARGED

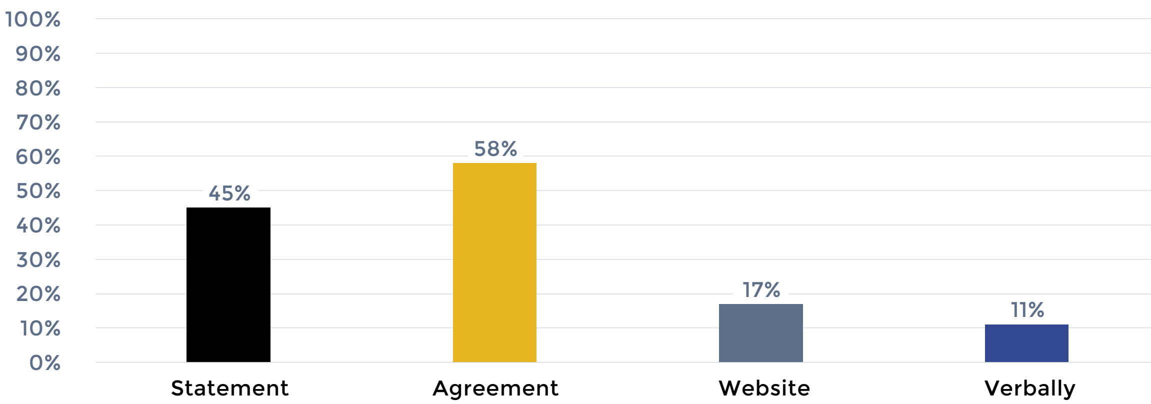
Fees associated with running the investment portfolio (e.g., asset management and consulting fees) are charged to the endowment to offset these expenses. These are commonly known as "endowment management fees" and are charged as a percentage (basis points) of the fund size. Nearly three-quarters (74%) of respondents said they charge an endowment management fee. Shown in Exhibit 16 are the fees charged by that group.

EXHIBIT 16: If your foundation charges an endowment management fee, what is the fee? *(n=96)*

Less than 25 bps	14%
26-50 bps	8%
51-75 bps	5%
76-100 bps	23%
101-125 bps	16%
126-150 bps	15%
Greater than 150 bps	19%

Assuming they are reasonable, endowment management fees are common and in some ways expected. However, the disclosing of these fees is extremely important and can take place through a variety of communications channels. Exhibit 17 shows the most common ways in which IRFs disclose endowment management fees to donors.

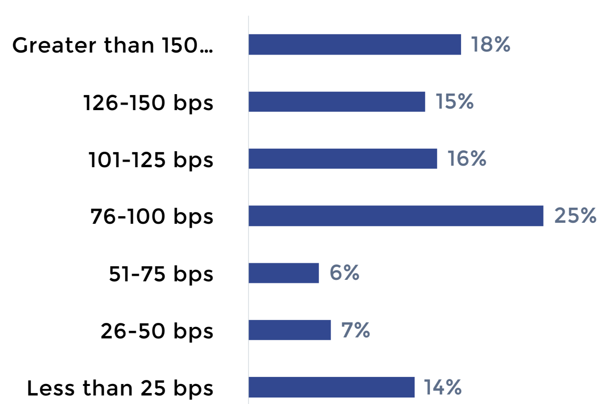
EXHIBIT 17: The ways in which IRFs disclose endowment management fees. *(n=96)*



CLOSER LOOK: Charging a flat fee

Typically, the endowment management fee charged is either a flat, single fee that does not change or a tiered fee that provides price-breaks based on the size of the endowment. Almost all respondents (93%) said their IRF charges a flat fee. Since that was a significantly high percentage, we took a closer look to see what that fee actually was to explain the lack of use of a tiered fee structure. As shown in Exhibit 18, it turns out, nearly half (49%) of those charging a flat fee are charging a fee of 101 or more basis points or at least $10.01 for every $1,000 in the endowment.

EXHIBIT 18: Of those who said they charge a flat fee, what do they charge? *(n=88)*



Section II: INVESTMENT MANAGEMENT

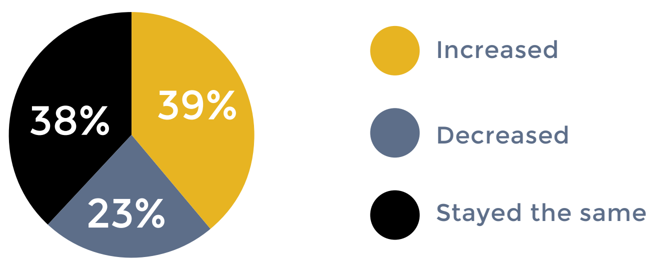
RATE OF INVESTMENT RETURN

In an effort to exist in perpetuity, foundation boards and investment committees have always had a great emphasis on investment performance and overall returns. While the stewards of the assets do not necessarily have to answer to shareholders, their constituents are many, ranging from staff to donors to benefactors.

