Union College Endowment

An Analysis and Evaluation of Investment Strategy and Performance

Eshragh Motahar, Professor of Economics[1]
for the Budget Committee, AAUP/AFT Chapter, Union College
March 7th, 2025

Summary

Union's endowment underperformed S&P 500 by 13.5 percentage points in FY 2024. This translates to roughly $70.5 million. With the minor exception of FY2015, Union has underperformed S&P 500 ***every year*** since 2010, often by substantial margins. Based on Union's own data, plus data available from public sources, we show that Union's endowment management has been suboptimal. Its investment strategy has failed based on six criteria including short and long-term returns on investment, risk, transparency and accountability. An expert in the field, from a reputable academic institution, after examining Union's endowment data concludes: "**this endowment has not historically generated performance that a Union College stakeholder should consider acceptable**."

(All years are fiscal years; that is, for example, 2021 means July 1, 2020 through June 30, 2021.)

1. ***Union's short-term performance***

- Lower rate of return than the widely-used financial markets benchmark, the S&P 500 Index[2].
    - 2021, **12** percentage points lower
    - 2022, **4** percentage points lower[3]
    - 2023, **13** percentage points lower
    - 2024, **13.5** percentage points lower
- Lower rate of return than an alternative benchmark: 80% S&P 500/20% US Treasuries.
- An alternative assessment, provided by the director of investment management services to a major academic institution: "[Union has] materially underperformed a 70% S&P 500 / 30% BBG US Aggregate [here] benchmark."

2. ***Union's Long-term performance***

- Worse than S&P 500, for ***any*** window length, spanning from 5 to 24 years, starting from FY2000 on.[4]

---

[1] I am grateful to the many colleagues who provided invaluable feedback on earlier versions of this report. A number of student research assistants provided help with data collection. I am solely responsible for the contents of this report. Also, consistent with principles of transparency and accountability, all data, spreadsheets, econometric workfiles, and methodological approaches and formulas used in the preparation of this report are available upon request. An extensive bibliography on endowment management can be found here.

[2] "The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices." More details can be found here.

[3] According to a senior financial analyst: "Amazing that even in 2022 when S&P had a horrible year Union still under performed. That takes skill not luck."

[4] We used Union consultants'—Gerber|Taylor—methodology. Essentially, starting with $100 from FY2008 on, with an annual draw of 5%, we track the performance of that $100 based on Union's returns, on the one hand, and S&P500, on the other. (Union has switched to Commonfund as its investment consultant.)

- Using 2008 as a logical base year (see this interview by the then chair of the Investment Committee of the Board of Trustees), the inflation-adjusted value of the endowment in FY2024 was approximately the same as in 2008. This result has been achieved after 16 years of active management, and the expenditure of over $100 million in management fees. Thus, the millions of dollars in donations to the endowment, over this period, have, in effect, made no difference.

- Continuing to use 2008 as a base year, and using Union's own methodology and data (see footnote 4), by the end of FY2024, S&P 500 had outperformed Union by 141%. See Figures 1 and 2 in Appendix 2. The first is not adjusted for inflation, the second is.

- According to the director of investment management services to a major academic institution: "I think there are very valid questions about the strength of the long-term results and whether returns have been sufficient to compensate for the level of risk in the portfolio."

- On average, investment fees as a percentage of the endowment increased by 491% during the 2000-2020 period, while, during the same period, performance deteriorated by 198%. (See Figure 3, Appendix 2. Also, see Appendix 3 for underlying data.) Therefore, Union has paid millions of dollars per year, for over a decade, to achieve sub-optimal returns ***and*** risk. Union stopped publishing data on fees as of FY2021 after a decades-long tradition of publishing them.

3. ***Risk***

- Worse than S&P 500 Index, based on the Sharpe Index. The Sharpe Index, or Sharpe Ratio, enables us to compare the risk-return characteristics of Union's endowment performance with those of a "risk-free" asset, such as a ten-year US Treasury bond. Our computations (available upon request) show that Union performed poorly in this category as well.
- An alternative assessment, provided by the director of investment management services to a major academic institution: "The fact that their Sharpe ratios do not exceed the 70/30 MSCI ACWI benchmark [here] is surprising and, to me, does indicate a relatively poor historical return / risk ratio."

