

SPENDING POLICIES AND PRACTICES

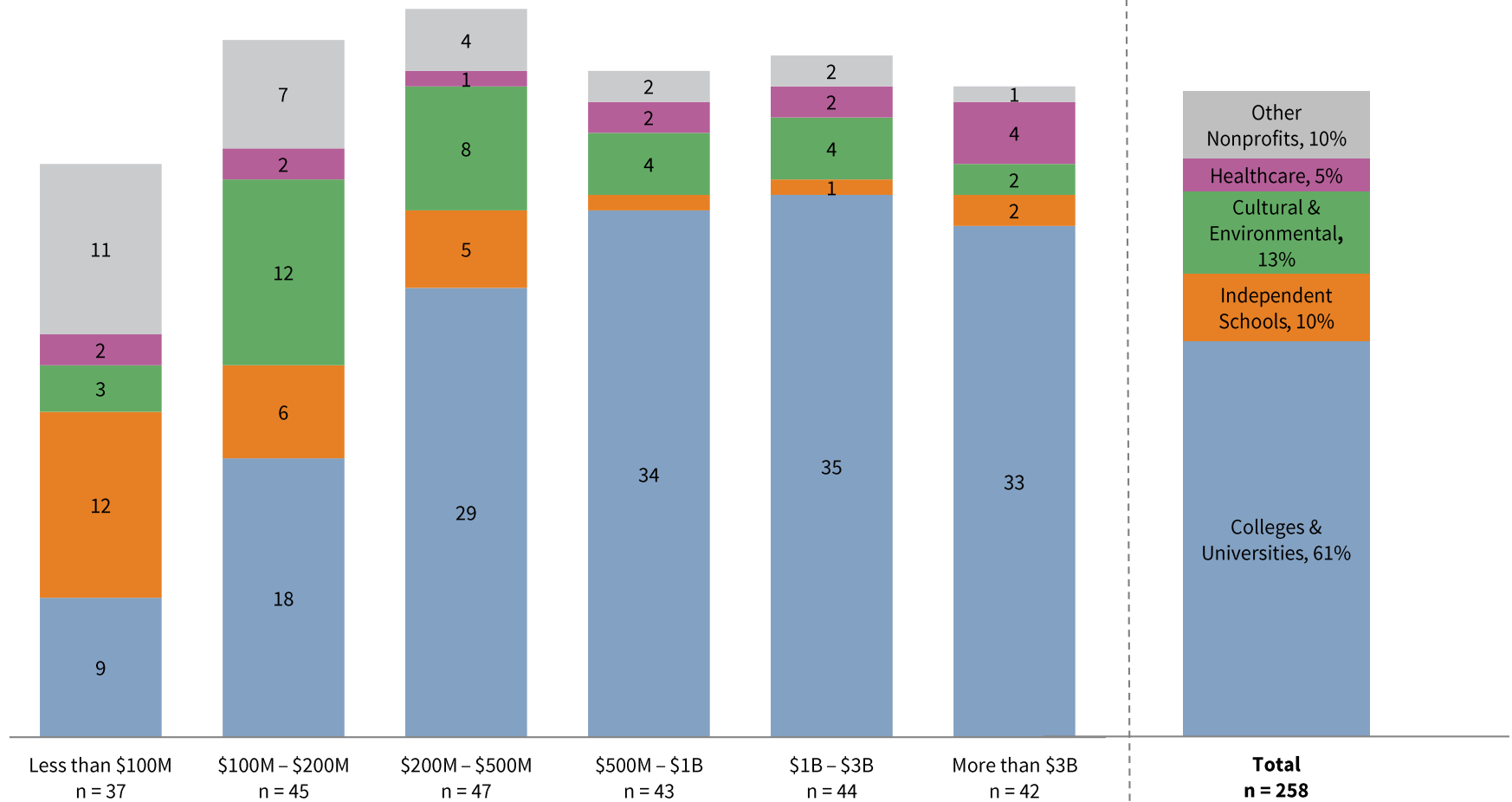
FY 2020



Profile of Participating Institutions

NUMBER OF INSTITUTIONS

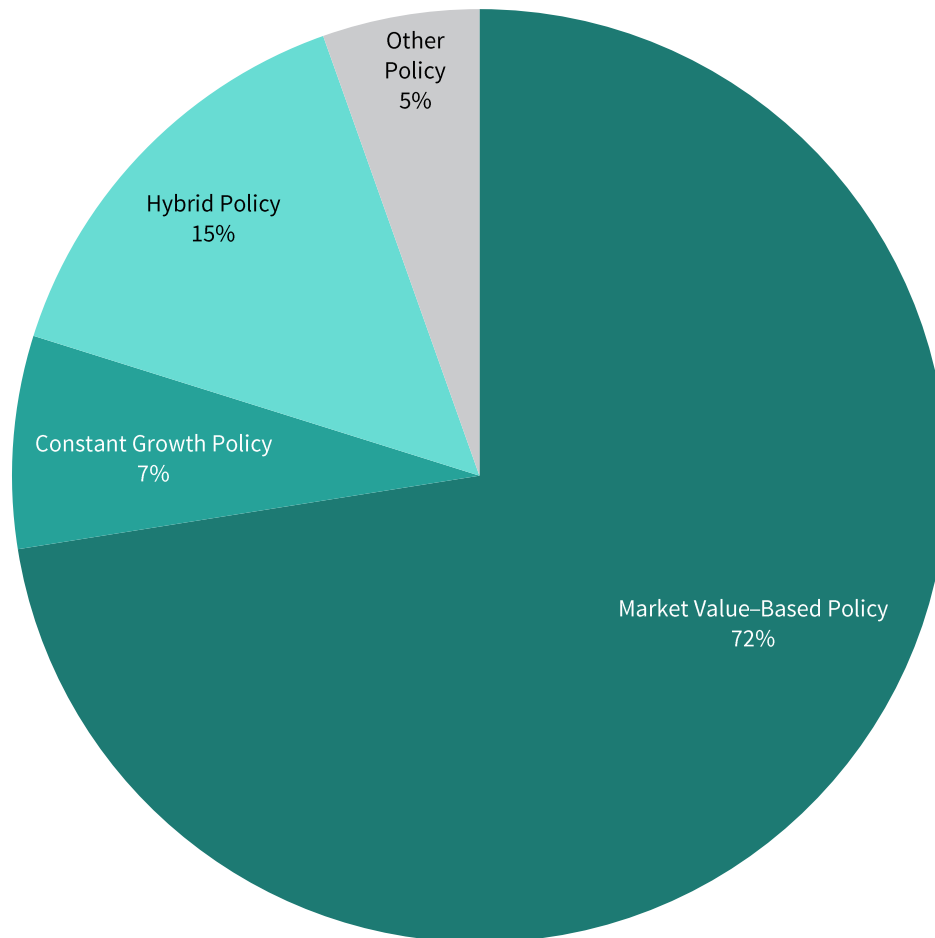
2020 • n = 258



Spending Policy Types

PERCENTAGE OF RESPONDENTS

2020 • n = 258



Institutions in this study use three primary spending rule types. **Market value-based** rules, which are most common among participants, link the spending amount directly to the endowment's market value. **Constant growth** rules increase spending each year by a defined growth factor. **Hybrid** policies combine the elements of both market value-based and constant growth rule types.

Spending Policy Types by Asset Size and Institution Type

NUMBER AND PERCENTAGE OF RESPONDENTS

2020 • n = 258

By Asset Size

	Market Value-Based	Constant Growth	Hybrid	Other
Less than \$100M	84%	3%	5%	8%
<i>n</i>	31	1	2	3
\$100M – \$200M	82%	2%	9%	7%
<i>n</i>	37	1	4	3
\$200M – \$500M	85%	4%	9%	2%
<i>n</i>	40	2	4	1
\$500M – \$1B	67%	12%	19%	2%
<i>n</i>	29	5	8	1
More than \$1B	58%	12%	23%	7%
<i>n</i>	50	10	20	6

By Institution Type

	Market Value-Based	Constant Growth	Hybrid	Other
Colleges & Universities	72%	10%	15%	4%
<i>n</i>	113	16	23	6
Independent Schools	70%	0%	19%	11%
<i>n</i>	19	0	5	3
Cultural & Environmental	70%	3%	24%	3%
<i>n</i>	23	1	8	1
Healthcare	77%	8%	—	15%
<i>n</i>	10	1	—	2
Other Nonprofits	81%	4%	7%	7%
<i>n</i>	22	1	2	2

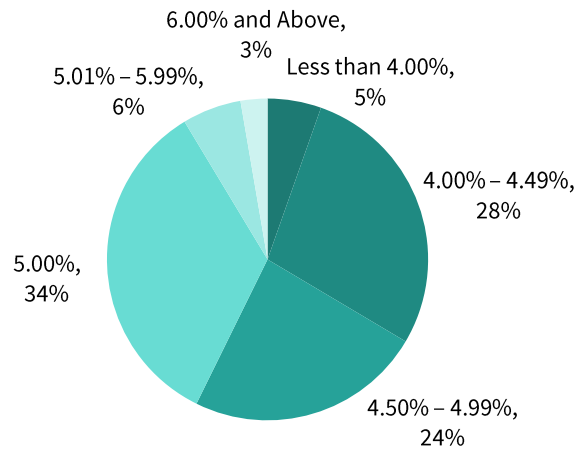
Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value-based spending policies base spending on a pre-specified percentage of a moving average of market values. Constant growth policies increase prior year's spending by a measure of inflation and/or pre-specified percentage. Hybrid policies are those that incorporate a weighted average of a constant growth rule and a percentage of market value rule. Other policies are those that cannot be classified as market value-based, constant growth, or hybrid policies.

Market Value–Based Policy Mechanics

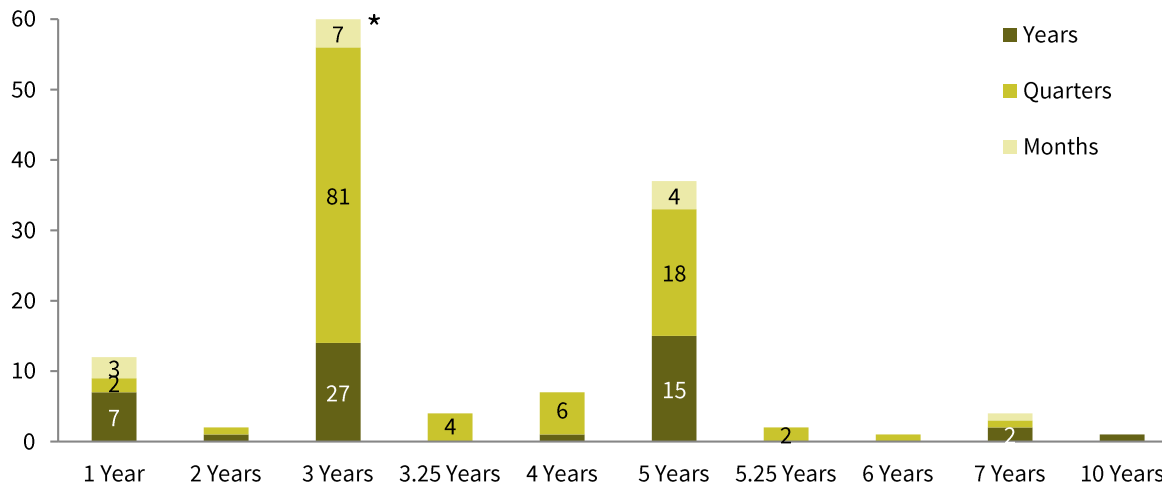
TARGET SPENDING RATES

2020 • n = 185



SMOOTHING PERIODS: LENGTH OF PERIOD AND UNIT OF TIME MEASUREMENT

2020 • Number of Institutions • n = 185



*Capped for scaling purposes. Data labels reflect unscaled number of institutions.

Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value–based spending policies base spending on a pre-specified percentage of a moving average of market values. Unit of time measurement indicates whether spending is calculated using monthly, quarterly, or yearly market values. Where sections do not have data labels, n=1.

A market value–based rule dictates spending a percentage of the endowment's market value, which is most often represented by a moving average over a smoothing period. By linking the spending distribution amount directly to the endowment's market value, this rule type usually produces the most dramatic changes in spending when investment conditions shift. Therefore, purchasing power preservation is prioritized during periods when the endowment's market value declines. The primary levers of this approach are the target spending rate and the date or smoothing period used to measure the market value. Some institutions also use a cap and floor to contain changes in annual spending during volatile market periods.