FAST FACTS: Nearly two-thirds (60%) include their endowment management fee in their return objective.

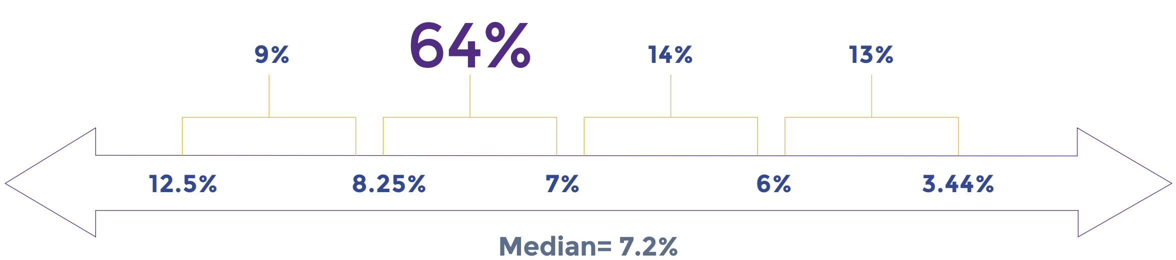
Having experienced relatively strong markets over the past decade and specifically over the past two years, survey respondents appear to be expecting more of the same over the next year. Shown below in Exhibit 19, more than three quarters (77%) of respondents said the foundation's expected rate of return for FY 2022 either stayed the same as FY 2021 or increased.

EXHIBIT 19: Has your foundation's expected rate of investment return for FY 2022 increased, decreased, or stayed the same? *(n=110)*



In terms of what those expectations actually are, return objectives ranged from as low as 3.44% to as high as 12.5%. The largest percentage (64%) of survey respondents fell between 7% and 8.25% with the median being 7.2%.

EXHIBIT 20: What is your foundation's return objective *(in %)*? *(n=107)*

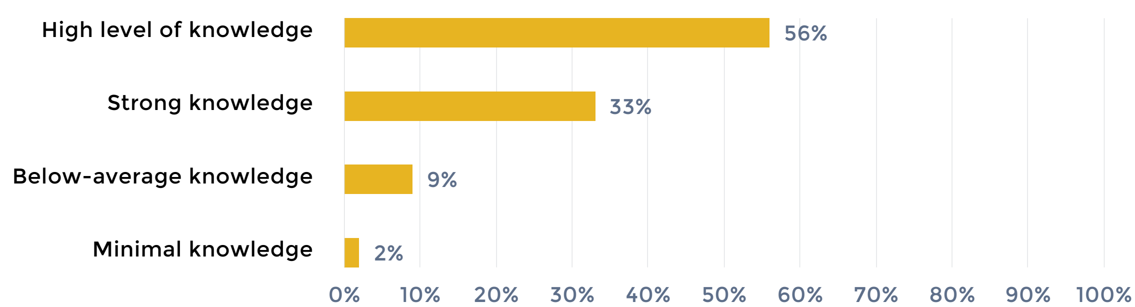


HAVING EXPERIENCED RELATIVELY STRONG MARKETS OVER THE PAST DECADE AND SPECIFICALLY OVER THE PAST TWO YEARS, POLL RESPONDENTS APPEAR TO BE EXPECTING MORE OF THE SAME OVER THE NEXT YEAR.

INVESTMENT COMMITTEE EXPERIENCE

Foundations invest their endowment assets in a complex and sophisticated manner. The overall goal of perpetual sustainability merits the need for extremely diversified portfolios that leverage complex asset classes and products. Therefore, foundations structure Investment Committees (ICs) in a way to best support that strategy. Often, members have a solid understanding of financial services and investments, and do the best possible job of fulfilling their responsibilities in managing these large pools of investments. Exhibit 21 confirms a significant majority (89%) believe their investment committee has a strong or high level of knowledge when it comes to investments.