4. ***Volatility***

One of the justifications given by the College's consultants (Gerber|Taylor) for the payment of high investment management fees is that this mechanism insulates the endowment from ***"low frequency/severe loss episodes"***. The data below demonstrate that this is precisely what has **not** happened. Note that, in particular, in 2016 there were **no** adverse market conditions.

- The value of the endowment actually ***declined*** by
  - $108 million in 2009; **-27%** (fees paid: $3.24 million)
  - $52 million in 2016; **-12%** (fees paid: $5.6 million)
  - $97 million in 2022; **-16%** (fees paid: information withheld by the College)

    NB: "fees" are specifically defined as "Investment management fees (including any incentive fees)."

5. ***Transparency***

- Data on investment management and incentive fees have been withheld as of 2021. When requested, the Vice President for Administration and Finance refused to provide the information.

- The names of the members of the Investment Committee of the Board of Trustees have been withheld. Requests for information put to the Vice President for Administration and Finance and to a Faculty Trustee have not borne fruit.

- According to the College, "Currently there is a restriction on board of trustee records for [at least] 25 years from creation." That restriction includes the minutes of the Investment Committee. Thus, as of 2023, only "investment committee minutes from 1998 and before can be viewed [subject to additional conditions]."

- There is no clarity on **Cayman Islands** investments--around 54% of Union's endowment was invested by companies registered there in 2020. Then suddenly, in 2021 this fell to 30% (it was 31% in 2022). The average such investments for the period 2010-2022 was 46%.[5]

- Based on extensive discussions with a senior financial analyst on Wall Street (with 30 years of experience):
    - Three characteristics of a good investment strategy are: "simple, transparent, low-fee." Normally, investments on the Cayman Islands tend to be "complex, non-transparent, high-fee."
    - That senior financial analyst asked, "What are the types of investments for which you need to be on Cayman Islands rather than in the U.S.?"

- According to a respected expert in the field:
    - "I am unaware of any conceivable legitimate tax-law-based advantages for a non-profit endowment of Union's size to put its portfolio into offshore investments on the Grand Cayman Islands."
    - "[The] only conceivable non-tax advantages for a non-profit to invest via Grand Cayman entity is possibly lower regulatory compliance paperwork costs? But that regulatory compliance burden for US-based investment management is designed to PROTECT investors from fraud (as Sam Bankman-Fried case vividly illustrates) so it's kind of like deciding to do a major home renovation with a contractor without dealing with the hassles of securing a building permit."

- There is lack of transparency regarding disclosure of Union's investment exposure to the fossil fuel industry, defense industry, and similar problematic sectors/countries which might be of concern to some members of the campus community.

- For examples of higher transparency in some peer institutions, see Amherst, here; and Colgate, here.

[5] IRS form 990, Schedule F, 2020, 2021, and 2022, under "CENTRAL AMERICA AND THE CARIBBEAN," "INVESTMENTS." The average of 46% is based on annual IRS forms 990 going back to 2010. No such information is indicated on forms prior to 2010.

6. ***Accountability***

- Deep in its Winter 2023 Report the Board of Trustees includes the following assertion (in the face of all the above evidence to the contrary): "During a highly volatile period for investing, the College remains in sound financial health with an endowment at about $500 million." [6]

- Some College authorities seem to confuse a "benchmark" with an "investment strategy." A benchmark is just that, and S&P 500 is a widely-used benchmark. We have not advocated investing 100% in an S&P 500 index fund. In any case, *Union's endowment has done poorly even considering other benchmarks* (as documented above).

[6] The link to the Winter 2023 Report was subsequently removed by the College.

Appendix 1: A Realtor's Tale

In defending Union investment managers' sub-optimal performance, some College authorities have offered the following explanations. In the spirit of "constructive engagement" that those authorities have advocated, we offer the following. [Statements in italics paraphrase College authorities' publicly announced positions.]

1. *Fees do not matter, performance does.* The example of selling one's house has been used. To be specific:

    a. A person sells her house, herself, for $100K
    b. If, instead she hires a real estate agent, who charges 6%, the house sells for $115K. In this case her net proceeds are $108. So, she is ahead by $8k.