Market Value–Based Policies: Target Spending Rates by Asset Size and Institution Type

NUMBER AND PERCENTAGE OF RESPONDENTS

2020 • n = 185

By Asset Size

	Less than 4.00%	4.00% – 4.49%	4.50% – 4.99%	5.00%	5.01% – 5.99%	6.00% and Above
Less than \$100M	10%	23%	16%	45%	3%	3%
<i>n</i>	3	7	5	14	1	1
\$100M – \$200M	3%	27%	19%	38%	5%	8%
<i>n</i>	1	10	7	14	2	3
\$200M – \$500M	10%	20%	25%	35%	8%	3%
<i>n</i>	4	8	10	14	3	1
\$500M – \$1B	3%	31%	28%	28%	10%	—
<i>n</i>	1	9	8	8	3	—
More than \$1B	2%	38%	29%	27%	4%	0%
<i>n</i>	1	18	14	13	2	0

By Institution Type

	Less than 4.00%	4.00% – 4.49%	4.50% – 4.99%	5.00%	5.01% – 5.99%	6.00% and Above
Colleges & Universities	5%	32%	25%	29%	7%	2%
<i>n</i>	5	36	28	32	8	2
Independent Schools	5%	32%	37%	26%	—	—
<i>n</i>	1	6	7	5	—	—
Cultural & Environmental	4%	9%	13%	61%	9%	4%
<i>n</i>	1	2	3	14	2	1
Healthcare	—	40%	30%	20%	—	10%
<i>n</i>	—	4	3	2	—	1
Other Nonprofits	14%	18%	14%	45%	5%	5%
<i>n</i>	3	4	3	10	1	1

Source: Spending policy data as reported to Cambridge Associates LLC.

Notes: Market value–based spending policies base spending on a pre-specified percentage of a moving average of market values. If a range was provided, the target spending rate was calculated using the midpoint of the range.

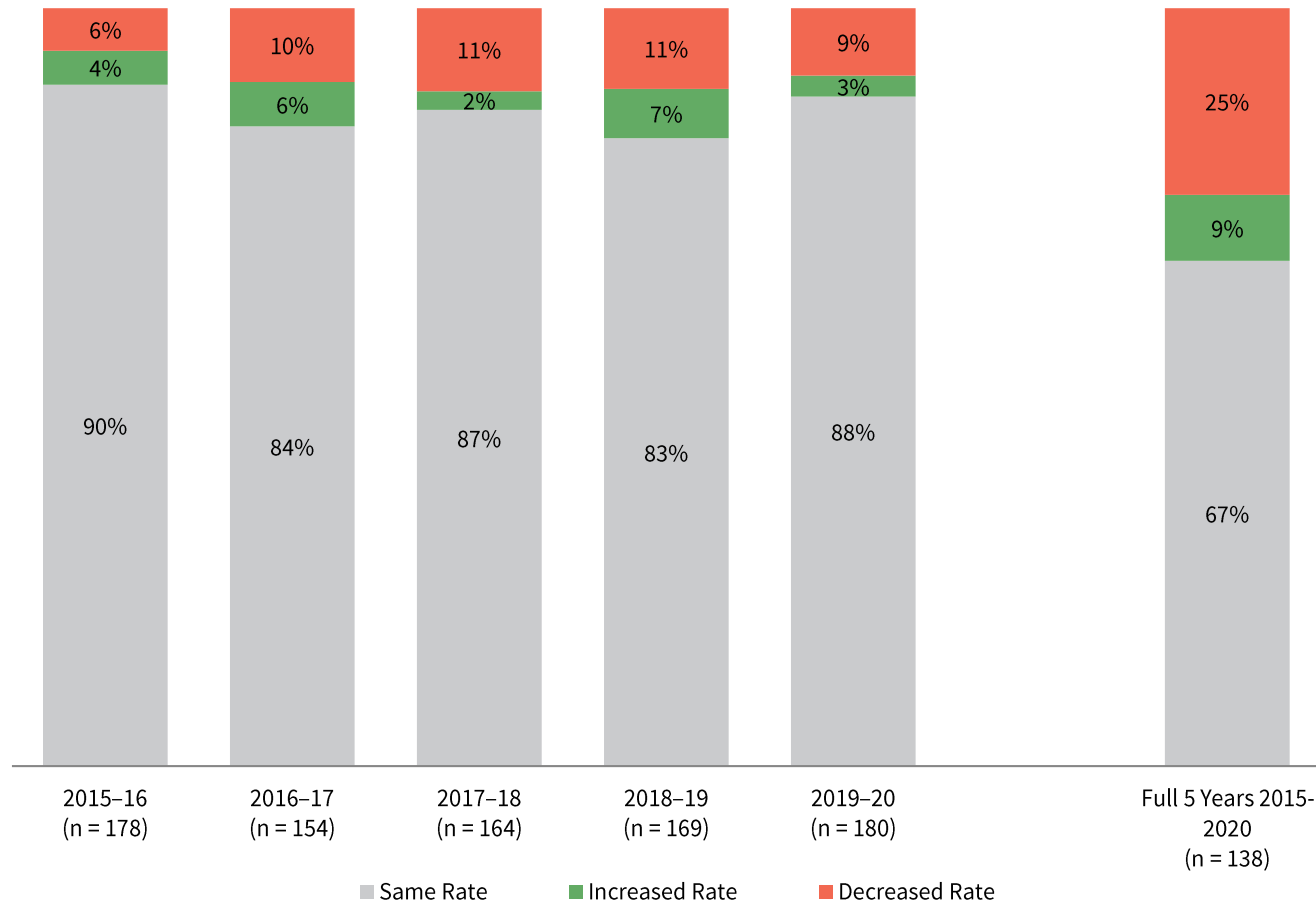
Market Value–Based Policies: Spending Policy Collars