EXHIBIT 21: Which of the following would describe your Investment Committee members' overall investment knowledge including understanding complex alternative investments? *(n=108)*



USE OF ALTERNATIVE INVESTMENTS

In an effort to increase returns and diversify portfolios, a vast majority (94%) of those surveyed have assets invested in alternative or illiquid asset classes. Since the alternatives' origin of risk correlates less with public markets, the intention of these investments is to provide returns more insulated from market fluctuations, while increasing potential for returns in an otherwise low return environment for traditional stocks and bonds. As shown in Exhibit 22, among those with an allocation to alternatives, a quarter (25%) said they invest at least 31% of the endowments assets in illiquid asset classes.

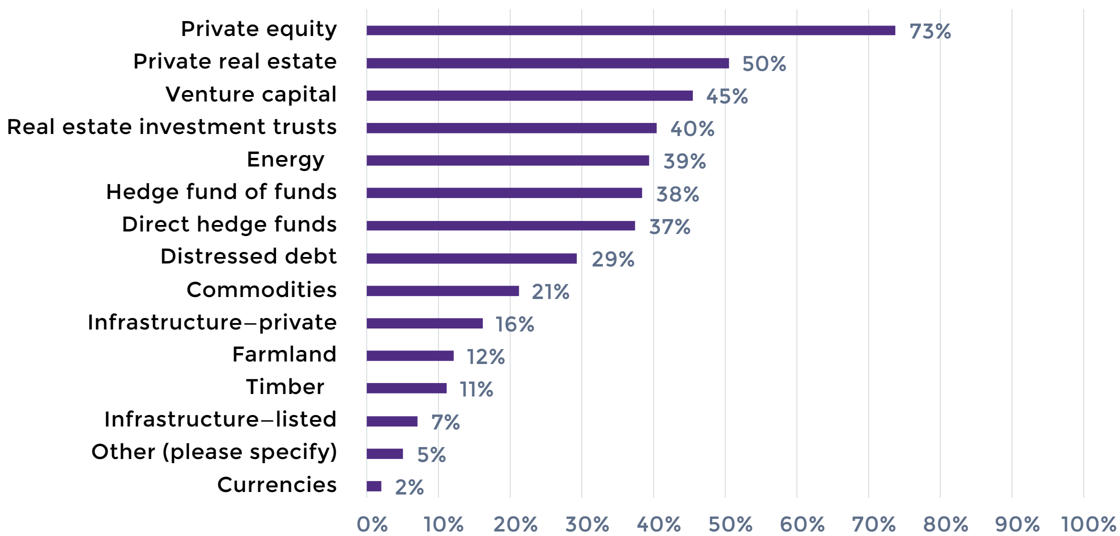
EXHIBIT 22: Approximately what percentage of your endowment's investments would be classified as illiquid? *(n=110)*

None	6%
<10%	24%
11-20%	26%
21-30%	19%
31-40%	7%
41-50%	5%
51%+	13%

Private equity is the most popular alternative asset class, used by nearly three-quarters (73%) of those investing in alternatives. When it comes to hedge fund investing, it is worth noting that an almost identical percentage of respondents invest directly in a single hedge fund (37%) compared with those that invest in a hedge fund of funds (38%).

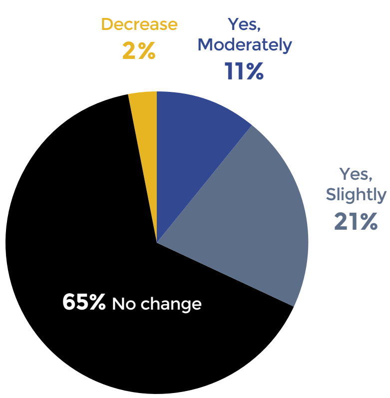
FAST FACTS: Nearly the same number of respondents said they use hedge fund of funds (38%) vs. direct hedge funds (37%).

EXHIBIT 23: In which of the following alternative asset classes does your foundation invest? *(Respondents could check all that applied) (n=115)*



There does not appear to be a near-term catalyst for changing the use of alternatives, as a staggering 97% of respondents (shown in Exhibit 24) said they plan to either increase their allocation to alternatives or keep it the same in 2022.

