UNCF
A mind is a terrible thing to waste®

PGIM

INVESTING IN CHANGE:

A Call to Action for Strengthening Private HBCU Endowments

FOREWORD: OUR PARTNERSHIP
UNCF

For almost two centuries, historically Black colleges and universities (HBCUs) have proven their value as engines of economic mobility, achieving unparalleled success in helping their students achieve the promise of higher education. The results that today's 102 HBCUs produce for their students are stunning. Comprising just 3% of all American higher education institutions, HBCUs educate 10% of Black students and confer over 15% of all bachelor's degrees awarded to Black students in the United States. According to 2021 research conducted by UNCF's Frederick D. Patterson Institute, HBCUs are the most successful group of institutions in the country at providing both opportunity for low-income students and pathways for their future advancement.[1]

Since its founding 80 years ago, UNCF (United Negro College Fund) has been at the forefront of advancing the priorities and aspirations of our nation's HBCUs. Our mission and approach—shaped in collaboration with our network of member HBCUs—have led to achievements that I believe would have astounded our founders. Today, UNCF:

- Operates a national headquarters and over 20 satellite offices committed to fundraising for HBCUs and other education causes, raising over $5 billion since UNCF's founding;
- Manages a scholarship database that provides more resources to students of color than any other organization outside of the U.S. federal government;
- Advocates for the causes that support Black colleges and the students they serve on Capitol Hill;
- Leads research committed to understanding and expanding the pathways that lead to educational attainment; and
- Builds networks of Black colleges and universities committed to transformation and the adoption of the policies, practices, partnerships and technologies that improve institutional resiliency.

As we continue to pursue our mission, the question of endowment management and growth has become central to our approach to institutional engagement and improvement. For decades, HBCUs have had to do more with less, operating without supports and resources that were readily made available to their counterparts. While HBCUs have persisted in serving as sources of educational innovation and inspiration, their consistent underfunding has left too many without the resources needed to pursue their true potential to uplift students and communities.

At UNCF, we are committed to challenging this unacceptable status quo. That is why we recently announced the formation of a capital campaign that is designed to help HBCUs lead the way in shaping the trajectory of underrepresented communities. To achieve this goal, we have identified endowment growth as a core strategy and believe now is the time to galvanize action around the strategies that will lead to the acquisition and cultivation of assets institutions need to thrive.

In this undertaking, we are proud to partner with Prudential and its global asset management business, PGIM, who are committed to the vitality of historically Black colleges and universities. We hope that the report findings encourage an era of reimagined partnership between HBCUs and funders, philanthropists, subject matter experts and industry leaders to help shape a new reality for these storied institutions. In this pursuit, we have every reason to act with a sense of urgency, as if time is not on our side. After all, "*A mind is a terrible thing to waste, but a wonderful thing to invest in.*®"

Dr. Michael L. Lomax
President and CEO, UNCF

UNCF
A mind is a terrible thing to waste®

FOREWORD: OUR PARTNERSHIP
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PGIM, the global asset management business of Prudential Financial, Inc., is a leading global investment manager with more than $1.2 trillion in assets under management as of Sept. 30, 2023. With offices in 18 countries, PGIM's businesses offer a range of investment solutions for retail and institutional investors around the world across a broad range of asset classes, including public fixed income, private fixed income, fundamental equity, quantitative equity, real estate and alternatives.

PGIM has a long-held commitment to advancing diversity, equity and inclusion, and believes it is a prerequisite for our company's long-term success and sustainability—and the investment industry writ large.

Since 1978, Prudential has provided more than $1.4 billion to help eliminate barriers to financial and social mobility for underrepresented communities. We've worked to advance equity in our talent practices, how we design and deliver products, our investments and public policy work, and our support of community institutions working to remove persistent obstacles to economic equity. An important part of this work is Prudential's 35-year relationship with UNCF in support of their mission to provide all Americans with equitable access to a quality college education.

Through our partnership with UNCF, we set out to understand how HBCUs leverage their endowment capital to support their mission. This resulting directional study comes at a critical juncture for HBCUs. In the wake of the grief and horror that followed George Floyd's murder in Minneapolis, total contributions to HBCUs grew dramatically, as many individuals and organizations made significant financial commitments to address the inequities that have existed throughout American institutions, including higher education. That said, many HBCUs continue to be provided fewer resources than comparably sized peer institutions, including finance and investments. HBCUs are also facing increasing pressure to invest and leverage their endowments to ensure continued independence and long-term sustainability. In this context, we see a clear role to play for those of us in financial services, who bring decades of experience managing investments for some of the world's largest and most durable institutions.

Alongside our parent company Prudential, at PGIM, we are committed to supporting both faculty and students within the business schools at select HBCUs. Through the creation of PGIM Finance Labs, student-led investment funds and access to current market intelligence, PGIM will be a conduit to uplift students and support the faculty and endowment professionals who drive the operational and educational sustainability of these critical institutions. Brilliance exists in every area of our society, but access to the tools and resources needed to thrive is often a barrier. PGIM's ongoing partnership with the HBCU community is an extension of our responsibility to support the next generation of investment leaders, so they can be competitive and thrive in our industry long-term.

We hope the findings from this directional study will inspire our peers in finance to expand their scope of engagement with HBCUs. By focusing on the endowments of these schools, optimizing access to innovative investments and diversification solutions, and building a pipeline of future talent that will bring new perspectives to the asset and wealth management industry, we can ensure that the vital lifeline of HBCUs—and their impact—remains strong for the generations to come.