COLLARS (<i>n</i> = 9)	CAPS ONLY* (<i>n</i> = 6)	FLOORS ONLY (<i>n</i> = 2)
<ul style="list-style-type: none"> ▪ 2.0% – 7.0% of average MV over the year ▪ 3.0% – 6.0% of current MV ▪ 3.5% – 5.0% of current MV ▪ 3.5% – 6.0% of current MV ▪ 90% – 107% of prior year's payout ▪ 100% – 105% of prior year's payout ▪ 100% – 110% of prior year's payout (<i>n</i> = 2) ▪ 100% of prior year's payout - 7% of 36-month average MV 	<ul style="list-style-type: none"> ▪ 105% of prior year's payout ▪ 110% of prior year's payout (<i>n</i> = 2) ▪ 4.6% of current MV ▪ 5.3% of current MV <p>* Cap Only: Spending rate may not exceed 10% of prior year spending rate. If the results from using only the average market value of either the final four quarters or eight quarters alone would be a decline in distribution from the prior year, then the distribution may not exceed the prior year's level.</p>	<ul style="list-style-type: none"> ▪ 100% of prior year's payout ▪ 100% of FY2006 payout

Market Value–Based Policies: Changes to Target Spending Rates Over Time

INSTITUTIONS CHANGING TARGET RATES IN MARKET VALUE–BASED SPENDING POLICIES

Fiscal Years 2015–20 • Percent (%)

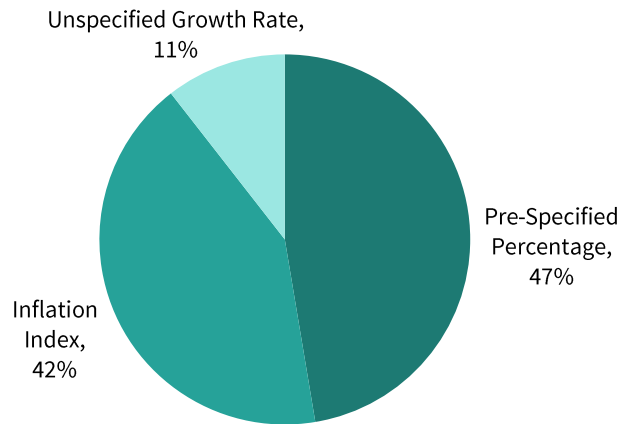


In fiscal year 2020, 88% used the same target spending rate as reported in the previous year. This is consistent with the trend we have observed over the last five years, where most institutions make no change in any given year. Over the full five-year period nearly two-thirds of respondents maintained a consistent target spending rate.

Constant Growth Policy Mechanics

GROWTH RATES USED IN CONSTANT GROWTH SPENDING POLICY CALCULATION

2020 • n = 19



Pre-Specified Percentage

- 5.0% (n = 1)
- 4.5% (n = 1)
- 4.0% (n = 2)
- 3.0% (n = 2)
- 2.5% (n = 1)
- 2.0% (n = 2)

Inflation Index

- CPI-U (n = 6)
- CPI-U, 3-yr average (n = 1)
- HEPI, 5-yr average (n = 1)

COLLARS (n = 13)

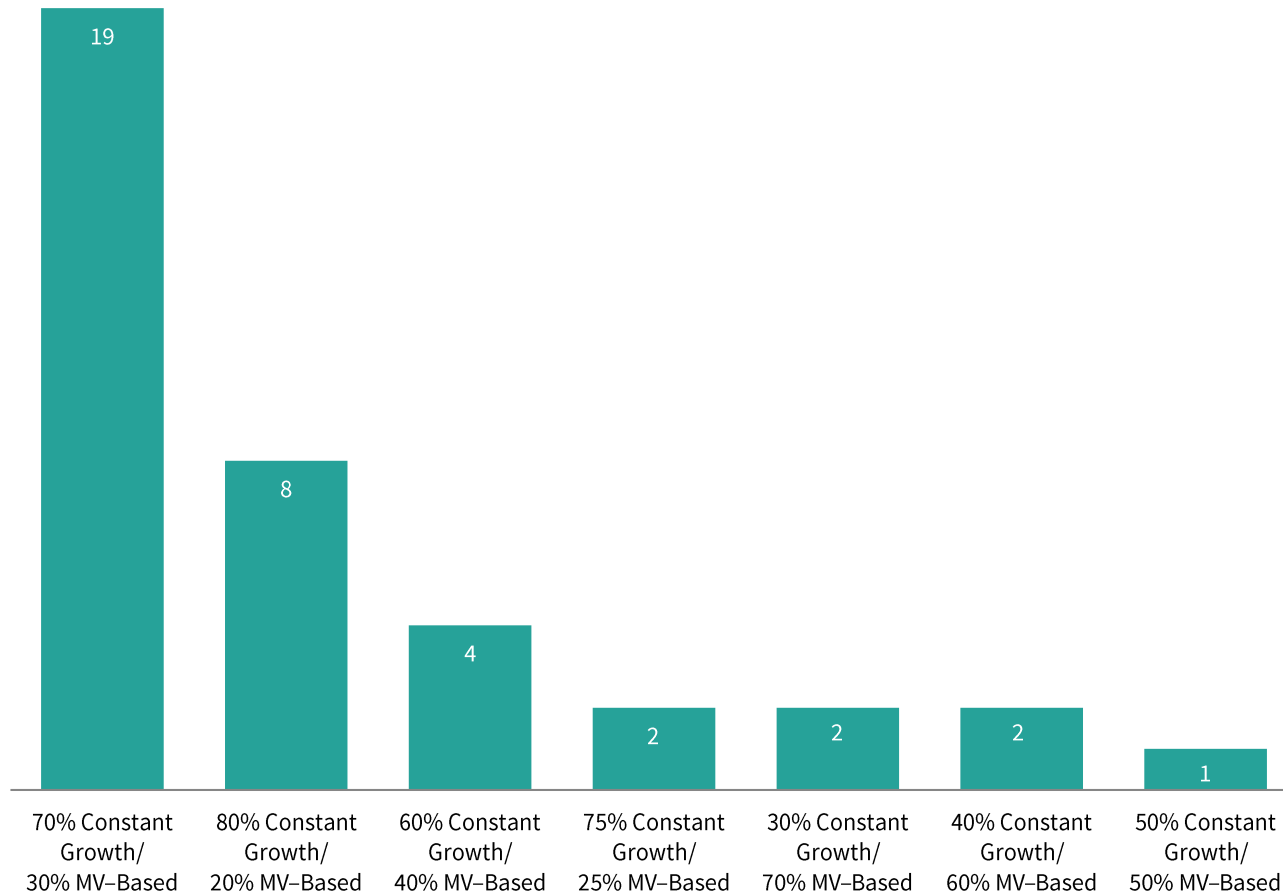
- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ 4.5% – 5.5% of 20-quarter average MV (n = 2) ▪ 4.5% – 5.5% of 3-year average MV ▪ 4.5% – 6.5% of 4-quarter average MV ▪ 4.5% – 5.5% of 12-quarter average MV ▪ Floor: 4.5% of 8-quarter average MV; cap: 5.5% of 4-quarter average MV ▪ 4.0% – 7.0% of beginning year MV | <ul style="list-style-type: none"> ▪ 4.0% – 6.5% of 3-year average MV ▪ 4.0% – 6.0% of beginning year MV ▪ 4.0% – 6.0% of 3-year average MV ▪ 3.75% – 5.0% of 12-quarter average MV ▪ 3.5% – 5.5% of 3-year average MV ▪ 3.0% – 4.4% of 12-quarter average MV |
|---|---|