EXHIBIT 24: Do you plan to increase your allocation to alternative asset classes in FY 2022? *(n=108)*



Current allocations to alternatives for those planning to increase allocations in FY 2022 (n=38)

None	**5%**
<10%	**16%**
11-20%	**32%**
21-30%	**21%**
31-40%	**3%**
41-50%	**11%**
51%+	**13%**

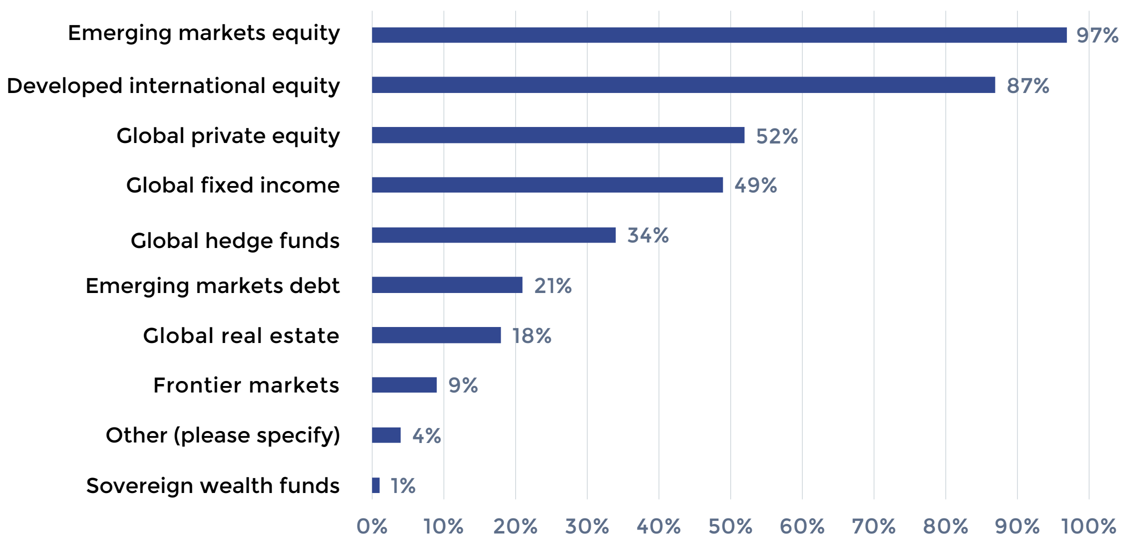
CLOSER LOOK: Increasing use of alternatives

We took a closer look at the current allocation to alternatives for those who said they would be increasing use in 2022. More than half (53%) of those planning to increase allocations to alternatives currently invest 20% or less of their assets in alternatives. In comparison, 43% of those not making a change already invest 21% or more in alternatives.

ASSET ALLOCATION

The stewards of endowment assets answer to many stakeholders ranging from boards to staff to donors to benefactors. Their challenge is to leverage organizational assets to generate investment returns that can support the institution while preserving as much of the overall corpus as possible. To do this, foundations must have a disciplined approach focused on strategic asset allocation inclusive of alternatives, fixed income and domestic and global equity strategies. Exhibit 25 illustrates that, of the global strategies respondents are using, emerging markets equity appears to be the most popular global strategy, followed by developed international equity.

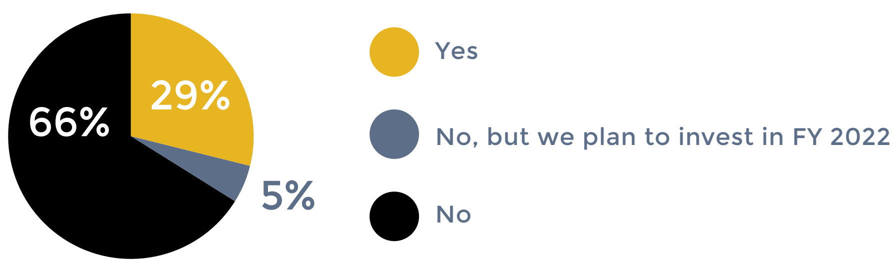
EXHIBIT 25: Please check any of the global strategies in which your foundation invests *(Respondents could check all that applied) (n=94)*



USE OF SOCIALLY RESPONSIBLE INVESTING (SRI) OR ENVIRONMENTAL, SOCIAL, & GOVERNANCE (ESG) STRATEGIES

Despite a growing movement for socially/responsible investing (SRI) or environmental, social and governance (ESG) strategies—which aim for organizations to generate long-term financial returns by investing in products that have a positive societal impact—nearly three-quarters (71%) of organizations surveyed don't invest in these products today (shown in Exhibit 26).

EXHIBIT 26: Did your foundation invest in Socially Responsible/Sustainable Responsible Investing *(SRI)* or Environmental, Social, & Governance *(ESG)* strategies in FY 2021? *(n=110)*



CLOSER LOOK: Implementation of SRI and ESG strategies

We asked the 29% of survey respondents that said they invested in SRI and/or ESG strategies some additional questions around implementation. As shown in Exhibit 27, highlights that nearly two-thirds (65%) implement by formally including it as criteria in the Investment Policy Statement (IPS).

