

Union College Endowment

An Analysis and Evaluation of Investment Strategy and Performance

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Summary

Union's endowment underperformed S&P 500 by 13 percentage points in FY 2023. This translates to roughly \$65 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, S&P500 Index².
 - 2021, **12** percentage points lower
 - 2022, **4** percentage points lower
 - 2023, **13** percentage points lower
- Lower rate of return than median rate of return for endowments.
 - 2022: Union **-15%** vs. **-8%**. "The median result for endowments and foundations in the fiscal year ended June 30 [2022] was a 7.8% loss, according to a preliminary estimate by Cambridge Associates." *The Wall Street Journal*, October 31st, 2022.
 - 2023: Union **6.6%** vs. **8.6%**. "Estimates published by Wilshire Trust Universe Comparison Service earlier this year found that foundations and endowments with assets ... under \$1 billion saw a median return of 8.6 percent." *Inside Higher Education*, November 21st, 2023.
- Comparison with peer institutions
 - 2021: Union **+25%** vs. median peer **+35%** (See Appendix 1, below.)
 - 2022: Union **-16%** vs. median peer **-7%**. (See Appendix 1, below.)
 - 2023: [pending publication of relevant data by NACUBO]

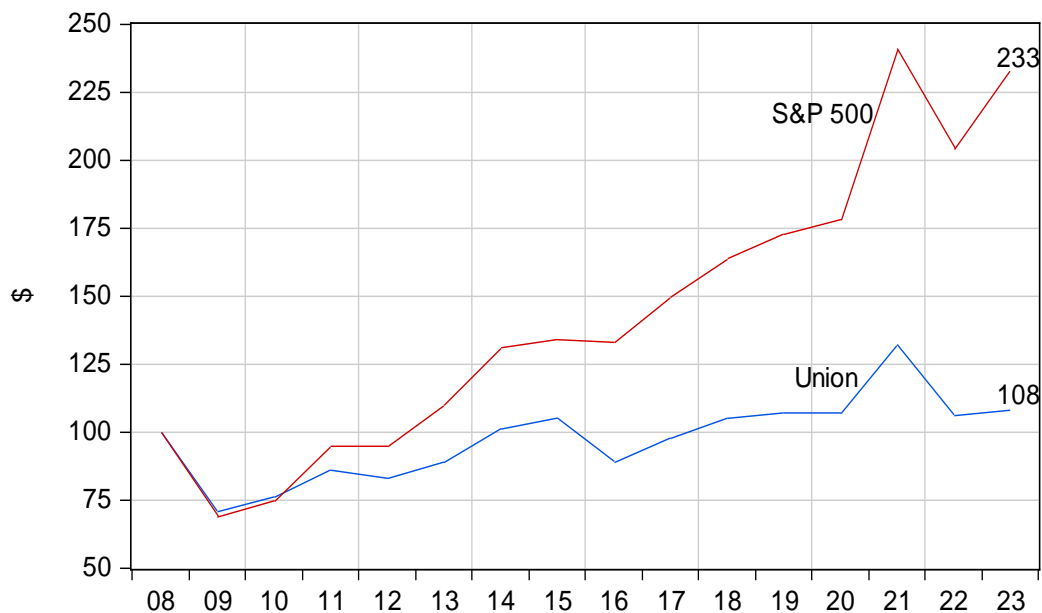
¹ I am grateful to the many colleagues who provided invaluable feedback on earlier versions of this report. A number of student research assistants provided help with data collection. I am solely responsible for the contents of this report. Also, consistent with principles of transparency and accountability, 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](#).

