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A Literature Review of University Endowment Funds in the US and Malaysia

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ABSTRACT

This study aims to review the prior studies regarding the University Endowment Funds in the US and Malaysia. This study uses 6 selected articles published during 2016-2022. This study found universities that manage endowment funds in the US have larger assets, and more aggressive investment strategies. Top-performing universities in terms of endowment funds are Harvard, Yale, Stanford, and Princeton University. However, universities in Malaysia tend to manage smaller assets and invest in less risky assets. Top-performing universities in terms of endowment funds are Universiti Malaya, Universiti Kebangsaan Malaysia, and Universiti Teknologi Malaysia.

Keywords: University endowment funds, US, Malaysia

Introduction

Higher education institutions (HEIs), whether they operate in the public or private sectors, are dependent upon their funding sources. A higher education institution's (HEI) capacity to educate students and carry out cross-disciplinary research will suffer from a lack of funding sources. Over 90% of the financing for public universities in Malaysia comes from the government (Hasbullah & Ab Rahman, 2021b). The government provides the majority of the funds for public universities, but while the government has given institutions autonomy, they still need to look into other income sources. The Malaysian government has implemented many measures to help public institutions become less reliant on government support and instead look for other sources of revenue (Hasbullah & Ab Rahman, 2021b).

The public universities in Malaysia have responded positively to this government support. In 2019, twenty publicly owned universities established endowment funds. Universiti Malaya (UM), Universiti Kebangsaan Malaysia (UKM), and Universiti Teknologi Malaysia (UTM) were the three universities with the greatest endowment fund collections in 2019 by successfully collecting RM1.37 billion, RM84 million, and RM74 million, respectively (Hasbullah & Ab Rahman, 2021b).

In addition to the tuition fees that students must pay as the university funding source, HEIs have also been able to supplement their income streams with the generous donations of outsiders. HEIs can handle voluntary donations in several ways, including endowments, gifts, and the redistribution of tuition fees (some students may be able to pay less due to financial excess by more affluent students) (Hasbullah & Ab Rahman, 2022).

University endowment funds are tax-free endowments designed to help universities meet their future financial needs. A combination of gifts, bequests, and investment returns provide their funding. They use a diversification-focused investment methodology and benefit from a long-term investment plan, which enables them to allocate a portion of money to less liquid assets while still being able to withstand market volatility. Consequently, this guarantees the pursuit of long-term investing goals rather than responding to transient market fluctuations (Azlen & Zermati, 2017).

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There were 805 endowments in the US in 2016, with a total of $515 billion in assets under management. Harvard University had the largest fund, with $35.7 billion under control. University endowment funds are smaller in the United Kingdom. The endowment funds of Cambridge and Oxford Universities control about £2.5 billion (Azlen & Zermati, 2017).

Endowment funds at universities can invest in a variety of marketable assets, including stocks, bonds, and fixed deposits. High-achieving university endowments, like those at Harvard and Yale, typically invest in riskier asset classes, including commodities, hedge funds, and private equity, in an effort to increase returns (Azlen & Zermati, 2017). The assets have significant investment risks even though they can yield substantial profits (Hasbullah & Ab Rahman, 2021b).

Diversification of investment portfolios, which can include both high- and low-risk assets, hiring investment specialists, and reinvesting returns in a variety of instruments, including financial assets and business ventures, are some of the tactics used for managing university endowment funds. Another tactic to think about is investing in Islamic assets. Research from Malaysian academics has shown that these assets are less risky, offer advantages for diversification, and create investment opportunities during uncertain financial times (Hasbullah & Ab Rahman, 2021b).

There were many studies relating to University Endowment Funds. However, this study focuses on the US and Malaysia. This study wants to analyze the practice of University Endowment Funds in the US as a developed country and also in Malaysia as a developing country. Therefore, a comprehensive understanding can be obtained regarding the University Endowment Funds in both countries. This study is important because it can make a mapping of prior studies on University Endowment Funds and provide insights regarding future research.

This is how the rest of the paper is structured. The research methodology is covered in the second section. The third section contains the results and a discussion. In the last section, conclusions are presented along with a summary of the research's limitations and suggestions.

Material and Methods

This study searched for articles in the Scopus database using the keywords "Endowment Funds" and "University Endowment Funds". From the article search results, six articles were selected and considered the most relevant to discuss the University Endowment Funds. Three articles discuss University Endowment Funds in the US and Malaysia, respectively.