A constant growth spending policy increases the prior year's spending amount by a measure of inflation and/or a pre-specified percentage. The strict application of a constant growth rule produces predictable spending but has notable shortcomings: increasing spending during prolonged periods of low or negative investment returns quickly eats away at an already dwindling market value and may permanently impair the endowment. Conversely, in a high-return environment, this type of policy can be perceived as significantly under-spending. In practice, institutions mitigate these shortcomings by imposing a spending cap and floor based on a percentage of the endowment's market value or a moving average of market values.

Hybrid Policy Mechanics

HYBRID SPENDING POLICIES: WEIGHTINGS OF CONSTANT GROWTH AND MARKET VALUE-BASED COMPONENTS

2020 • Number of Institutions • n = 38



Source: Spending policy data as reported to Cambridge Associates LLC.

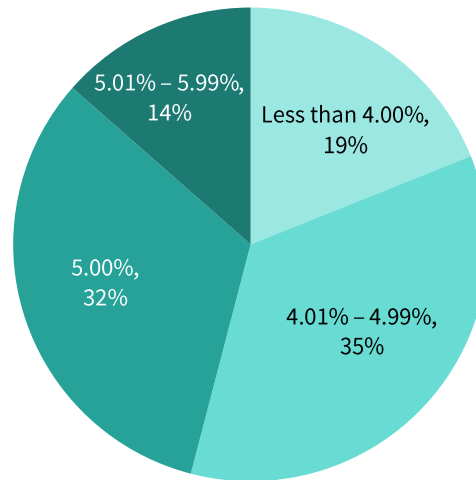
Notes: Hybrid policies essentially have the effect of spending a pre-specified percentage of an exponentially weighted average market value (MV). The rule is expressed as a weighted average of a constant growth policy and a percentage of MV policy.

A hybrid spending policy blends the more predictable spending element of a constant growth policy with the asset preservation principle of a market value-based policy and allows an institution to set the appropriate mix that best meets its needs. The rule is expressed as a weighted average of a constant growth rule and a percentage-of-market-value (or average market value over a period of time) rule. The larger the weighting to the market value component, the more impact that a change in the endowment's market value will have on the annual spending distribution. Most institutions apply the larger weighting to the constant growth component, emphasizing more predictable spending.

Hybrid Policy Mechanics (continued)

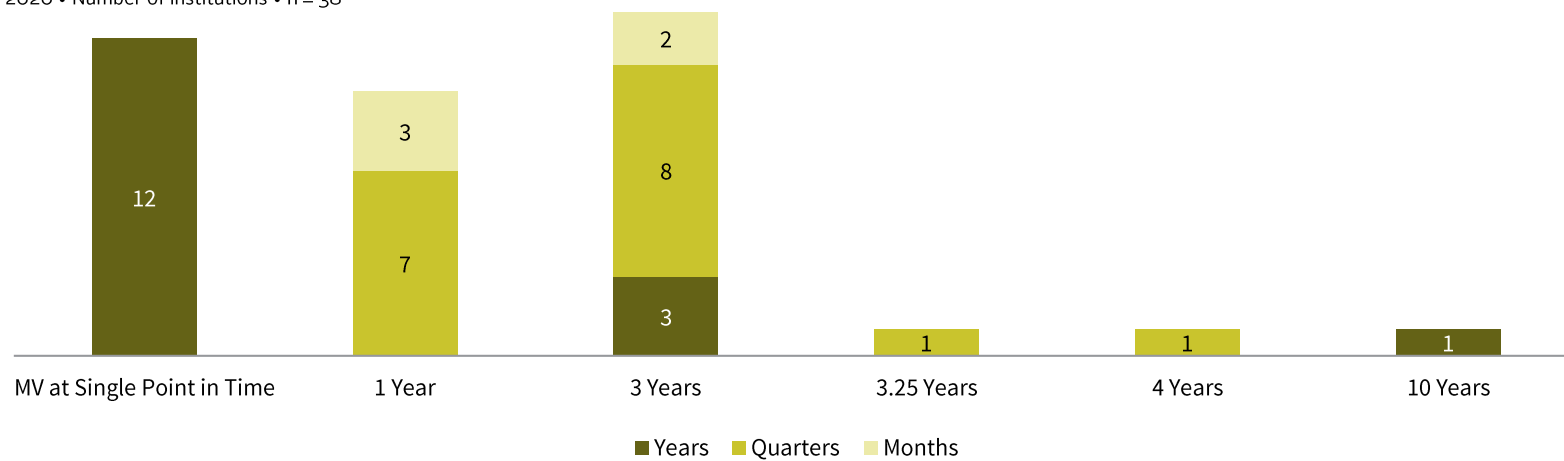
TARGET RATES USED IN MARKET VALUE COMPONENT

2020 • n = 37



SMOOTHING PERIODS USED IN MARKET VALUE COMPONENT

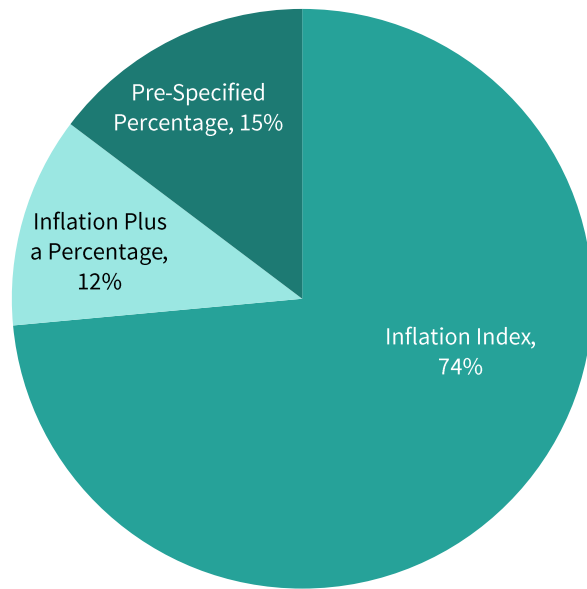
2020 • Number of Institutions • n = 38



Hybrid Policy Mechanics (continued)