Kathryn Sayko
Chief Diversity, Equity & Inclusion Officer, PGIM

PGIM

INTRODUCTION

HBCUs: An engine of Black progress since 1837

HBCUs serve as a critical learning path for Black students seeking quality higher education in the United States. These institutions produce a quarter of the nation's Black graduates with degrees in science, technology, engineering and mathematics.[2] HBCUs have educated some of the most influential Black leaders in the United States, from Rev. Dr. Martin Luther King Jr. to Vice President Kamala Harris.

Many of these institutions were founded before the turn of the 20th century by philanthropists, missionary groups, and the African Methodist Episcopal (AME) Church. They include two-year and four-year schools, private and public universities, community colleges, teachers' colleges, high-research institutions, medical schools, and open-enrollment institutions.

Open to all, HBCUs represent a vibrant and diverse segment of the American higher education landscape. Spread across 19 states, the District of Columbia and the U.S. Virgin Islands, these institutions are predominantly located in the South, Southeast, and Mid-Atlantic regions. Each HBCU has its own unique character and community, with student populations ranging from a few hundred to several thousand. Collectively, they enroll approximately 300,000 students annually.

HBCUs exemplify a profound commitment to expanding educational opportunities across diverse student populations, a commitment clearly reflected in their student demographics. Approximately 60% of students at HBCUs are pioneering the path to higher education within their families, symbolizing HBCUs' critical role in transforming family educational trajectories. Further emphasizing their dedication, around 70% of HBCU students are eligible for Pell Grants, highlighting the institutions' focus on supporting students from low-income backgrounds.[3] While providing critical access to a diverse range of students, HBCUs also fortify the communities they serve by offering quality education and pathways to upward mobility.[4] Their significant role in leveling the academic playing field resonates beyond their immediate environments, profoundly influencing the broader societal landscape.

HBCUs have a storied history of growth and resilience, having thrived for more than 180 years despite enduring over a century of legalized segregation. This segregation not only barred Black Americans from enrolling in many colleges and universities but also denied them access to essential financial services like mortgages, loans and insurance—services that were instrumental in helping many white Americans rise to the middle class.[5]

Despite their record of success, HBCUs have historically been underfunded, both federally and privately, leaving them with less operating and capital resources to support their missions. While the racial justice protests throughout 2020 inspired an increase in funding—such as the more than $7 billion invested by the federal government and unprecedented donations like philanthropist MacKenzie Scott's $800 million commitment—HBCUs still lag in endowment growth compared to non-HBCUs.

The contrast in endowments is striking: Ivy League institutions and many public universities boast endowments in the tens of billions, while no HBCU has an endowment exceeding a billion dollars, with the majority managing less than $100 million in assets.

This substantial endowment gap imposes additional challenges on HBCUs. It affects their ability to meet students and families where they are and to secure critical faculty and staff, thereby hindering the development of their campuses and curricula, and increasing their reliance on donors and government funding. This financial discrepancy highlights the crucial need for sustained and concerted efforts to close the endowment gap. Such efforts are essential not only to bolster the financial health of HBCUs but also to reinforce their vital role in fostering education and empowering communities.

Private HBCUs confront a multifaceted financial challenge, amplified by lower tuition rates, fewer philanthropic gifts, and increased student needs. Without state funding and with typically smaller endowments, these institutions face significant financial strain, limiting their capacity to support and enhance their educational programs. Supporting private HBCUs is a call to action that affirms the value of their enduring legacy and their critical role in shaping an inclusive future in higher education.

> "With a $30 million endowment, we don't have the luxury of dipping in one year and taking $3 million out of the endowment to supplement our operations."
>
> *– HBCU Chief Financial Officer*

Purpose of this study: Positioning HBCUs for Success

The existing research landscape, which has primarily focused on the financial challenge faced by HBCUs—notably in endowment sizes and fundraising efforts—opens the door for a deeper and more progressive analysis. Such research is not only necessary to understand the extent to which certain factors remain a challenge for HBCUs attempting to grow and manage their endowments, but is also crucial in paving the way for strategies that can enhance the financial stability and overall growth of HBCUs.

In pursuit of these goals, PGIM and UNCF launched this directional study to initiate critical conversations about allocation and investment strategies, the strategic use of endowment proceeds, and the essential resources needed by HBCUs to optimize their investment returns. While the total asset size under management of these endowments might not fluctuate significantly, the study is focused on uncovering other influential factors and opportunities that can ensure endowments yield net positive outcomes for their respective institutions.

This study is particularly significant as it offers private HBCUs and other postsecondary institutions with smaller endowments a platform to contribute to and shape broader conversations about their investment strategies.

KEY FINDINGS

The private HBCUs who responded to the survey confirmed recent trends around contributions and funding that have been reported in studies of other HBCU cohorts:

There is growing support for HBCUs. The median total contribution in 2022 of those private HBCUs who responded to the survey was more than seven times greater than in 2020.

While the recent growth in contributions to these HBCUs is encouraging, there remains a significant opportunity for further progress. The survey found that although the growth rate for HBCU contributions over the past three years outpaced that of non-HBCUs, the total contributions increased for both institutional types. Notably, at the end of fiscal year 2022, survey respondents confirmed that the average assets under management (AUM) for non-HBCUs was still 54 times larger than that of HBCUs. This highlights the ongoing disparity in resources and underscores the need for continued efforts to close the gap.