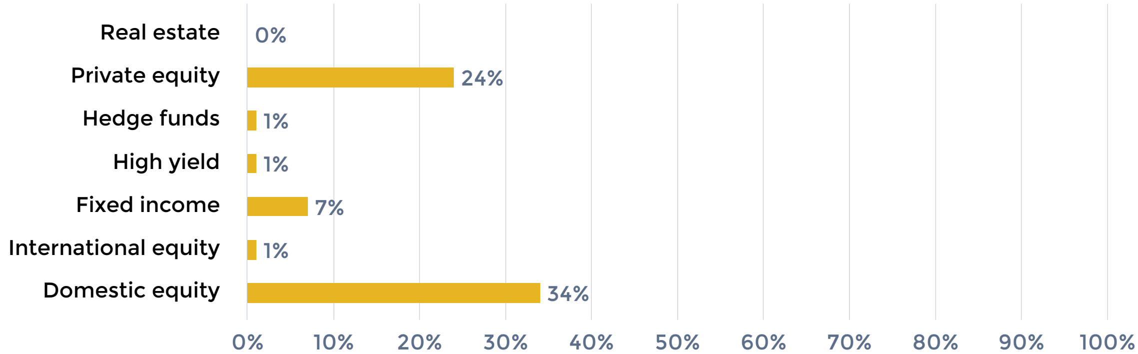
EXHIBIT 27: How does your foundation currently implement or plan to implement SRI and/or ESG strategies? *(n=28)*

Using a negative screen to limit holding certain securities	7%
Using a positive screen to add/overweight securities with higher ESG rankings	14%
Implementing ESG/SRI around a specific cause (e.g., global warming)	0%
Using impact investing to invest directly in companies/organizations that support our mission	14%
Including as criteria in the Investment Policy Statement	65%

ONE THING THAT COULD POTENTIALLY AFFECT FUTURE USE IS STUDENT PRESSURE TO DO SO.

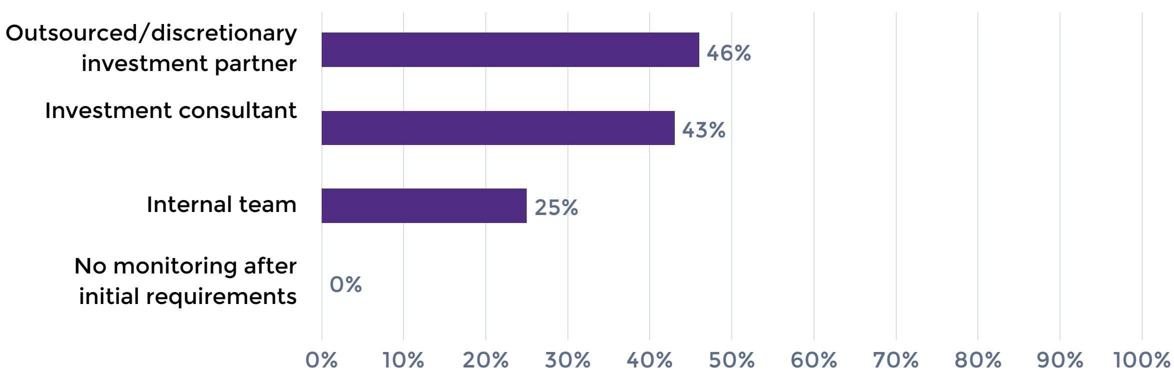
Shown in Exhibit 28, the most widely used asset classes to implement SRI/ESG in portfolios is U.S. equity (34%) and private equity (24%).

EXHIBIT 28: What asset classes did you use in FY 2021 or plan to use in FY 2022 to implement SRI and/or ESG in your investment portfolio? *(n=29)*



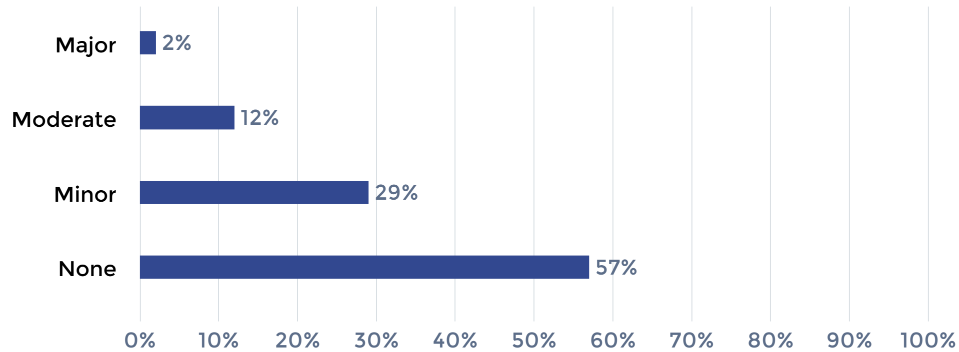
One of the critical components of using SRI/ESG strategies is ensuring the investments stay within the original intention and decision to use that strategy. According to survey respondents, external partners play a big role in that monitoring.