    Clearly, in the above example the (b) option dominates, and the fees charged are worth it. However, the above example leads one to draw exactly the opposite conclusion from Union's experience to the one that College authorities insist on. In actual fact, Union has been paying fees ***and*** underperforming the no-fee option. That is, it has been engaged in a pay-to-lose strategy (please see the evidence above). To use the College authority's example, it is as if the woman's real estate agent took her 6% and got a price of $85K for a house valued at $100K.

2. *Volatility*. The Administration has correctly stated that if the value of the endowment goes down for a year or two, we would be in trouble regarding the amount that the draw contributes to the annual budget. However, in actual fact Union's endowment performance in terms of volatility has been worse than the no-fee option. See evidence above.

3. *Why is endowment so low? "I don't care." What matters is what happens from now on*. However:

    a. Should we not be concerned about accountability? Does the Board of Trustees not have a fiduciary responsibility for the sub-optimal performance of the endowment for over a decade and a half?
    b. If we do not learn from the past, are we not bound to repeat our mistakes?

4. *We have hired Commonfund. They are expected to do better*.

    a. In the interests of transparency, what were the criteria and procedures used for choosing Commonfund?
    b. What is their fee structure? How do we know that their fee structure does not lead to perverse results?
    c. Who make investment decisions? The Investment Committee of the Board, or Commonfund? If the former, then what difference would it make to go from Gerber|Taylor to Commonfund?

5. *Need to think in perpetuity*. What is the relevance of this to the performance of the endowment; which performance has been sub-par for well over a decade and a half? Please see the evidence above.