Non-HBCUs benefit from a wide range of funding sources, while HBCUs predominantly rely on federal grants. According to the American Council of Education, HBCUs depend more heavily on government funding, comprising 54% of their overall revenue, compared to 38% for non-HBCUs. Private HBCUs in the study reported similar reliance on government funding, making up 60% of their overall funding.

Unsurprisingly, fundraising and contributions continue to present a notable challenge for HBCUs, as 59% of respondents from these institutions report significant difficulties in this area. In contrast, a third of non-HBCU respondents indicate no such challenge, underscoring the financing disparity faced by HBCUs.

> "One of the biggest challenges we face is growing our endowment. When you are an institution that depends annually on revenue from enrollment, all it takes is one blip, and all of a sudden, you're facing a financial challenge."
>
> *– HBCU President*

The study indicates four main constraints for HBCU endowment professionals tied to this lack of funding and the comparably small size of their endowments:

1. **Smaller HBCU endowments limit infrastructure and capabilities** – The majority of non-HBCUs use their endowments to fund infrastructure development, faculty/student research and/or staff salaries, as well as fellowships and new fields of study. While some HBCU endowments address the above areas, many of their resources are restricted to supporting scholarships with little budget left to support other essential needs.

2. **HBCUs steward their endowment with significantly fewer investment management resources** – private HBCUs typically have no full-time internal investment management professionals supporting the fund and have very limited external support. Conversely, non-HBCUs average six internal investment staff and a host of external asset manager support.

3. **HBCUs are substantially more conservative fiscally than non-HBCUs** – While both HBCUs and non-HBCUs have become less risk-averse with their investments over the last four years, the shift up the risk spectrum for private HBCUs has been marginal, whereas non-HBCUs have been more aggressive with higher risk, but potentially higher reward investment allocations.

4. **HBCUs have smaller alternatives allocations than non-HBCUs** – On average, private HBCUs are holding about 27% less of their portfolio in alternative asset classes compared to non-HBCUs (13% vs. 40%). These differences suggest HBCUs may benefit from access to best-in-class liquidity management tools and processes, as well as a higher risk tolerance, to optimize their long-term returns.

The following sections detail these challenges and explore the perspectives shared by the HBCU investment professionals who responded to the survey and/or attended the focus group. We also highlight areas for further investigation and point toward possible solutions to support private HBCUs in taking full advantage of their endowments.

FINDING 1

USE OF ENDOWMENT PROCEEDS

01

High Pell Grant Eligibility Among HBCU Students: A significant portion of the HBCU student body, approximately 70%, are eligible for federal Pell Grants, indicating a family income below $50,000 per year. This high eligibility rate underscores the need for enhanced endowment proceeds to bolster scholarship support.[6]

Economic Advancement Through HBCU Education: Despite financial hurdles, HBCUs play a pivotal role in advancing the economic prospects of Black students. Our data shows that, on average, HBCU graduates exceed their family's income level within six years of graduation. This statistic highlights the substantial impact of HBCUs in fostering intergenerational socioeconomic mobility.[7]

In the landscape of higher education financing, endowments play a crucial role, especially for private colleges and universities. These funds are not just financial reserves; they are strategic assets that significantly enhance institutional quality and stability. Endowments enable colleges to offer more institutional grants, cover operating costs, and, importantly, keep tuition increases at bay. This ensures that high-quality education is more accessible and affordable for students.

Additionally, endowment funds are pivotal in enhancing various aspects of academic life, including maintaining critical faculty positions, supporting groundbreaking research, and providing well-resourced facilities. Their role in sustaining the academic and operational excellence of institutions is indispensable.[8]

The operational model of endowments involves reinvesting the core (principal) capital while utilizing the generated dividends (or passive income) for various needs of the institution. However, smaller endowments produce less passive income, thereby increasing dependency on tuition fees and yearly donations for operational and developmental needs.

HBCUs, according to survey responses, depend less on their endowments for their overall university budget compared to non-HBCUs. While contributions have increased significantly, there has been little change in the portion of the university budget that these endowments support. On average, private HBCU endowments contribute to approximately 5% of their overall university budget over the last few years. In contrast, endowments at non-HBCUs account for a more significant portion, nearly 14%, of their overall university budgets. Among private non-HBCUs, the figure is even higher, at 23%.

Even with the existing gap in AUM compared to other colleges and universities, private HBCUs have seen notable growth in both overall AUM and contributions over the past few years. This increase is significant, as it has occurred while the proportion of university budgets supported by endowments remains constant. This stability provides HBCUs with enhanced flexibility in managing and utilizing their endowment funds.

> "We only have about $30 million in our endowment ... what we've tried to do is avoid making a draw on that endowment because the endowment is so small."
>
> *– HBCU President*

HBCU respondent endowment funds are used predominantly to fund scholarships, in contrast to non-HBCUs, where endowments are used diversely for infrastructure development, faculty and student research, staff salaries, fellowships and new fields of study. This aligns with previous findings indicating that nearly 46% of HBCU spending is dedicated to student financial aid, highlighting their strong commitment to supporting students' financial needs.[9]

86% of private HBCU institutions that responded to the survey say they use their endowments predominantly to finance scholarships.

The emphasis on scholarships is integral to the mission of HBCUs, which originated with the goal of making higher education more accessible to Black students. This focus reflects their foundational commitment to advancing educational opportunities.