This study uses a chronological review of the literature. The research discussed articles published in 2016 first and then discussed articles published in subsequent years. Table 1 is a list of 6 articles that are used as literature review.

Table 1. List of articles

No.	Author	Article Title	Year	Journal
1.	Jason Wolbrom	The Relation Between University Endowment Fund Size and University Reputational Rankings	2016	Financial Analyst
2.	Heinz-Dieter Meyer & Kai Zhou	Autonomy or oligarchy? The changing effects of university endowments in winner-take-all markets	2017	High Education
3.	Michael W. Azlen & Ilan Zermati	Investing Like the Harvard and Yale Endowment Funds	2017	Alternative Investment Analyst Review
4.	Nurul Adilah Hasbullah & Asmak Ab Rahman	Endowment and waqf funds in Malaysian higher education: A conceptual study	2021	Jurnal Syariah

To be continued…

5.	Nurul Adilah Hasbullah & Asmak Ab Rahman	Strategies for Managing Endowment Funds: Case Studies of Selected Malaysian Public Universities	2021	Jurnal Pengurusan
6.	Nurul Adilah Hasbullah & Asmak Ab Rahman	The role of fund managers in diversifying the endowment investment portfolios of Malaysian public universities	2022	Asian Academy of Management Journal

Results and Discussion

The aspect of article numbers

There are eight selected articles. Based on the year of publication, there is one article published in 2016, two articles published in 2017, two articles published in 2021, and one article published in 2022. Based on the journal article sources, each article is obtained from different sources. The articles come from the Journal of Financial Analyst, Journal of High Education, Alternative Investment Analyst Review, Jurnal Syariah, Jurnal Pengurusan, and Asian Academy of Management Journal.

The aspect of article topics

In terms of Article Topics, three articles discussed University Endowment Funds in the US. From 2006 to 2014, Wolbrom (2016) looked into the connection between endowment funds and reputational rankings. While Meyer and Zhou (2017), provided criticism of the oligarchy of Endowment funds in giant universities. Lastly, Azlen and Zermati (2017) explored the best practice of endowment funds at Harvard and Yale as the best example in the US context.

Several studies of university endowment funds using the context of Malaysia. First, Hasbullah and Ab Rahman (2021a) explored and highlighted the atypical concepts of endowment and waqf. Second, Hasbullah and Ab Rahman (2021b) investigated the methods employed by public universities in Malaysia to handle endowment funds. Third, Hasbullah and Ab Rahman (2022) studied how fund managers helped Malaysian public universities diversify their endowment investment portfolios.

The aspect of important findings

Regardless of how the analysis is carried out, the study on the relationship between endowment funds and reputational rankings is not significant for public universities. However, the private school yields the most significant results when endowment funds are evaluated according to their percentage change in value. (Wolbrom, 2016).

Another study provided criticism of the university endowment funds. According to Meyer and Zhou (2017), a select group of prestigious American universities have assets that go far beyond those of their international competitors, thanks to generous donations and the increasing revenue from the appreciation of their endowments.

Although endowments funded by private donations to universities have been an integral part of American higher education for more than 200 years, there have been significant shifts in wealth distribution in recent decades that could change the institutional and financial structure of higher education in the US and abroad. The aggregate endowment of the top 10% of American colleges and universities almost matches that of the bottom 90%. The top endowments have grown astronomically for two key causes. Compound interest is the most apparent. Even if the investment return merely matches the average market rate, the more money you start with, the higher your annual return on investment will be.

The "alternative investment strategies" that major endowment managers can use account for this discrepancy. "Alternative investment strategies" such as hedge funds, real estate, raw materials (including energy, natural resources, and related products), unlisted foreign stocks, private equity funds, and derivatives are more common in the higher hierarchy of the endowment. These strategies require a high level of expertise.

The establishment of the in-perpetuity endowment is transforming what may be viewed as healthy rivalry amongst universities into an arms race where the victor takes everything, further solidifying and enlarging the divide between the top 1% and the rest of the field. An elite group of extremely wealthy universities, dubbed the Harvard-Yale-Stanford-Princeton complex, is becoming more capable of hiring elite faculty members, recruiting top students, and funding high-priced research projects, often surpassing even other prestigious universities in the world, such as Columbia, Chicago, Berkeley, Cornell, Michigan, and others.