GROWTH MEASURES USED IN CONSTANT GROWTH COMPONENT

2020 • n = 34



Inflation Index

- CPI-U (*n* = 13)
- Higher Education Price Index (*n* = 9)
- 60% ECI/40% CPI-U (*n* = 1)
- Unspecified Inflation Index (*n* = 1)
- CPI-U: Elementary and High School Tuitions and Fees (*n* = 1)

Inflation Index Plus a Percentage

- CPI-U + 1.5% (*n* = 2)
- CPI-U + 1.0% (*n* = 1)
- 13-Quarter Average CPI-U + 1.0% (*n* = 1)

Pre-Specified Percentage

- 2.0% (*n* = 4)
- 3.0% (*n* = 1)

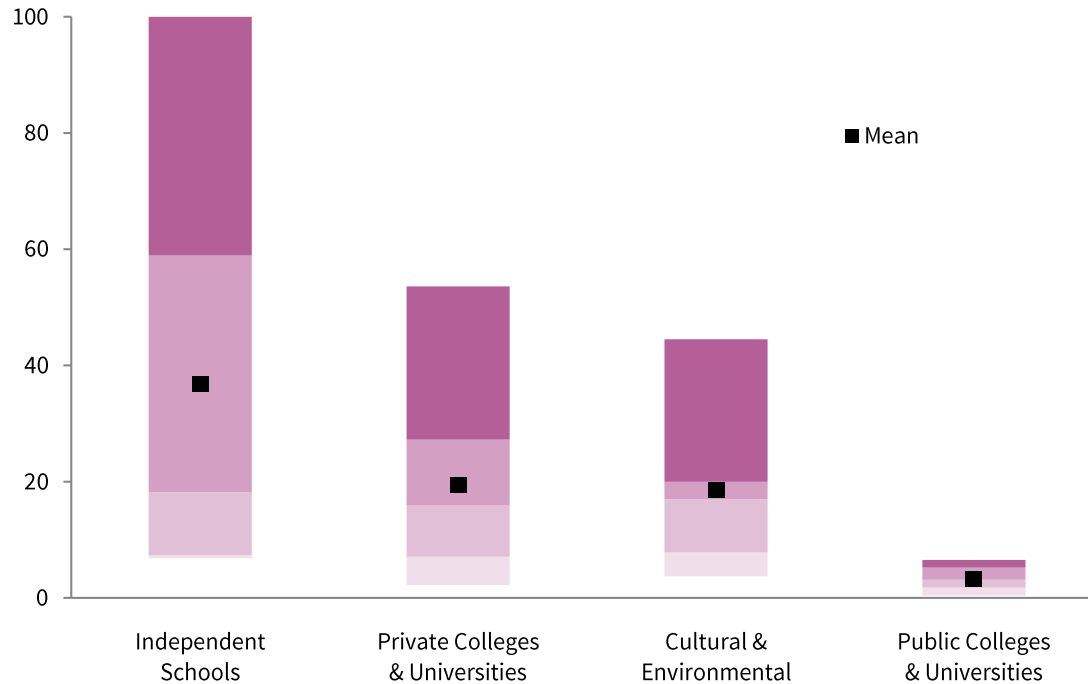
COLLARS (*n* = 8)

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ 3.0% – 5.0%; time period not specified ▪ 3.5% – 5.0% of current MV ▪ 3.75% – 5.75% of the MV 1 year prior to the beginning of the fiscal year ▪ 4.0% – 5.5%; time period not specified | <ul style="list-style-type: none"> ▪ 4.0% – 6.0%; time period not specified ▪ 4.0% – 6.5%; time period not specified ▪ 4.5% – 6.0%; time period not specified ▪ 4.75% – 5.75%; time period not specified |
|---|--|

Support of Operations by Institution Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES

2020



5th Percentile	100.0	53.6	44.5	6.5
25th Percentile	58.9	27.2	20.0	5.2
Median	18.2	15.9	17.0	3.1
75th Percentile	7.3	7.1	7.8	1.8
95th Percentile	6.8	2.2	3.7	0.4
Mean	36.8	19.4	18.6	3.3
<i>n</i>	11	69	8	18

Since few nonprofit institutions generate enough revenues from their core operations to break even on their annual operating budgets, many rely on their long-term investment portfolio (LTIP) to provide additional financial support. The percentage of the operating budget that is funded by the LTIP varies considerably among the institutions in this study. Spending distributions supported 1% or less of the operating budget for some institutions, but for others, they serve as the single largest source of revenue.

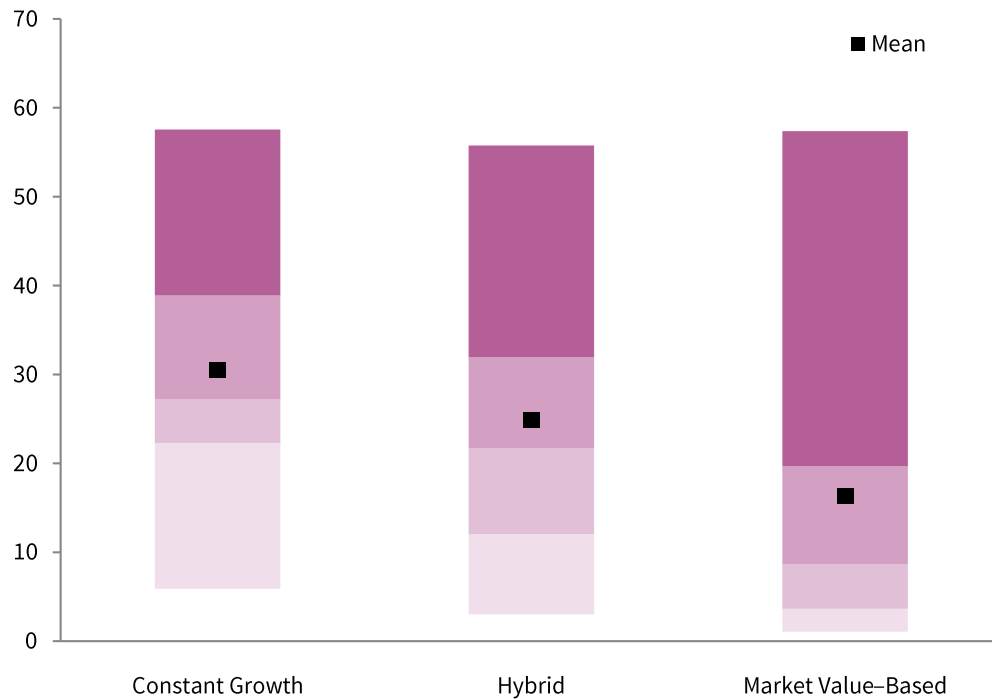
Source: Spending policy data as reported to Cambridge Associates LLC.