Scholarship programs are vital for college enrollment, particularly for students from low-wealth families. Their absence could prevent many from pursuing or completing higher education. The importance of these programs is evident in the achievement of UNCF scholarship recipients, who have a six-year graduation rate of 70%—significantly above the 41% national average for all Black college students. Additionally, a $5,000 scholarship from UNCF increases the likelihood of a student's graduation by 7%, emphasizing the profound effect of financial aid on educational success.[10]

The largest disparities between responses from HBCUs and non-HBCUs can be seen in endowment proceeds each dedicates to research, in addition to salaries, fellowships and launching new fields of study. While 44% of non-HBCUs in the study reported spending endowment proceeds on research, only 6% of the HBCUs reported doing so. Of course research and innovation can be significant drivers of alternative revenue streams (through patents and partnerships).

Just 6% of private HBCU institutions that responded to the survey spend endowment proceeds on faculty and student research.

One possible reason for this disparity is the differing focus of HBCUs and their non-HBCU peers. HBCUs' annual operating budgets are directly tied to their enrollment numbers, much more so than non-HBCUs. HBCUs can be more vulnerable to budget shortfalls if enrollment dips; when there is an increase in enrollment, HBCUs use that surplus to fund other priorities.

> **"We were forced at one point in time to use the endowment as collateral. It's such a small endowment that we really haven't been able to make use of it."**
>
> *– HBCU President*

One area of recent growth is HBCUs' maintenance and development of their physical infrastructure. Previous studies have pegged HBCU spending distributions on campus operations and maintenance at 10%.[11] Among private HBCU respondents, this figure was higher, with 31% reporting funding these essential needs—and 18% initiating funding for this work since 2020/2021, the highest among new initiatives. For comparison, 74% of non-HBCU respondents reported that endowment proceeds go toward funding physical infrastructure.

While not definitive, this bump in infrastructure spending reported by private HBCUs may be related to the recent increase in contributions. For many HBCUs, some with campus histories extending back to the pre-Civil War era, the need for renovations is both urgent and overdue.

> **"One part of [our] endowment will be for facility upgrades and for new facilities. We're in the process of building a 300-bed dorm and a science building. Those two buildings will be the first new buildings on this campus in about five decades."**
>
> *– HBCU President*

UNCF and HBCU Success

UNCF uses a multipronged strategy to ensure HBCUs and their students have the resources they need to succeed.

- In its most recent fiscal year, UNCF raised over $200 million to aid HBCUs and students nationwide.
- During the last year, UNCF awarded scholarships to 10,837 students, distributing more than $83 million in funds.
- Beyond scholarships, UNCF invests in emergency aid, comprehensive support programs, capacity-building initiatives, and direct financial assistance to member institutions.[12]

Additionally, UNCF champions the cause for increased federal funding for HBCUs and their students. Through the Frederick D. Patterson Research Institute, UNCF conducts studies to enhance understanding of educational success pathways. Their research series, "The HBCU Effect®," aims to highlight, validate and amplify HBCU achievements, creating a narrative that underscores the value and competitiveness of these institutions.[13]

FINDING 2

IMPACT OF RESOURCE CONSTRAINTS

02

- HBCU investment professionals often face capacity constraints due to limited resources, resulting in them taking on multiple roles within their institutions.
- At non-HBCUs with more resources, endowment professionals can specialize solely in investing. This specialization fosters a deeper understanding of various asset classes, stronger peer connections in endowment management, and enhanced learning opportunities.

Growing endowments involves more than just contributions; dedicated management and strategic allocations are key to preserving capital and yielding higher returns across market cycles.

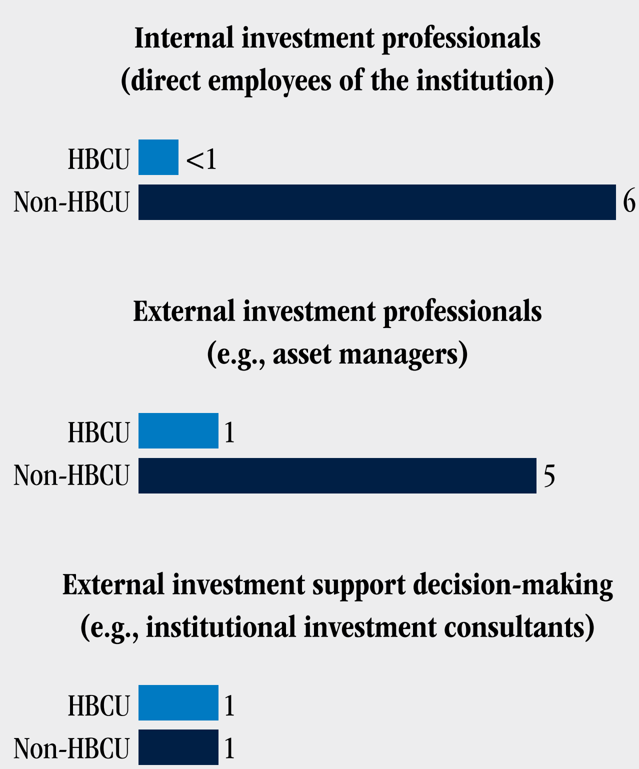
Endowment stewards use a variety of approaches, often advised by a team of professional asset managers. While the size of an endowment department and investment team does not necessarily correlate with success, larger teams bring more perspectives and ideas to the table, free up time for learning and networking, and can have dedicated groups focused on managing risk and finding new investment opportunities.