Azlen and Zermati (2017) also discovered that because of their multi-asset investment strategy, strategic asset allocation, and substantial exposure to alternative asset classes, the Top 5 Endowment Funds have continuously produced attractive investment returns with moderate volatility. Even though the US Endowment Funds' performance suffered during the 2008 financial crisis, its long-term investment approach has been successful enough that long-term total and risk-adjusted returns continue to outperform those of typical portfolios.

A total of $132 billion, or 26% of the assets of the 805 endowment funds, are held by the Top Five. The largest endowment fund is the Harvard Endowment Fund, with $35.7 billion, followed by the Yale Endowment Fund, which is second in size at $25.4 billion. "Top Five Endowments" includes Harvard and Yale, and these funds have been leaders in multi-asset investing. With annual returns that place them in the top 10 of over 800 US endowments most of the time, these funds have steadily been five of the best-performing US endowments. Compared to a standard portfolio's 6.0% returns and the rest of its peers, the Top Five's annualized returns for the 20 years were 11.2%.

Switching the discussion to Endowment University Funds in Malaysia, Hasbullah and Ab Rahman (2021a) conducted a conceptual study to concentrate on a few key areas: definition, giving philosophy, types, elements, and governance. Table 2 summarizes the conceptual difference between endowment and waqf.

Table 2. Difference between endowment and waqf

Aspect	Endowment	Waqf
Giving Philosophy	Humanity and generosity	to fulfill the duty imposed by religion to protect wealth (mal) rather than humanity and generosity.
Types	Three types: true endowment, term endowment and quasi-endowment	Two types: waqf khas and waqf 'am
Perpetuity	Need to be invested	Need to be preserved
Rights of Ownership	Flexible	Allah SWT
Governance Structure	University's financial division (bursary)	Three models

Other research also looked into how three public institutions in Malaysia—UM, UKM, and UTM—manage their endowment funds. Due to their record-breaking endowment fund accumulation, these public universities were chosen. However, endowment fund investment practices in Malaysia, particularly in public institutions, are different from those in the US in that the former allows investments to be made solely in conventional low-risk asset classes such as equities, shares, and fixed deposits. (Hasbullah & Ab Rahman, 2021b). Since the bursar is the only person who manages investments at UTM, the only type of investments in the portfolio are fixed deposits. UM and UKM envision that their endowment funds will yield investment returns from a variety of sources, not just fixed deposits: UKM invests in stocks, whereas UM invests in bonds, stocks, and real estate (Hasbullah & Ab Rahman, 2021b).

The recruitment of fund managers from Malaysian financial institutions with proven asset investment skills has allowed UM and UKM to broaden their investment portfolios beyond fixed deposits. Given that donors come from a variety of religious backgrounds, endowment funds are not required to invest in Sharia-compliant securities; rather, the fund's top goal is to fulfill the purposes of its contributors. However, as an alternative, Shariah-compliant investments were provided by every public university included in this study (Hasbullah & Ab Rahman, 2021b).

To maintain the long-term sustainability of their assets, UTM additionally sets aside a portion of the revenue from their endowment investments for reinvestment. They engage in commercial activities in addition to reinvesting in that asset because they solely receive income from fixed deposits (Hasbullah & Ab Rahman, 2021b).

Additionally, fund managers are chosen by the investment committees of UM and UKM to oversee the endowment fund's investments. Fund managers are regarded as professional fund managers because they are supported by banks and registered with the Securities Commission. Even while the fund managers are in charge of examining possible assets that could yield greater returns, the approval of the investment committee, the university management board, and, in the end, the Ministry of Finance (MoF) still governs investment decisions. According to UM's experiences, fund managers are more likely to invest in a variety of assets, including bonds, stocks, and real estate. The university gains from this even though the UKM fund managers only allocated endowment funds to equities assets since it allows them to invest in other conventional assets instead of just fixed deposits. (Hasbullah & Ab Rahman, 2022).

Conclusion

University endowment funds in the US are more advanced than in Malaysia. The biggest university endowment funds in the world are situated in the US, such as Harvard, Yale, Stanford, and Princeton University. These universities had a massive amount of endowment funds through aggressive investment strategies. In contrast, universities in Malaysia have smaller endowment funds and tend to invest in less risky assets.

The limitation of this research article is that it only uses six articles. It is hoped that other researchers can carry out further research with a larger number of articles sourced from databases of other reputable journals and be able to find other important findings that are not disclosed in this article. Suggestions for further research from the results of the review of six articles is to expand the number of articles so that they can provide new and different findings or results through other reputable journals or articles.

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