Note: LTIP support of operations is the proportion of the operating budget that is funded from LTIP payout.

Support of Operations by Spending Rule Type

LTIP SUPPORT OF OPERATIONS AS A PERCENTAGE OF TOTAL OPERATING EXPENSES

2020



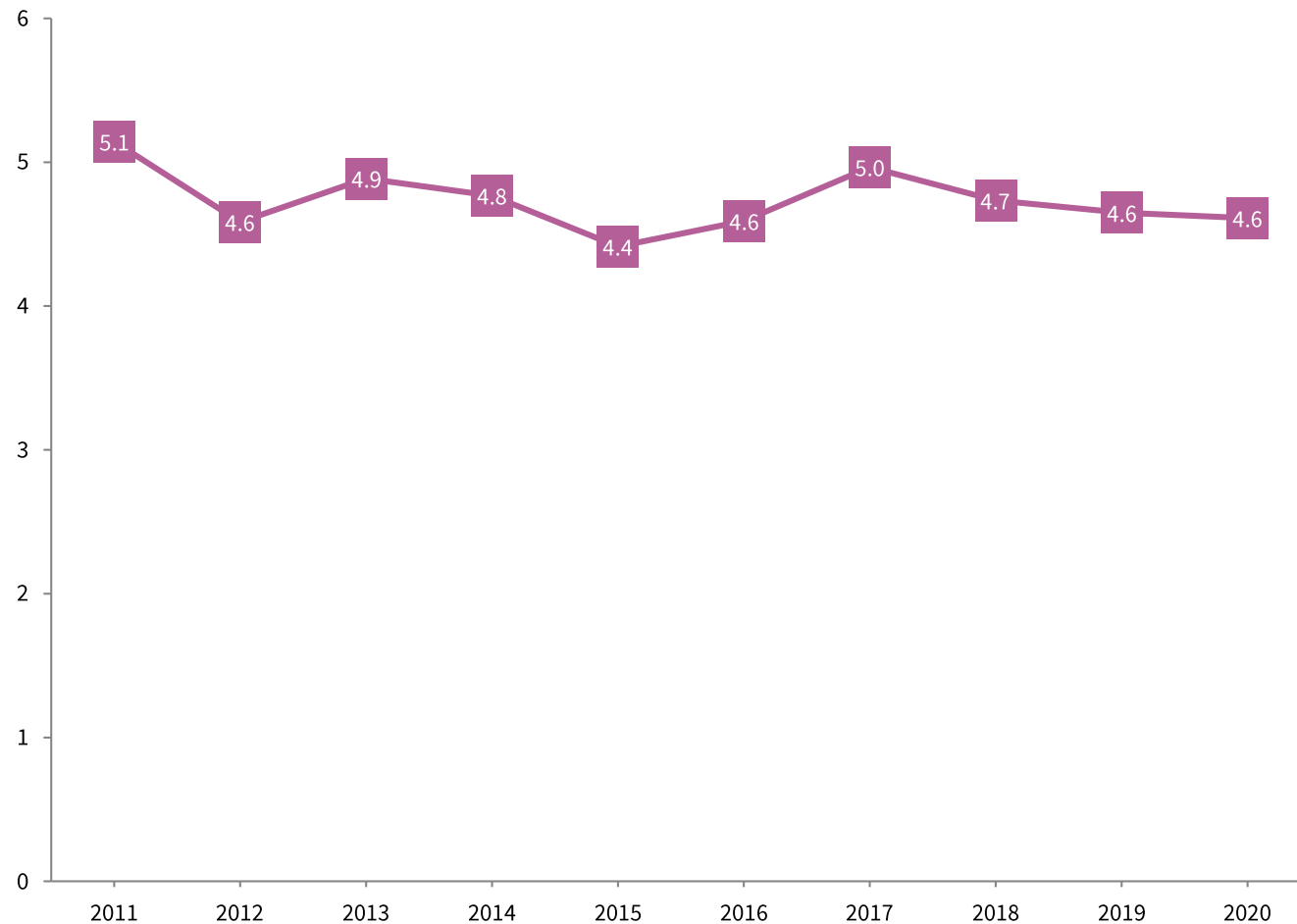
The median LTIP support ratios are highest for the subgroups of participants that have constant growth or hybrid policies. The more predictable stream of spending dollars presumably makes these rule types appealing to institutions that rely on the LTIP to fund a substantial portion of the operating budget.

5th Percentile	57.6	55.7	57.4
25th Percentile	38.9	32.0	19.7
Median	27.2	21.7	8.7
75th Percentile	22.3	12.0	3.7
95th Percentile	5.9	3.0	1.1
Mean	30.5	24.8	16.3
<i>n</i>	11	19	78

Effective Spending Rate Trends

MEAN EFFECTIVE SPENDING RATE

2011-20 • Percent (%) • *n* = 94



The effective spending rate is calculated as the total annual spending distribution as a percentage of the beginning market value of the LTIP.