Survey results suggest that enhancing the capacity of private HBCU investment professionals is crucial. By empowering these professionals, HBCUs can potentially increase endowment returns, thereby expanding the options for utilizing endowment proceeds effectively.

HBCU respondents indicate limited resources for investment management. The surveyed HBCUs, on average, have only one internal investment management professional, often as part of a broader role, and minimal external support. They typically collaborate with just one asset manager and one consultant. Conversely, non-HBCUs with larger endowments usually have around six internal investment professionals and five external asset managers and/or consultants to help manage their endowment funds.

This disparity does not seem to be solely attributed to endowment size—interestingly, 21 non-HBCU respondents listed only one asset manager for external investment support and decision-making, regardless of their size. However, their dedicated internal investment resources can range up to 16 individuals, with a host of external investment organizations offering support.

How many investment management professionals currently recommend, support and/or conduct any of the endowment fund's investment decision-making? (Median value displayed)



Number of HBCU responses by institution: 16
Number of non-HBCU responses by institution: 50

Surveyed HBCU stewards are time-constrained to perform tasks related to improving investment outcomes. For instance, less than half of the private HBCU investment professionals who participated in the survey reported spending time on asset allocation, compared to 86% of their counterparts at non-HBCUs. This indicates a notable disparity in the allocation of time and resources toward key growth-oriented investment activities.

Facing limited external support and constrained internal resources, some HBCUs lean on their boards for guidance in managing risk and making asset allocation decisions.

> "We have an investment committee made up of board members who oversee and assist ... we have bylaws that govern how those dollars have to be invested, in terms of exposure ... we have done a fairly good job with recruiting board members who have some expertise, not only in risk management but in the management of assets as well."
>
> *– HBCU President*

The reliance on board members for investment decisions at HBCUs is a testament to resourcefulness in the face of limited options. While board members bring valuable insights, their other commitments and potential gaps in specialized investment knowledge highlight a need. This approach, though practical, may not fully substitute for the expertise of dedicated investment managers.

Forty-one percent of HBCU respondents, despite resource limitations, reported no significant challenges in managing investments and portfolios—a proportion notably higher than the 34% among non-HBCUs. Only 14% of HBCU respondents considered this a major issue.

This sense of confidence, however, comes with complexities. Broader data from the survey suggests that this is likely an unrealized need for HBCU respondents. Deeper insights reveal that resource constraints and less time to gain an understanding of various investment options do impact their overall effectiveness in managing investment responsibilities. This nuanced perspective underscores a need for enhanced support and resources in investment management at HBCUs, crucial for their long-term financial stability and growth.

HBCU survey respondents highlighted specific challenges in their investment management approaches. A significant 46% acknowledged that limited awareness of investment management options hindered their ability to balance short-term requirements with long-term endowment growth goals. Additionally, 47% identified constraints in their investment policy statements as a barrier to exploring suitable private investment opportunities.

Investment Management Outcomes

When engaged about the top three factors that could enhance investment management outcomes, individual HBCU respondents, alongside their non-HBCU counterparts pointed to similar areas of need:

Informed about innovative investments – A significant portion of respondents to the survey, 55% of HBCUs, believe that greater knowledge of innovative investments could positively impact their institutions.

Portfolio diversification – Despite a high self-rating in asset allocation and investment idea generation, 55% of HBCU respondents acknowledge the need for better portfolio diversification.

Access to professional investment managers – 50% of HBCU respondents view access to professional investment management as a key driver of improving investment outcomes.

HBCUs, often working with smaller endowments, effectively navigate resource-constrained environments. However, survey data reveals a gap in their access to industry best practices and a diverse range of financial instruments that could yield higher returns. The following sections delve deeper into the risk tolerance and investment strategies of HBCUs, particularly their approach to alternative investments. The analysis aims to highlight areas for potential growth and enhanced financial management for institutions with smaller endowments.

FINDING 3

RISK APPETITE AND INVESTMENT POLICY

03

- Asset managers like PGIM seek to balance risk and reward for their clients through monitoring and assessment of market, credit, liquidity and operational risks as they relate to different investments. Investors may rebalance their portfolios periodically to mitigate fallout in times of market stress, generate returns during periods of volatility, or add diversification to limit the impact of any one investment to their overall portfolio value.
- Low-risk investments aim to protect the principal investment while providing a steady, stable return—like a Treasury bond. Higher-risk investments are typically more volatile, making a trade-off between safety and the potential for higher returns. A conservative investor would have more low-risk investments in their portfolio; a moderate or aggressive investor would take greater chances for the possibility of greater rewards.

While private HBCU investment professionals report confidence with their endowment asset allocations, they acknowledge the need for enhanced capabilities in evaluating investment risks.

The study asked participants to characterize their endowment fund's risk tolerance over the past four years and delved into their methods for assessing such risks.

The approach to investment risk at HBCUs compared to non-HBCUs has evolved differently over time. HBCUs have only slightly moved toward more risk-taking, while non-HBCUs have taken more significant strides toward aggressive investment strategies. Currently, a modest majority of HBCU respondents (63%) classify their risk tolerance as moderate, with the remainder preferring a more conservative approach.

Enhanced knowledge about the risk spectrum is essential for HBCUs to make decisions that align with their risk tolerance. However, the lack of resources is a significant obstacle for HBCUs in effectively monitoring and managing investment risks, which in turn affects their willingness to engage in riskier investment opportunities.