2. *Union's Long-term performance*

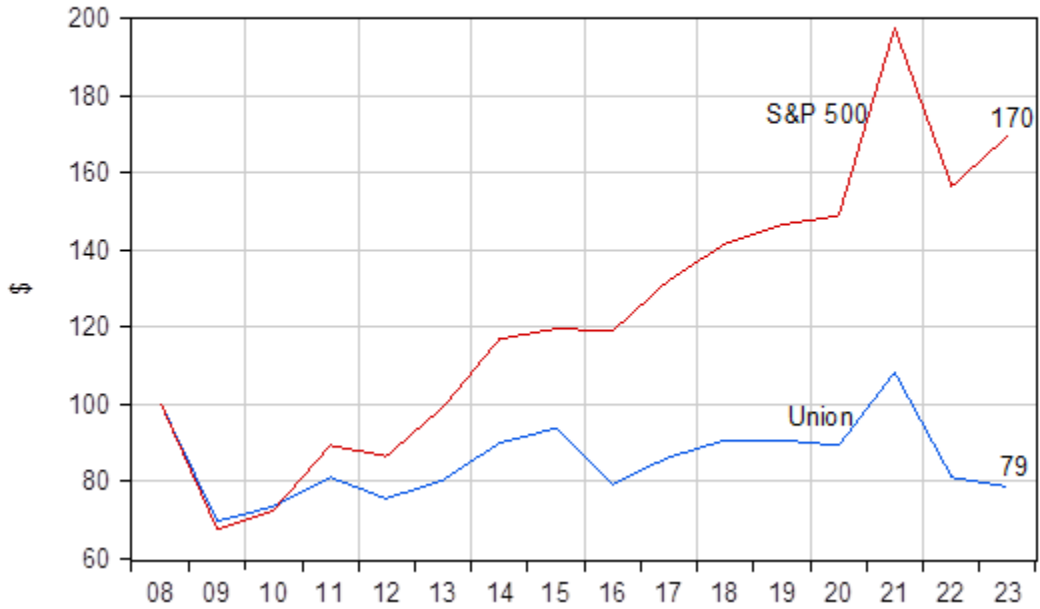
- Worse than S&P 500, for **any** window length, spanning from 5 to 23 years, starting from FY2000 on.³
- Using 2008 as a logical base year (see [this interview](#) by the then chair of the Investment Committee of the Board of Trustees), the inflation-adjusted value of the endowment in FY2023 was approximately **\$20 million less** than it was in 2008. This result has been achieved after 15 years of active management, and the expenditure of over \$100 million in management fees.
- Continuing to use 2008 as a base year, and using Union's own methodology and data (see footnote 3), by the end of FY2023, **S&P 500 had outperformed Union by 116%**. See the two graphs below. The first is not adjusted for inflation, the second is.

A Performance Comparison: Union vs. S&P 500
(FY2008-FY2023; Gerber|Taylor Methodology)



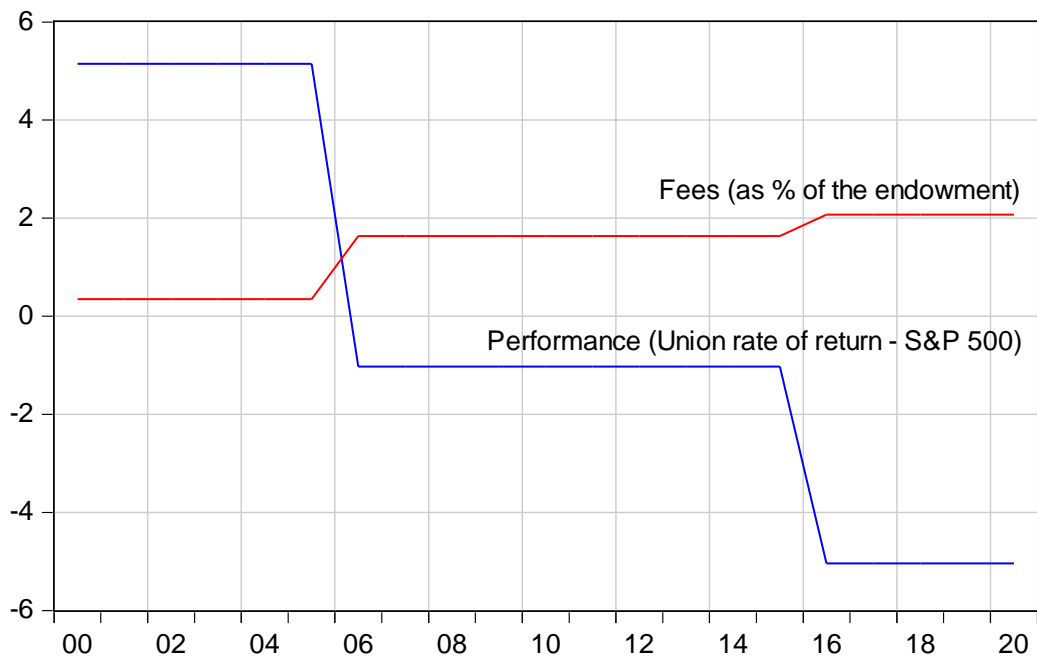
³ We used Union consultants'—Gerber|Taylor—methodology. Essentially, starting with \$100 from FY2008 on, with an annual draw of 5%, we track the performance of that \$100 based on Union's returns, on the one hand, and S&P500, on the other.

A Performance Comparison: Union vs. S&P 500
(FY2008-FY2023; Gerber|Taylor Methodology, with dollar amounts adjusted for inflation)



- On average, investment 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%. (See graph below; click [here](#), pp. 2-3, for full details. See Appendix 3 for underlying data.) Union stopped publishing fees data as of FY2021 after a decades-long tradition of publishing them.

