In the Shadow of the ’90s

A down market creates new challenges and opportunities for Vanderbilt’s endowment.

By Mardy Fones

Just as the ’80s and ’90s were lucrative for individual investors, so, too, did well-managed private college and university endowments prosper, and Vanderbilt was no exception.

Take the dot-com boom. It was good for Vanderbilt’s endowment. Very good. When a $50,000 investment in Juniper Networks and Yahoo was made in 1997, the deals looked promising. But no one could have anticipated exiting those investments in mid-2000 at $110 million in the black.
Vanderbilt’s endowment then was $2.1 billion, a combined figure representing the endowments of all aspects of the University, including the Medical Center. Between 1991 and 2001, it grew from just over $500 million to $2.159 billion.

Ranked among just 41 U.S. colleges and universities whose endowments total in the billions, Vanderbilt’s endowment performed well—an average of 16.7 percent annualized rate of return between 1996 and 2001. But the current bear market, events of Sept. 11, the ongoing war on terrorism, and the threat of war with Iraq are challenging all top-performing endowments. Between 2001 and 2002, Vanderbilt’s endowment was down 6.7 percent, and the University wasn’t alone. Overall, most endowments nationwide ended the year in the red, according to NACUBO. (Among the billion-dollar endowments, only six were in the black.)

It’s the first down economic cycle most university endowments have experienced since 1974. For donors, Board of Trust members, and others in the Vanderbilt community, the task is preserving and growing the endowment in what is predicted to be a coming decade of flat to negative growth.

New Challenges, New Opportunities

Currently, university endowments nationwide are being measured not in the double-digit gains of the past 20 years, but primarily in single-digit losses. The good news is that this same group soundly outperformed the Standard & Poor’s 500 stock index in fiscal 2002, which was off by -19.2 percent.

Moody’s Investors Service, in a report on the outlook for private colleges and universities for 2001–02, applauded a long view. “Excellent investment and fundraising success over the past decade left the market-leading colleges and universities in a good position to withstand the poor investment climate,” said Moody’s, a global credit rating, research and risk analysis fund. “Should negative returns in financial market results persist, operating spending by colleges and universities will eventually have to be scaled back.”

It’s a forbidding forecast, but one that Eugene B. Shanks Jr., BA ‘69, who chaired the Vanderbilt Board of Trust’s Investment Committee during the go-go 1990s until 2002, understands. “The only free lunch is a foreboding forecast, but one that Eugene B. Shanks Jr., BA ’69, who chaired the Vanderbilt Board of Trust’s Investment Committee during the go-go 1990s until 2002, understands. “The only free lunch

An Endowment Primer

Commodore Vanderbilt’s initial $1 million endowment in 1873 (the equivalent of $14.3 million today) is a foundation upon which the University is still building. While some view the endowment as a piggy bank waiting to be cracked, the reality is far different. An endowment is a perpetual fund. Endowment gifts themselves are not spent. Rather, the amount given (the corpus) is invested; the income from the corpus is dedicated exclusively to the specific use as defined by the donor.

Each year about 4.5 percent (.5 percent less than the national average) of the endowment is paid out to help support faculty salaries, faculty chairs, scholarships, and general and individual school operations. The balance, including the corpus and interest or revenues, is plowed back into the endowment to benefit future generations. (Vanderbilt keeps its payout below the national average to facilitate ongoing endowment growth.)

“The endowment is a long-term horizon for the University. Many people look at the size of an institution’s endowment and say, ‘Look, they’re rich; they could be spending that,’” says Shanks, who regularly is approached by alumni and others asking for endowment dollars to invest in the “next” sure thing.” If you start on that undisciplined route, pretty quickly you end up with no endowment at all.”

Deciding on Discipline

Discipline is fundamental to endowment growth, says William T. Spitz, University treasurer and vice chancellor for investments. The Investment Committee, based on recommendations from Spitz and his staff, approves targeted levels of exposure for each of the endowment’s investment categories. The in-house staff then identifies, screens and closely monitors external firms with expertise in facilitating day-to-day investments in identified sectors. Overall, Vanderbilt’s endowment consists of 150 total investment vehicles managed by approximately 60 different organizations.

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Even as external managers and firms have daily responsibility for endowment investment, Spitz and his staff have the discretion to adjust investment levels within the parameters set by the Investment Committee, which is made up of five trustee members and three alumni, non-trustee, voting members with finance expertise. No limitations are set on the investments into which endowment dollars...
before the sprint down the homestretch to final exams and the winter holiday break.

By January, many freshmen—now wise of the ways of the University—contemplate changing their majors while seniors plan the next step. Faculty members and administrative leaders write letters of recommendations for those applying to graduate school and perhaps offer career advice to those they may have closely mentored.

Out of step with much of the rest of the world, spring on a college campus is a time to say goodbye. As the seniors study (or not) and perhaps offer career advice to those they may have closely mentored.

In Class continued from page 28

“...The National Association for the Advancement of White People,” says Reno Wolfe, the president of the group, “was set up to get us back to the point where everyone is seen as created equal. ... We just want to return to the ideal in which racially based policies of affirmative action and special privileges and special programs of any kind which are given to anybody, no matter what their race, are viewed as contrary to the best interests of race relations here in America.”

Swain believes that for many white nationalists, something more sinister lies beneath the veneer of sweet reason. There are extremists who dream of a racial holy war, or a white-only nation where people of color are no longer welcome. But Swain is worried less about the lunatic fringe—the people who make no secret of their hate—than about the new-style leaders on the radical right who have found a set of issues to broaden their appeal.

The most volatile of those issues is affirmative action—those race-based preferences in hiring, government contracts and college admissions that have been a part of public policy since the 1970s. White Americans overwhelmingly see the policy as wrong, a violation of the promise of Martin Luther King that the fundamental goal of the civil rights movement was a color-blind society where people were judged “not by the color of their skin, but the content of their character.” As Swain believes, social and economic forces are at work that add a level of urgency to the issue. Whites are a minority in many large cities, and according to current demographic projections, they will be a minority in the nation by the year 2050. Add to that a layer of economic uncertainty, and Swain is convinced that many white people are primed and ready for the message of extremists.

“The issues that the new white nationalists champion are also those that are on people’s minds,” she says. “They paint a picture that is very frightening, and my worry is that if whites get caught in identity politics—if they see themselves as a distinct racial group whose interests are ignored by their leaders and the government—they may be drawn to the more extreme elements. They may feel like they have no other place to go.”

Swain’s solution is simple—and shocking to many white liberals and blacks who still see affirmative action as essential. She wants to abolish all race-based preferences, and more than that, she sees the need for a new way of thinking. She is impatient with African-Americans who are spending their energy on symbolic issues like the banning of the Confederate flag in public places. She also opposes the call for reparations, an idea that seems to be gaining momentum among an important segment of the black population. Swain says she understands the shameful history of slavery and the impulse to seek compensation. But those issues, she says, are bitterly divisive and ultimately irrelevant to the most urgent needs still facing black Americans.

In poor neighborhoods especially, there are life-and-death problems of crime and drugs and single-parent homes where children drift too often into trouble. But instead of searching for creative solutions, Swain main...