EXHIBIT 29: Who is responsible for monitoring underlying investment managers to ensure they meet the screening requirements? *(Respondents could check all that applied) (n=28)*



One thing that could potentially affect future use is student pressure to do so. Shown in Exhibit 30, nearly half (41%) of those polled have experienced some level of pressure from students to increase SRI or ESG strategies.

EXHIBIT 30: How would you describe the level of pressure students have exerted on the foundation to increase SRI or ESG strategies? *(n=110)*

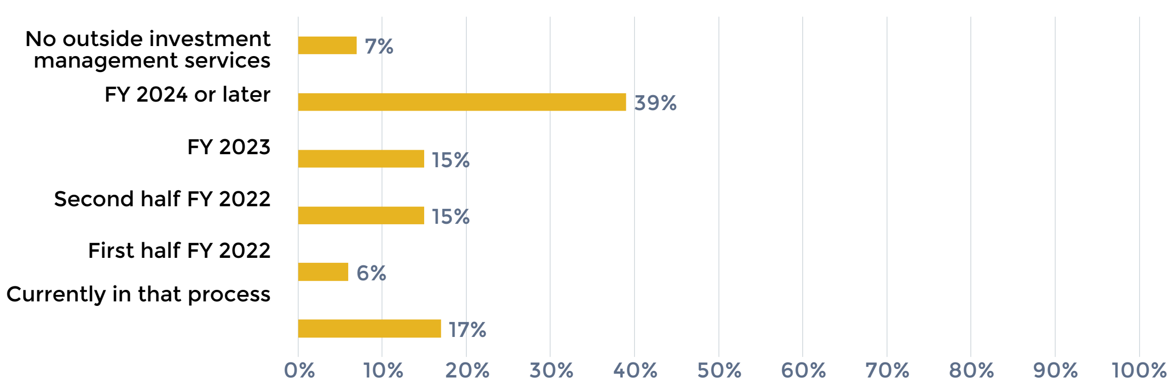


INVESTMENT MANAGEMENT PROVIDER

Boards and Investment Committees (IC) face a number of challenges when executing their overall investment approach. For many, the time and resources needed to track the enormous array of investment products and managers is too much for investment committees that often meet only on a quarterly basis. Historically, foundations often have depended on external support when it came to that aspect of investment management. Part of the role of the Board and IC is to regularly review that provider and perform due diligence to confirm they have the right partner for their organization. Exhibit 31 shows that more than a third (38%) are already in a review process for a provider or plan to conduct one in 2022.

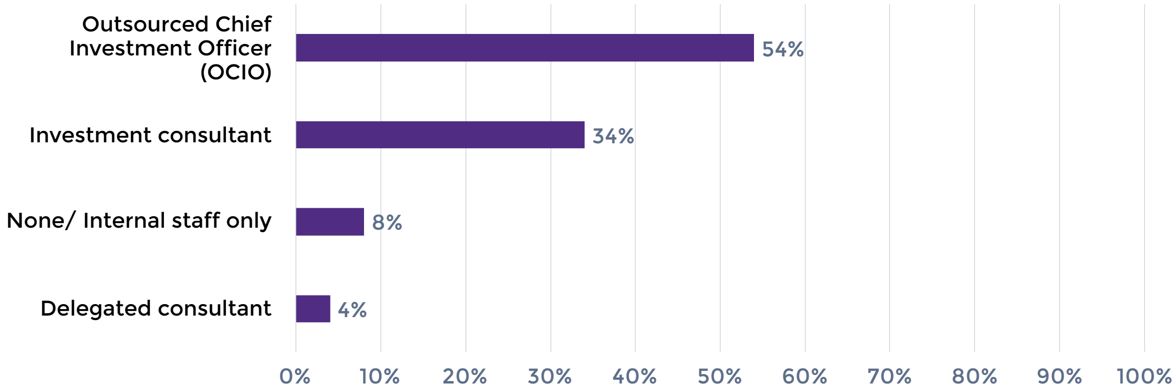
FAST FACTS: A small percentage (8%) of all respondents said they do not use an outside provider and have an internal staff for investment management. Of that group, 78% have an endowment greater than $1 billion.