Fees vs. Performance
(averages for subperiods 2000-2005, 2006-2015, 2016-2020)



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. (See also #6 below.)
4. 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. The average such investments for the period 2010-2020 was 46%. Then suddenly, in 2021 this fell to 30%.⁴
- 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.?”

⁴ [IRS form 990](#), Schedule F, 2020 and 2021, 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.

- 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.”
- For examples of higher transparency in some peer institutions, see Amherst, [here](#); and Colgate, [here](#).

6. *Accountability*

- Deep in its [Winter 2023 Report](#)⁵ 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.”
- An alternative assessment, provided by the director of investment management services to a major academic institution, after thoroughly examining Union’s data:
 - “Overall, I do agree that the data suggests that this endowment has not historically generated performance that a Union College stakeholder should consider acceptable.”
 - “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.”
 - “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.”
- Some College authorities seem to confuse a “benchmark” with an “investment strategy.” A benchmark is just that, and S&P500 is a widely-used benchmark. We have not advocated investing 100% in an S&P500 index fund. In any case, Union’s endowment has done poorly even considering other benchmarks. For example, according to the above expert, “[Union has] materially underperformed a 70% S&P 500 / 30% BBG US Aggregate [here](#) benchmark.”
- There is a significant correlation between the endowment’s underperformance and Union’s slippage in national rankings (e.g., in *US News & World Report*). There are several factors that might explain such slippage. However, the investment strategy that has led to substantial endowment underperformance has deprived the college of millions of dollars that would have allowed us to invest in academic excellence and advance in the rankings. (See Appendix 2 for Union’s ranking profile. For the criteria used by *US News* to calculate rankings, click [here](#).)
- On **August 11, 2021**, an e-mail from "Chair, Faculty Executive Committee <fec@union.edu> (sent by carrollm@union.edu)" to the general faculty stated, among other things, "**The**

⁵ The link to the Winter 2023 Report was subsequently removed by the College.

faculty members on P&P emerged from the meeting [with “Five members of the Board of Trustees’ Finance Committee,” and others] **confident that the current suite of strategies employed by the Board of Trustees to manage the Endowment are in the best interests of the College.**” [Emphasis added.] This assessment was made in the face of substantial **evidence to the contrary** at that time. Our findings in this report document how the situation has gotten worse since this FEC assessment in August 2021. Moreover, the FEC stance has done irreparable harm to the institution. The Administration and the Board of Trustees have used it to absolve themselves of any accountability, asserting, *officially*, that, based on the above FEC message, “concerns had been heard and addressed.”

Appendix I

**Percentage Change in Endowment Market Value
FY20 to FY21, left table; FY21 to FY22, right table**

| | |
|------------------------------|--------------|
| Bowdoin College (ME) | 52.59 |
| Wesleyan University (CT) | 49.40 |
| Davidson College (NC) | 48.08 |
| Amherst College (MA) | 47.17 |
| Williams College (MA) | 46.79 |
| Colby College (ME) | 43.20 |
| Wellesley College (MA) | 41.63 |
| Grinnell College (IA) | 40.22 |
| Skidmore College (NY) | 38.92 |
| Swarthmore College (PA) | 37.82 |
| Connecticut College | 37.40 |
| Hamilton College (NY) | 37.14 |
| Bates College (ME) | 36.43 |
| Oberlin College (OH) | 35.82 |
| Hobart & WS (NY) | 35.62 |
| Mount Holyoke College (MA) | 35.36 |
| Smith College (MA) | 34.18 |
| Middlebury College (VT) | 33.29 |
| Carleton College (MN) | 33.27 |
| Franklin and Marshall (PA) | 33.25 |
| Dickinson College (PA) | 32.49 |
| Colgate University (NY) | 31.61 |
| Occidental College (CA) | 31.14 |
| Bucknell University (PA) | 30.88 |
| Kenyon College (OH) | 30.21 |
| Trinity College (CT) | 29.28 |
| Macalester College (MN) | 28.23 |
| Haverford College (PA) | 27.25 |
| Lafayette College (PA) | 26.73 |
| Vassar College (NY) | 25.59 |
| Union College (NY) | 25.02 |
| St. Lawrence University (NY) | 22.20 |