Appendix 2

Figure 1

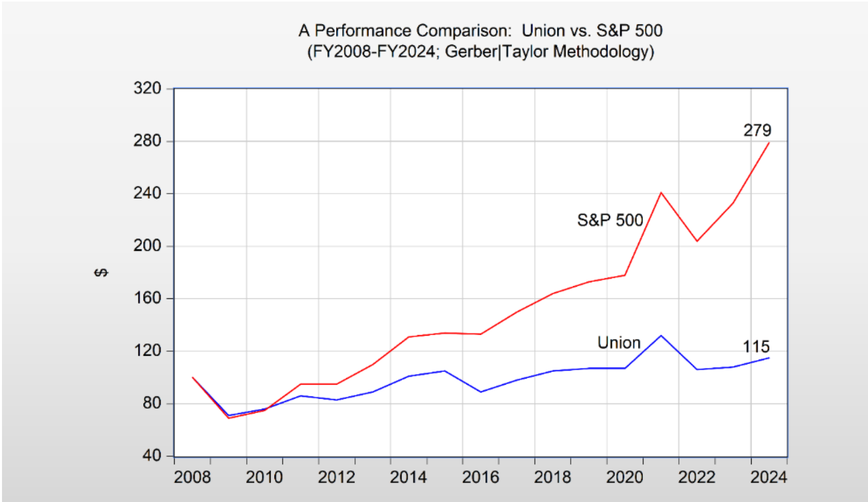


Figure 2

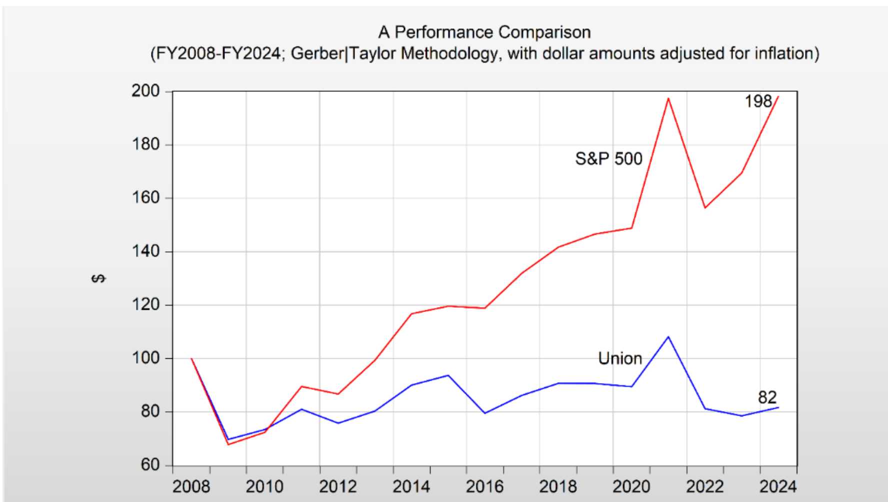
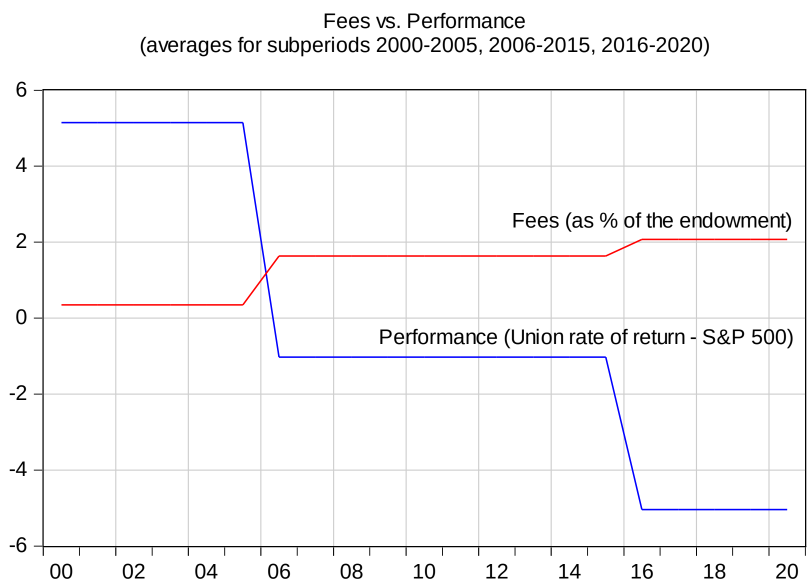


Figure 3



Appendix 3

Basic Endowment-Related Data, Union College, 2000-2024

FY	Endowment	Fees	Fees as % Endow	RoR	SP500	Underperformance
	millions	millions	%	%	%	% points
2000	274.4	0.70	0.3	3.4	7.2	-3.8
2001	268.9	0.86	0.3	-0.4	-14.8	14.4
2002	245.3	0.84	0.3	-6.1	-18.0	11.9
2003	246.1	0.81	0.3	4.9	0.3	4.6
2004	276.4	1.16	0.4	18.4	19.1	-0.7
2005	298.3	1.32	0.4	10.8	6.3	4.5
2006	324.0	3.45	1.1	13.7	8.6	5.1
2007	378.7	4.87	1.3	18.6	20.6	-2.0
2008	399.5	7.33	1.8	3.6	-13.1	16.7
2009	291.3	3.24	1.1	-23.6	-26.2	2.6
2010	297.1	4.85	1.6	11.0	14.4	-3.4
2011	327.8	6.86	2.1	18.9	30.7	-11.8
2012	322.0	5.60	1.7	1.7	5.4	-3.7
2013	358.6	6.20	1.7	12.3	20.6	-8.3
2014	415.8	8.56	2.1	17.9	24.6	-6.7
2015	441.0	7.99	1.8	8.6	7.4	1.2
2016	389.2	5.60	1.4	-9.7	4.0	-13.7
2017	427.6	6.93	1.6	15.2	17.9	-2.7
2018	456.5	9.10	2.0	11.9	14.4	-2.5
2019	470.0	10.60	2.3	6.5	10.4	-3.9
2020	478.0	14.60	3.1	5.1	7.5	-2.4
2021	598.7	N/A	N/A	29.0	40.8	-11.8
2022	501.8	N/A	N/A	-14.7	-10.6	-4.1
2023	522.1	N/A	N/A	6.6	19.6	-13.0
2024	567.5	N/A	N/A	11.1	24.6	-13.5

Notation:

Endowment	Amount as reported by KPMG under "endowment and similar funds balances."
Fees	"Investment management fees (including any incentive fees)." KPMG
RoR	"The pooled endowment total return." KPMG
SP500	"S&P 500 Total Return Index." Source: S&P Global and Bloomberg. This is a widely-used performance benchmark in financial markets.
Underperformance	RoR minus S&P 500.

All KPMG data are as of June 30 of the respective years. KPMG is the College's auditor.

Data on fees have been withheld by the College as of FY2021.