In February 2010, the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute released their joint report on endowment performance during fiscal year 2009. The report includes data from 842 institutions with a total of $306 billion in endowment assets. Like giving (to which they are related), endowments vary dramatically across—and within—institutional categories. Typically, private colleges rely more on endowment income to finance their current operations. As we noted in last year’s report, Harvard University, Yale University, Princeton University, Williams College, Grinnell College, and others rely on endowment income to finance as much as one-quarter of their annual operating expenses. Colleges with small endowments do not have this luxury. As more public institutions have focused on fundraising to supplement state appropriations, endowment income has become increasingly important to public universities such as the University of North Carolina at Chapel Hill, the University of Michigan, and the University of Virginia.

Most endowment returns were hit hard by the 2008–09 crash in the stock market, subsequent drops in commodities markets, and the havoc experienced in other financial markets. Although the U.S. stock market started to recover in March 2009, the gains recorded by June 30 were not large enough to offset losses from the first part of the fiscal year. As a whole, endowments in the NACUBO report lost 18.7 percent of their value in fiscal year 2009. Private and public institutions both experienced large losses, with public endowments losing 17.3 percent and private endowments declining 19.1 percent. Figure 2, which indicates year-to-year changes in endowment returns during the past ten years, shows how anomalous last year’s results were.

Many of the institutions that had been leading the way, generating enormous annual returns, were the ones that fell the hardest in 2009. The same high-risk assets that yielded double-digit returns during the mid-2000s were responsible for extraordinary losses this past year. Harvard lost $10.9 billion in value from its $36.6 billion endowment during fiscal year 2009, a drop of almost 30 percent. The losses of the five universities with the largest total endowments (Harvard, Yale, Stanford, Princeton, and the University of Texas) ranged between 23 and 30 percent. Because the level of risk in the investment portfolios at institutions with smaller endowments tended to be smaller, their losses during fiscal year 2009 were correspondingly less dramatic. Institutions with endowments of greater than $1 billion lost 20.5 percent of their value in fiscal year 2009, while those with a total value of less than $25 million lost “only” 16.8 percent.

For years, institutions with large endowment values per student had come to rely on those endowments to finance substantial portions of their annual expenditures. They