| | |
|-----------------------------|---------------|
| Occidental College(CA) | 0.02 |
| Trinity College(CT) | -0.38 |
| Davidson College(NC) | -1.89 |
| Dickinson College(PA) | -2.76 |
| Middlebury College(VT) | -2.90 |
| Bucknell University(PA) | -3.19 |
| Haverford College(PA) | -3.51 |
| Smith College(MA) | -3.56 |
| Connecticut College | -4.12 |
| Colgate University(NY) | -5.20 |
| Kenyon College(OH) | -5.26 |
| Carleton College(MN) | -5.55 |
| Wesleyan University(CT) | -5.57 |
| Lafayette College(PA) | -5.66 |
| Swarthmore College(PA) | -6.00 |
| Mount Holyoke College(MA) | -6.13 |
| Macalester College(MN) | -7.11 |
| Oberlin College(OH) | -7.34 |
| Bowdoin College(ME) | -9.01 |
| Hamilton College(NY) | -9.63 |
| Bates College(ME) | -10.19 |
| Colby College(ME) | -10.76 |
| Amherst College(MA) | -12.01 |
| Wellesley College(MA) | -12.05 |
| St. Lawrence University(NY) | -12.87 |
| Vassar College(NY) | -13.25 |
| Franklin and Marshall (PA) | -15.02 |
| Grinnell College(IA) | -15.25 |
| Williams College(MA) | -15.26 |
| Skidmore College(NY) | -15.67 |
| Union College(NY) | -16.04 |
| Hobart & WS (NY) | -24.32 |

Notes: The change in market values listed for the participating institutions **does not** represent the investment rate of return for the endowments' investments. Rather, the change in the market value of an endowment from FY21 to FY22 reflects the net impact of:

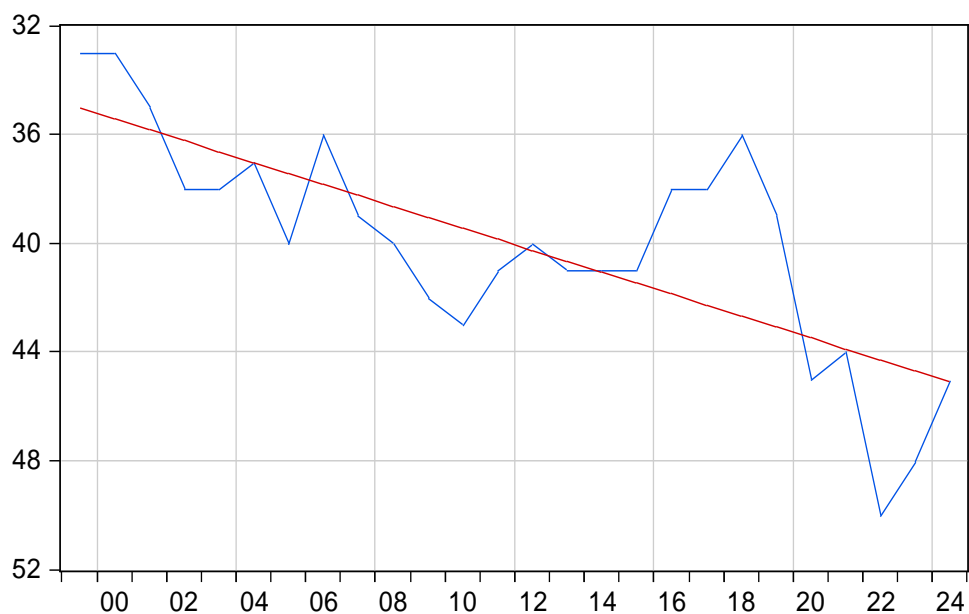
- 1) withdrawals to fund institutional operations and capital expenses;
- 2) the payment of endowment management and investment fees;
- 3) additions from donor gifts and other contributions; and
- 4) investment gains or losses.

Source: National Association of College and University Business Officers and TIAA. 2022 and 2023.

Appendix 2

Union College A Measure of Long-Term Performance

Union's U.S. News & World Report Rankings
1999-2024



Notes: The adverse long-term trend is statistically highly significant. Union's ranking in 1999 was 33; in 2024 it was 45. The trend in the most recent 7-year window, 2018-2024, is significantly worse.

Source: Data for the construction of the above graph come from Andrew G. Reiter, "U.S. News & World Report Historical Liberal Arts College and University Rankings," available at:

<http://andyreiter.com/datasets/>.

Appendix 3

Basic Endowment-Related Data, Union College, 2000-2023

| <i>FY</i> | <i>Endowment</i> | <i>Fees</i> | <i>Fees as % Endow</i> | <i>RoR</i> | <i>SP500</i> | <i>Underperformance</i> |
|-----------|------------------|-----------------|------------------------|------------|--------------|-------------------------|
| | <i>millions</i> | <i>millions</i> | <i>%</i> | <i>%</i> | <i>%</i> | <i>% points</i> |
| 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 |

Notation:

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