

University endowments in 2020

ABOUT THIS PAPER

Universities in the UK are experiencing significant structural change, with a particular focus on their role and impact in society. We spoke to six investment committee members from a range of universities on an anonymous basis. As influential asset owners, we wanted to understand universities' attitudes, behaviours and challenges when it comes to sustainable and impact investing.

As one of the investment committee members explained, they “**themselves are social enterprises**”. So it's not surprising that their activities and operations are facing increasing scrutiny, including how they're investing their own assets. Our findings are below. Endowment sizes are based on Tribe estimates and forecasts, including external sources*.

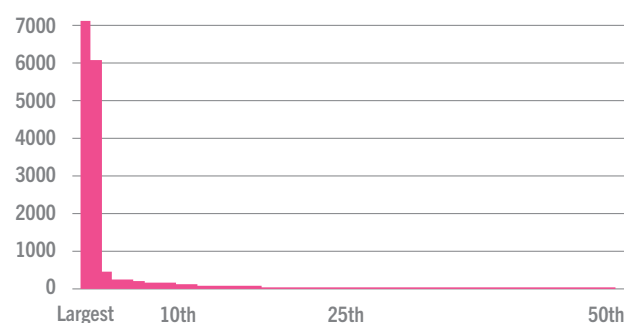
Thank you to the university committee members we spoke to. We're extremely grateful for their expertise, time and opinions.

THE SIZE OF THE OPPORTUNITY AND RESPONSIBILITY

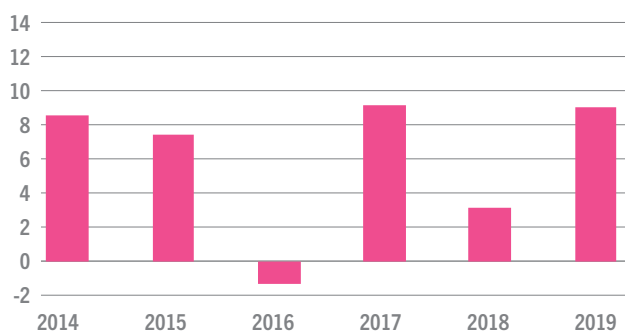
We estimate that UK universities are sitting on endowment assets of £16.3bn, up from £11.0bn in 2014. These investments aren't evenly distributed across universities, with Cambridge and Oxford holding 80% of them. Despite the disparity in asset distribution across universities, these assets have grown on average, 5.4% each year since 2015.

As influential asset owners, we wanted to understand universities' attitudes, behaviours and challenges when it comes to sustainable and impact investing. Whilst initiatives like the UN's Principles for Responsible Investment and the divestment movement are widespread, what we've uncovered in our research, is a sector undergoing significant structural change.

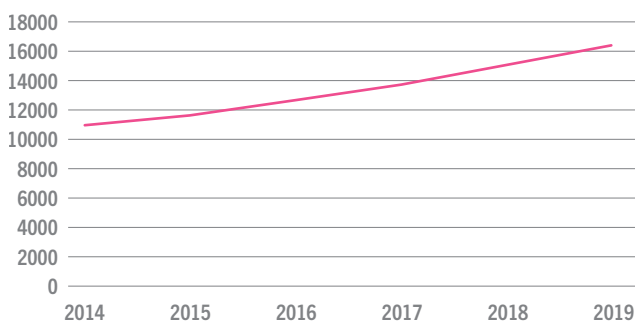
DISTRIBUTION OF UNIVERSITY ENDOWMENTS (2019, £BN)*



AVERAGE ANNUAL ENDOWMENT GROWTH (%)*



TOTAL ENDOWMENT SIZE (£BN)*



*University accounts and Wikipedia. Where data has come from public sources, we have made every effort to verify it.

WHAT'S DRIVING THE CHANGE?

From our interviews, we identified six factors that drove change and six factors that hindered change for university endowments in 2020.

STUDENTS: Student bodies have always been politically active and engaged. The climate is just one of the major movements on campus at the moment.

“It was a surprise to many just how popular the Extinction Rebellion was”.

ACADEMIA: As our previous research has shown, there is broad consensus in academic literature in support of *sustainable investing*. Many universities will have business, finance and economics departments that are publishing similar work, therefore, investment committees are under pressure to “ensure that our investment policy isn't out of line with the research we're producing”.

GOVERNMENT: Higher education funding has changed over the past 25 years. Notably, a much higher weighting has been placed on the impact of research grants. Part of this “has been triggered by the growth of the SDGs (UN Sustainable Development Goals) which now power The Times Higher Education's global University Impact Rankings”.

MARKETPLACE: Universities are becoming more aware of their reputation in the marketplace. Prospective students “are much more market-facing and becoming like consumers”. This means universities are actively considering how their endowment reflects and aligns with their brand.

DONORS: One of the triggers for a investment committee member's university fossil fuel divestment policy was “awkward questions from donors”. As highlighted by the controversy surrounding energy brands sponsoring the British Museum, the Royal Shakespeare Company, the Tate, and other galleries, universities are becoming more aware of their nuanced relationships with their major external funders.

HOME: Many of those responsible for making investment decisions for university endowments are “facing pressure at home at the dinner table”. Echoed by another committee member who shared that he was a parent to “three eco-warriors”.

WHAT'S HINDERING THE CHANGE?

FRAMEWORK: The most popular response from investment committee members was they believed their greatest impact was able to be achieved by maximising their returns, in order to generate funds to support their research. Many cited the Yale formula, amongst others, as frameworks they used to guide their spending. Most were unhappy with anything that gave the perception of limiting their available options. Investment frameworks “break down if you divest because you're restricting your investment opportunities”.

RESOURCES: Despite the fact university endowments are sizable, “£150m is subscale for us to have a dedicated CIO”. Investment committee members are usually volunteers and, therefore, need support from the investment community more broadly.

GOVERNANCE: Given the limited capacity for monitoring, investment committees are also looking for support to ensure that they're able to provide proper governance. Integrating sustainability and impact “would be much easier if there was a manager with a specific mandate that I could assess against a set of criteria”.

SILO-THINKING: We found sustainability and impact are not coordinated across universities. For example, some have specific local business support programmes or environmental initiatives within their estates, but it's rare that these efforts are joined up with investment committees. Interviewees found coordination and attempts to involve the student body and other departments difficult. “After a while they didn't turn up” or investment committees “spent much of the time having to explain why we couldn't do what they want us to”.

EMOTION: Some felt the response to the climate emotive and that members' fiduciary duty couldn't be swayed by this. One explained that they were “very sympathetic to the climate change lobby” but that “we need some rationality”.

FINANCE: It's clear endowments are not being supported by investment professionals. This includes the investment managers, some of whom were “embarrassingly poor” when it came to supporting the endowment on their journey. Also hampered by investment consultants “who make it difficult as a gatekeeper” as well as a perception of “pretty pathetic” sustainability data.

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VALUE FROM VALUES

What's clear is change is happening. There is inevitable momentum and a recognisable move towards more sustainable and impactful investing. We believe this is due to the scale of the change drivers we've identified. **"There's no one around that doesn't think this isn't a desperate situation."** This movement will gather speed, as some of the barriers to invest are removed, particularly with growing support from the investment community and consensus growing as to the recognisable benefits of sustainable investing and positive track records being demonstrated by sustainable and impact wealth managers. Whether a university's investment policy mandate is to achieve maximum financial return with impact or the biggest impact, with or without exclusions, university endowments in 2021 and beyond are able to do well and do good.

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