Consequently, risk management represents a growth opportunity for HBCUs—19% of HBCUs disclosed they have no comprehensive risk management strategies, in contrast to the 2% of non-HBCUs in the same situation. Many institutions, including 45% of HBCUs and 70% of non-HBCUs, utilize widespread risk monitoring across asset classes. Only 13% of private HBCUs have specific resources allocated to these risk management activities, significantly lower than the 54% of non-HBCUs that do.

The contrast between private HBCU investment professionals' confidence in asset allocation and their limited focus on risk mitigation could lead to challenges in securing long-term returns. Without appropriate risk monitoring, those overseeing HBCU endowment portfolios may be more cautious to take advantage of opportunities during times of volatility in markets or individual sectors. Additionally, the potential benefits of alternative investments, often associated with higher returns, might be missed due to the complexities involved in evaluating their risk profiles.

Private HBCU respondents recognized the necessity for advanced strategies in managing endowment investments. Surveyed private HBCUs pinpoint risk evaluation, asset allocation decisions, and the identification of investment opportunities as the primary domains needing enhancement. This self-awareness is a positive indicator of their commitment to fortifying their investment strategies for future stability and growth.

Top three areas of expertise identified by individual HBCU respondents as requiring further enhancement:

- Evaluating investment risks (e.g., geopolitical, financial markets, credit, liquidity, etc.)
- Making asset allocation decisions
- Sourcing good investment ideas and/or opportunities

Lack of dedicated risk management resources also creates a gap in accessing market intelligence on key financial trends such as environmental, social and governance (ESG) investing. ESG investing is often portrayed as making investments that align with an investor's values (sometimes sacrificing investment returns), but in actuality, it is more often used by investors seeking to adjust their risk exposure to investments that may be positively or negatively impacted by significant environmental, social or governance issues. Although HBCU respondents gave a lower priority to integration with ESG as an area for action in this study, we are seeing evidence that HBCU leaders are beginning to enhance their knowledge base and relationships in this area.[14]

Ultimately, the lack of a risk management framework and dedicated resources can lead to a drag in investment returns as allocations to private equity, alternatives and venture capital are overlooked or avoided due to their perceived risk, addressed in the next section.

FINDING 4

WEIGHTING OF LIQUID VS. ILLIQUID INVESTMENTS

- HBCUs typically have smaller endowments, which restricts their growth and the impact of their financial resources.
- A key factor in the difference in endowment sizes between HBCUs and non-HBCUs is the long-standing imbalance in private funding. HBCUs frequently encounter fundraising challenges, facing less consideration from foundations and corporate donors, coupled with lower alumni giving rates.[15]
- The increasing racial wealth gap also plays a role in the reduced levels of private donations to HBCUs, as this economic divide affects the capacity of HBCU alumni to contribute financially.[16]

The last three years have been a roller coaster for almost every investible asset class. First, the outbreak of COVID-19 caused many investors to pull money from the market, leading to a sharp dive in stock values. Then, fiscal stimulus and accommodative monetary policy boosted asset prices across the board. After that, a swifter-than-expected economic recovery amid supply chain disruptions, among other factors, led to high inflation. Central banks responded by raising the federal funds rate, a key benchmark interest rate, causing borrowing to become more expensive and generally bringing asset prices back down.

Endowments of all types have been challenged to find consistency and stability amid the shifting tides. Considering the resource constraints, it is no surprise that investment returns at HBCUs have lagged their peers.

HBCUs have lagged non-HBCUs in investment returns for each of the past three years. Of the survey respondents, the contrast is starkest in fiscal year 2021, when private HBCUs received unprecedented levels of philanthropic gifts, yet generated roughly half the returns of non-HBCUs: 14.1% vs. 28.5%. In fiscal years 2020 and 2022, the difference was much smaller: 3.9% vs. 4.1% and -1.5% vs. -0.7%, respectively.

To put the above performance figures in context, according to the National Association of College and University Business Officers (NACUBO), the average endowment returned 1.8% in fiscal year 2020, 30.6% for 2021, and -8% for 2022.[17]

What accounts for such a gap? As already discussed, HBCUs are at a disadvantage when it comes to resources dedicated to investments and have less appetite for risk. But a deeper look at the specific allocations by private HBCU endowments reveals unrealized opportunities for higher returns.

On average, HBCUs in the survey hold considerably more of their assets in lower-risk asset classes, which drags on long-term return potential. There are understandable reasons for caution with smaller endowments, as they have less wiggle room for costly mistakes. Notably, the 2022 NACUBO-TIAA Study of Endowments found that, on average, endowments with AUM up to $50 million had an average cash allocation of 3%—on par with this study's finding for the average non-HBCU cash allocation of 3.2%.

However, given HBCUs expressed desire to improve their investment risk assessment capabilities, shifting a portion of their funds into higher-risk, higher-yielding investments could allow them to increase returns to grow their endowments.

Both HBCUs and non-HBCUs may find even better opportunities for their endowments in alternative investments, particularly in private markets. Private markets offer investments in companies or assets that aren't available in the public marketplace, but are increasingly becoming popular with institutional investors, like pension plans and insurance companies, who are more comfortable with the long holding periods private investments often require before investors can exit. These investments include private equity, which gives investors exposure to private companies that are not publicly listed; private credit, where companies provide loans for growing businesses; or private real estate, like industrial warehouses and high-rise apartment buildings. Since private markets are less regulated than public markets, there may be a higher degree of risk—however, investors gain access to a wider investible universe with opportunities for strong long-term returns.