Appendix: Participant List

Colleges and Universities

Allegheny College
American Coll of Greece & American Univ of Greece
American University
Amherst College
Baylor University
Bentley University
Berkeley Endowment Management Company
Bethune-Cookman University
Boston College
Boston University
Bowdoin College
Brown University
Bryn Mawr College
California Institute of Technology
Carleton College
Carnegie Mellon University
Case Western Reserve University
Centenary College of Louisiana
Chapman University
Claremont McKenna College
Clarkson University
Clemson University Foundation
Colby College
Colgate University
College For Creative Studies
College of The Atlantic
Columbia University
Connecticut College
Cooper Union for the Advancement of Science & Art
Cornell University
Dartmouth College
Davidson College
Denison University
Duke University
Duquesne University
Emory University
Florida International University Foundation, Inc.
Florida State University Foundation Inc.
Georgia Tech Foundation Inc.
Gettysburg College
Goucher College
Grand Valley State University

Grinnell College
Hampton University
Harvard Management Company, Inc.
Haverford College
Hollins University
Hope College
Houston Baptist University
Howard University
Indiana University Foundation
Iowa State University Foundation
Jewish Theological Seminary of America
Johns Hopkins University
Kalamazoo College
KU Endowment
Lafayette College
Lebanese American University
Lehigh University
Lewis and Clark College
Louisiana State University Foundation
Loyola University Chicago
Lycoming College
Macalester College
Mercy College
Michigan State University
MIT Investment Management Company
Mount Holyoke College
Mount St. Mary's University
National University
Nevada System of Higher Education
New England Conservatory
New York University
Northeastern University
Northwestern University
Norwich University
Oberlin College
Occidental College
Ohio State University
Ohio Wesleyan University
Pace University
Pennsylvania State University
Pepperdine University
Pomona College

Princeton University
Purdue Research Foundation
Reed College
Rensselaer Polytechnic Institute
Rice University
San Francisco State University Foundation
Santa Clara University
Scripps College
Seattle University
Simmons College
Soka University of America
Southern Methodist University
Southern New Hampshire University
Spelman College
St. Lawrence University
Stanford University
Swarthmore College
Texas Lutheran University
Texas State Univ. Dev. Fdn.
The Rockefeller University
The UCLA Foundation
The University of Chicago
The University of Oklahoma Foundation, Inc.
The University of Texas Investment Management Co.
Trinity University
Tulane University
UNC Management Company, Inc.
UNCG Endowment Partners, LP
Union Theological Seminary
University of Alaska Foundation
University of Arkansas Foundation Inc.
University of California
University of California, San Francisco
University of Cincinnati
University of Delaware
University of Florida Investment Corporation
University of Hawaii Foundation
University of Houston System
University of Idaho Foundation, Inc.
University of Illinois Foundation
University of Kentucky
University of Louisiana at Lafayette Foundation
University of Michigan
University of Nebraska Foundation

Appendix: Participant List

Colleges and Universities (contd)

University of Notre Dame
University of Oregon Foundation
University of Pennsylvania
University of Pittsburgh
University of Rhode Island Foundation
University of Rochester
University of San Diego
University of Southern California
University of St. Thomas
University of Tennessee
University of the Pacific
University of Vermont & State Agricultural College
University of Virginia Investment Management Co.
University of Washington
Vanderbilt University
Villanova University
Virginia Tech Foundation
Washburn University Foundation
Washington and Jefferson College
Washington College
Washington University in St. Louis
Webb Institute
Wellesley College
Wesleyan University
Western New England University
Wichita State University Foundation
William & Mary Foundation
Williams College
Yale University
Yeshiva University

Other Nonprofits

American College of Surgeons
Animal Rescue League of Boston
Armenian Church Endowment Fund
Catholic Church Extension Society
Catholic Diocese of Wilmington
Catholic Investment Trust of Washington
Claremont University Consortium
Episcopal Divinity School
HighGround Advisors
Howard Hughes Medical Institute

Isidore and Van Gerwen Charitable Trusts
Jewish Child Care Association
Lucile Packard Foundation for Children's Health
Mission Diocese Fund
Saint Thomas Church
Soka University of America EEF
Southern Poverty Law Center
Spastic Children's Endowment Foundation
Sunflower Foundation Health Care for Kansans
Texas Biomedical Research Institute
The American Society of Hematology
The Boston Home Inc.
The Ignatius Fund
The Rose Hills Foundation
Trinity Church Wall Street
United Methodist Health Ministry Fund
Xaverian Brothers USA

Cultural & Environmental Endowments

Boston Symphony Orchestra Inc.
Carnegie Institution for Science
Council on Foreign Relations
Cypress Lawn Endowment Care Trust
Honolulu Museum of Art
Isabella Stewart Gardner Museum
Linda Hall Library Trusts
Longwood Gardens, Inc.
Metropolitan Museum of Art
Museum of Contemporary Art, Los Angeles
Museum of Fine Arts, Boston
Museum of Fine Arts, Houston
Museum of Science, Boston
National Gallery of Art
National Geographic Society
National Wildlife Federation
New York Philharmonic
NPR Foundation
Philadelphia Museum of Art
Ravinia Festival Association
Scenic Hudson Land Trust Inc.
Science History Institute
Seattle Art Museum
Smithsonian Institution

The Brookings Institution
The Edison Institute
The Frick Collection
The J. Paul Getty Trust
The New York Public Library
The Trustees of Reservations
The Vivian Beaumont Theater, Inc.
United Negro College Fund
Wildlife Conservation Society

Healthcare

Blythedale Children's Hospital
Cleveland Clinic Fdn;The
Hawaii Pacific Health
Holy Redeemer Health System Inc.
Maine Medical Center
Mayo Clinic
Mount Sinai School of Medicine
Northwestern Memorial HealthCare
Novant Health Inc.
Ochsner Clinic Foundation
Partners HealthCare System, Inc.
Saint Francis Foundation
The Children's Institute

Independent Schools

Auditory Learning Foundation
Boston College High School
Buckingham Browne & Nichols School
Castilleja School
Greenwich Country Day School
Hockaday School
Kamehameha Schools
Lakeside School
Milton Hershey School Trust
Park Tudor Trust
Phillips Exeter Academy
Punahou School
Salisbury School
St. Paul's School
The Blake School
The Brearley School
The Colburn School

Appendix: Participant List

Independent Schools (contd)

The Episcopal School of Dallas
The Fessenden School
The Hotchkiss School
The Lawrenceville School
The Loomis Institute
The Pingry School
The Roxbury Latin School
The Winsor School
Western Reserve Academy
Xaverian Brothers High School



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