EXHIBIT 31: When does your foundation plan your next review of your current investment management services provider *(e.g., issuing an RFI/RFP)*? *(n=84)*



Over the past decade, many higher education organizations have shifted from a traditional consultant model to an outsourced chief investment officer (OCIO). This type of partnership tends to result in the OCIO taking on more discretion and fiduciary responsibility for investment decisions. It provides the Board and IC with an added layer of oversight and governance. Survey respondents confirmed the growth of this approach; the current provider for more than half (54%) of all respondents is an OCIO (shown in Exhibit 32).

EXHIBIT 32: Which of the following best describes your foundation's investment management partner? *(n=110)*



Definitions provided to survey respondents
Investment consultant: Consultant researches and recommends managers and then committee makes final decision.
Delegated consultant: Consultant chooses managers but committee still has final approval.
Outsourced Chief Investment Officer (OCIO): OCIO has discretion to make hiring and firing decisions about investment managers.
None: Internal staff, board, and/or Investment Committee handle asset allocation process on their own.

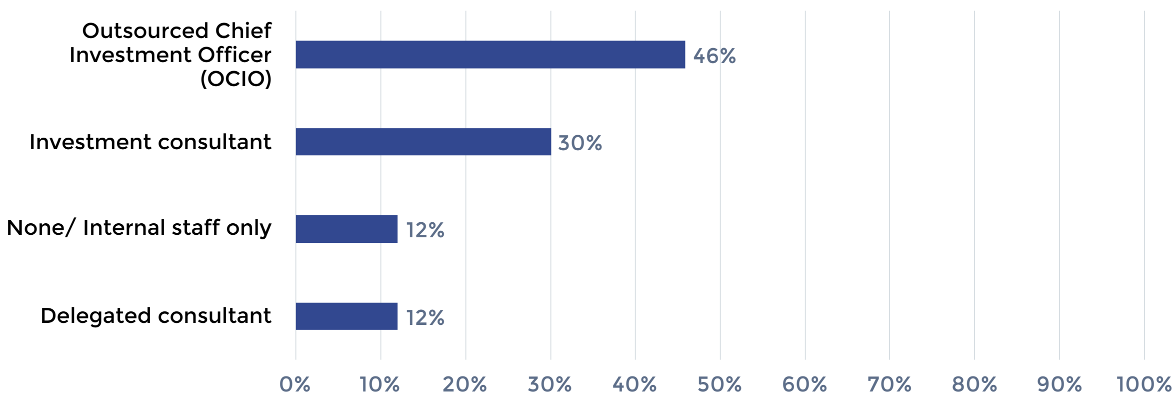
CLOSER LOOK: Foundations big and small using OCIOs

Years ago, an OCIO was viewed as an option primarily for smaller endowments that could not afford the expense of hiring investment staff. However, the benefits of this model have resulted in larger organizations adopting this approach as nearly two-thirds (61%) of those using an OCIO have an endowment with more than $100 million in invested assets. Nearly one in five (19%) of those currently using an OCIO have $500 million or more in assets (shown in Exhibit 33).

EXHIBIT 33: Which of the following best describes your foundation's investment management partner? *(n=110) (for those using OCIOs)*

The trend of using an OCIO could continue among institutionally related foundations as nearly half (46%) said they will consider OCIO when they conduct their next review (Exhibit 34).

EXHIBIT 34: Which of the following options will your foundation consider during its next review? *(Respondents could check all that applied) (n=121)*