Asset Class Definitions

Hedge funds – A hedge fund is a pool of money that trades in relatively liquid assets and can make extensive use of more complex trading, portfolio construction, and risk management techniques to improve performance, such as short selling leverage and derivatives.

Private equity – Private equity investments are shares of ownership in privately held companies. In contrast to public equities, these investments are less liquid.

Private fixed income – Private fixed income investments are debt securities of privately held companies.

Public equity – Public equities are shares of ownership issued by publicly traded companies and trade on exchanges (e.g., NYSE or NASDAQ). Investments in public companies can include domestic and international, being broadly (e.g., S&P 500) and sector-specific focused (e.g., real estate) and are often divided by market capitalization into small-cap, mid-cap and large-cap.

Public fixed income – Public fixed income investments are debt securities of public companies that pay a rate of return in the form of interest.

Real estate (private) – Investments in private real estate involves the acquisition, financing and ownership (either direct or indirect) of property or properties via an investment fund that is not traded on a public exchange.

Venture capital/growth equity – Venture capital is a form of private equity financing that is provided by venture capital firms or funds to startups, early stage companies, and emerging companies that have been deemed to have high growth potential.

If investors do desire more liquidity in the private markets space, a robust private equity secondaries market has emerged that allows investors to sell interests in closed-end private market funds if they need to, at a reasonable price. Additionally, investing in secondary funds can provide exposure to hundreds of privately held companies at a return that can rival direct private equity firm funds, which are oftentimes higher risk.

Most endowments have less exposure to alternatives space.

On average, respondent HBCU institutions are holding about 27% less of their portfolio in alternative asset classes compared to non-HBCU respondents (14% vs. 41%).

From responses to other questions in the survey, this appears to be attributed more to lack of awareness of alternatives and/or risk tolerance rather than due to liquidity concerns. Given the appetite from both HBCUs and non-HBCUs to gain knowledge of innovative investments, there is an opportunity for asset managers to partner with these institutions on the benefits of alternative asset classes.

OPPORTUNITIES FOR ENGAGEMENT WITH HBCUs

Enhancing endowment outcomes has clear implications for increasing scholarships, attracting top academic talent, and upgrading infrastructure to support more students and set them up for successful careers. To that end, the findings in this report reveal clear areas in which the asset management industry is best positioned to make the greatest impact.

With more than 100 HBCUs, no one solution fits all, and not all have the same challenges.

This directional study of private HBCUs should be seen as a starting point for further inquiry and inspiration for companies, organizations and policymakers to offer up their partnership, solutions and expertise.

Survey findings suggest several areas where HBCUs could use support to enhance their financial management:

1. **Education and access to innovative investments and diversification solutions** – Most private HBCU endowments point to both of these areas as avenues that could enhance their investment outcomes. As one HBCU focus group participant noted, "My background is not in investments, so I would want to ... make sure that everybody has a basic understanding of what we're able to do, and not be embarrassed or scared to ask those questions." Guidance on accessing new asset classes and incorporating them into a broader portfolio could help to bring HBCU investment returns closer to the levels seen within the non-HBCU cohort.

Spotlight: Student to Industry Pipeline

Outperformance in investment management is dependent on having the best and brightest joining the investment industry. Educational resources and support for HBCUs should be extended to students as well as endowment stewards, to create a deep and lasting pipeline of talent for both the investment management industry and endowment offices.

PGIM provides access to critical educational resources for students in finance at select HBCUs so that they may enter the industry in a more competitive and equitable standing. Through the creation of PGIM Finance Labs, student-led investment funds and access to current market intelligence, PGIM aims to not only uplift students, but also support the faculty and endowment professionals who drive the operational and educational sustainability of these important institutions.

2. **Risk management expertise** – There is a significant need for advanced risk management support among HBCUs, especially to navigate macroeconomic challenges, including interest rate and inflation risks.

3. **Portfolio management oversight** – HBCUs acknowledge the need to refine their asset allocation strategies and achieve higher real returns. Implementing sophisticated liquidity management tools would enable them to allocate a larger portion of assets to return-seeking investments. Collaborating with experienced partners could guide HBCUs toward adopting moderately higher risk tolerances and increasing allocations to alternative asset classes.

4. **Endowment pooling support** – The smaller AUM of private HBCUs limits their investment performance due to restricted access to opportunities available to well-capitalized institutions. Many of the issues that

arise from having a small endowment—fewer dedicated resources and less access to managers and investment strategies—can be overcome by endowment pooling. A majority of HBCU participants in the survey say they are either already using or likely to use endowment pooling, with 44% of private HBCUs reporting that they are likely to consider endowment pooling for investment management purposes. With many open to pooling and few (19%) having already done so, there is a meaningful opportunity to facilitate these partnerships.

Spotlight: UNCF's Shared Endowment Pool

In an unprecedented move to fortify the foundations of HBCUs, UNCF is spearheading a visionary initiative: a shared endowment pool designed to bolster the resilience and sustainability of these critical institutions. Recognizing the unique challenges HBCUs face, UNCF's initiative is not just about sustaining operations but about nurturing growth and fostering long-term financial resilience.

Launched in January 2024, this bold strategy unites the collective strength of donors, alumni and advocates to fuel a powerful endowment—aimed at empowering HBCUs to navigate the future with confidence. By pooling resources into one formidable fund, UNCF is paving the way for HBCUs to access enhanced financial investments, tap into larger markets, and implement sustainable programs that will benefit students for decades to come.

The goal is clear: to ensure that HBCUs can continue their legacy of excellence in education, innovation, and community leadership, unaffected by the ebbs and flows of economic tides. This shared endowment is a beacon of stability, an anchor amidst the storm, securing the academic mission and the transformative impact of HBCUs.

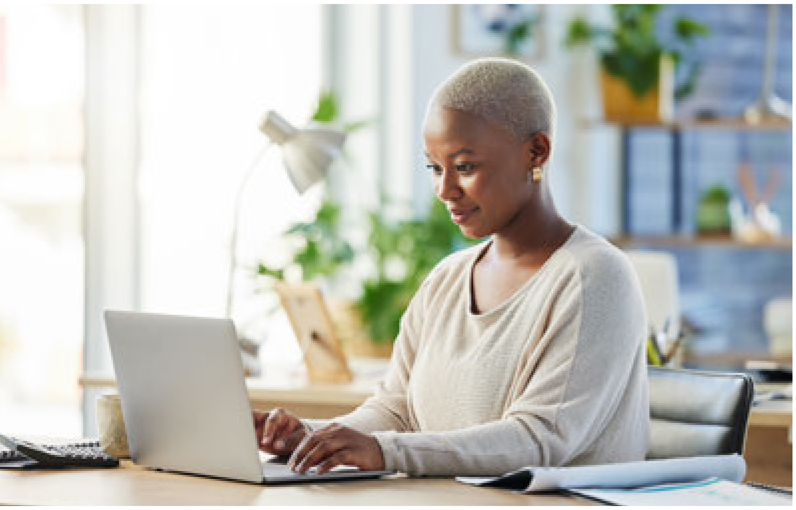
CONCLUSION

There is no doubt that private HBCUs face significant financial challenges in their endowments. As institutions with great opportunity to aid economic mobility for Black Americans and provide essential tools to help students achieve their dreams, even a modest improvement in these schools' financial standing can have a tremendous ripple effect.

The imperative to bolster and accelerate the growth of endowments at HBCUs cannot be overstated. The challenges these institutions face are deeply rooted in generational and systemic issues, necessitating a comprehensive and collaborative ecosystem to effect meaningful change. As invaluable pillars of American higher education, HBCUs deserve to benefit from robust endowment resources. It is our collective responsibility to ensure that HBCUs are equipped with the necessary financial tools and expertise to continue their legacy of excellence and to extend their transformative impact on students, communities, and society at large.

APPENDIX: STUDY METHODOLOGY

In partnership with UNCF, PGIM engaged research firm CoreData Research to encompass the perspectives of 22 private HBCU and 50 non-HBCU endowment professionals in a quantitative online survey. Additionally, eight endowment professionals from private HBCUs participated in a focus group co-convened by UNCF and PGIM, providing deeper insights into their views and experiences.



In all, 16 unique private HBCU endowments are represented by this study (representing nearly a third of all 50 private HBCUs), ranging in size from less than $5 million in AUM to not more than $500 million as of year-end 2022. Most HBCU respondents indicated endowments of less than $50 million in AUM. Of the respondents, the median AUM for HBCUs was $31 million. Eighty percent of the private HBCU professionals surveyed indicated four or more years of endowment investment management and/or financial services experience. Two-thirds are currently involved with investment decision-making.

More than two-thirds of non-HBCU respondents to the survey represented the views of private non-HBCU endowments (35 of 50 responses). Most indicated that their endowment AUM was greater than $1 billion as of year-end 2022. The median AUM for non-HBCUs was $2.2 billion, considerably larger than private HBCU participating institutions. Most non-HBCU participants cited 10 years or more of endowment investment management and/or financial services experience. All are currently involved with investment decision-making.

It is important to note that the findings of this study, while insightful, should not be interpreted as universally representative of all 100+ public and private HBCUs. However, corroborative anecdotes from these HBCU leaders align with the trends observed in our survey data, lending essential context and validation to the conclusions presented in this report.

Private HBCU endowments are contrasted with non-HBCU endowments for context but should not be considered a direct comparison. Unless noted, non-HBCU public endowment responses were found to be statistically similar to non-HBCU private endowment responses.

Responses were collected during the third quarter 2023.

FOOTNOTES

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Investing in Relationships

Review of HBCUs often lacks the necessary context and is further exacerbated by a history of inequitable partnerships. Mindful of this, HBCU administrators are understandably cautious about divulging sensitive information to external entities. In recognition of these concerns, PGIM, in collaboration with UNCF, have earnestly committed to fostering trust as a cornerstone of their endeavor to comprehensively understand HBCU endowments.

This commitment to trust-building has been actualized through consistent and transparent communication with UNCF regarding the study's aims and methodologies. PGIM has worked to ensure that their engagement respects the privacy and autonomy of the participating HBCUs, utilizing only anonymized data to maintain confidentiality and uphold the integrity of these institutions.

This approach is designed to cultivate a cooperative and respectful environment, aiming to ensure that HBCU administrators feel genuinely valued, acknowledged and understood, thereby establishing a foundation for productive and mutually advantageous collaborations.

On behalf of PGIM and UNCF, we thank all the participants in the study and our partners and contributors for their invaluable insights and expertise.

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