Definitions provided to survey respondents
Investment consultant: Consultant researches and recommends managers and then committee makes final decision.
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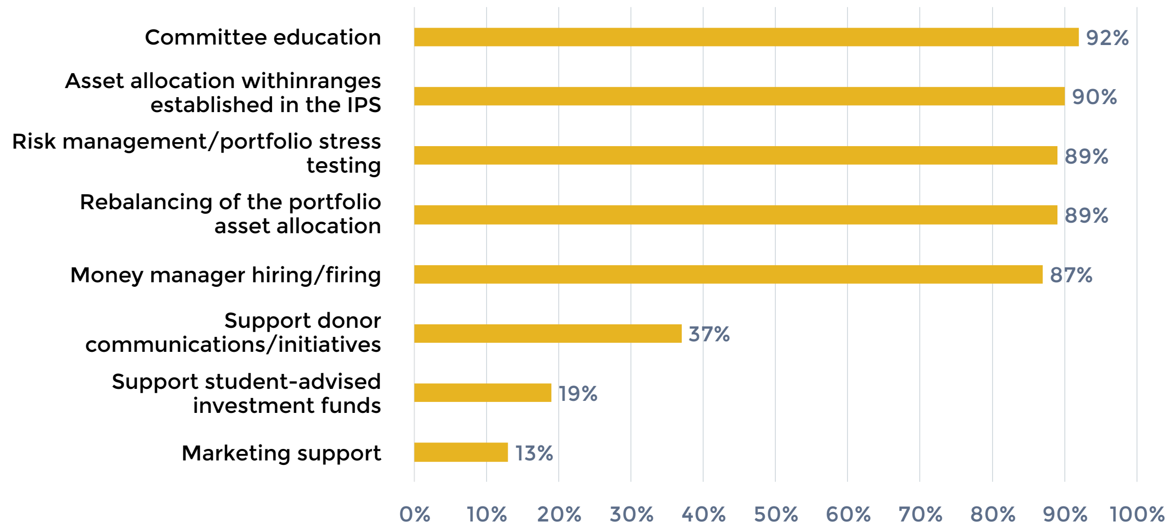
None: Internal staff, board, and/or Investment Committee handle asset allocation process on their own.

CLOSER LOOK: Types of services provided by your OCIO

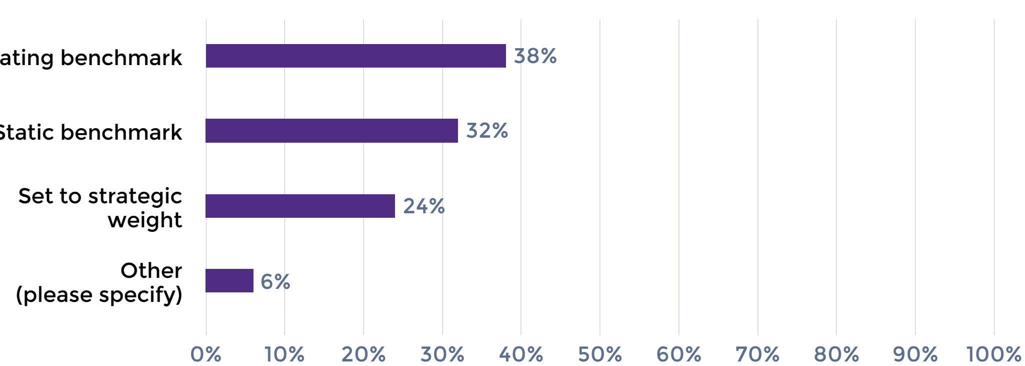
The OCIO service provider marketplace is crowded with many providers offering similar services, however some have expanded into value added services outside of investment management. Exhibit 35 shows how some IRFs are being provided with non-traditional services by their OCIO.

EXHIBIT 35: If you use a delegated consultant or an OCIO, what services do they provide? *(Respondents could check all that applied) (n=62)*



While most OCIO partnerships consist of the foundation delegating decisions around hiring and firing investment managers to the OCIO, some organizations have chosen to delegate asset allocation decisions. Monitoring the effectiveness of an OCIO in making those decisions and subsequent value of delegating that discretion can be measured a number of different ways. As shown in Exhibit 36, they view floating (38%) and static (32%) benchmarks as ways to measure value of delegating discretion over asset allocation changes.

EXHIBIT 36: How do you currently measure or plan to measure the value of delegating discretion over asset allocation changes? *(n=93)*



CONCLUSION

The study results show both commonalities among IRFs and the varying factors that make each of them unique. The influence of size based on assets inclusive of property appears to correlate with staff size, reporting structure and annual operating budgets. Size seems to have less of an influence on the investment management models they use as a significant number of larger endowments are using an OCIO partner.

At the time of the survey and looking ahead to fiscal year 2022, participating foundations expected the spending to hold or increase, the same or greater investment returns as FY 2021, continued increase in inflation and higher usage of alternative investments.

In addition, a significant majority of participating IRFs view their primary function as acting as primary gift repository for contributions to the affiliated institution. Most charge a flat endowment management fee and almost all use a moving average formula when determining their spending rate.

It should be noted that as this study goes to press, higher education continues to undergo significant internal and external changes (e.g., sharp pandemic-driven enrollment decreases, political shifts, and the upcoming “demographic cliff” of lower birth rates in the United States). How these changes will affect IRF operations and investments remains to be seen. However, this study hopefully will assist IRFs and their affiliated institutions in understanding both commonalities and differences across the spectrum of IRFs surveyed.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