

Notes on Investment Management and Incentive Fees, Union College

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Introduction

Investment management fees (including incentive fees) for FY2020 were approximately \$14.6 million. This information was provided by VPAF Michele Gibson, after several e-mail exchanges. This figure was not reported in the Financial Statement for FY2020. We expect that, consonant with principles of transparency and accountability, as laid out in the Strategic Plan, the long-standing practice of reporting the fees in the Financial Statement will resume this year. In the rest of this note we provide an analysis of fees.

Analysis

1. **In FY2020, investment management fees (including incentive fees) were \$14.6 million. This is 38% higher than fees for FY2019, which were the highest ever at that time.** Based on Union's own data (including data from Gerber & Taylor), Union paid \$14.6 million in fees to underperform S&P 500 by 2.4 percentage points in FY2020. This was in an environment in which salaries were frozen and retirement contributions were “paused”.
2. **The recent acceleration in the magnitude of fees is reported below and can be traced back to 2016.**

<i>Years</i>	<i>Fees as % of endowment</i>	<i>Fees in millions of dollars</i>
FY2016	1.4	5.6
FY2017	1.6	6.9
FY2018	2.0	9.1
FY2019	2.3	10.6
FY2020	3.1	14.6

Note that the above fee increases (in percentage terms) are not driven by inflation, and they are scaled to the size of the endowment. So, what can explain these substantial increases? It cannot be performance. This is because, based on G&T data, for every year under discussion here, Union's performance has been *worse* than that of S&P 500; as follows:

Table 4 (from Gerber & Taylor) [abbreviated for the years under study here; *Underperformance* column added, (Union – S&P 500)].

<i>Years</i>	<i>Union</i>	<i>S&P 500</i>	<i>Underperformance</i>
FY 2016	-9.7%	4.0%	-13.7
FY 2017	15.2%	17.9%	-2.7
FY 2018	11.9%	14.4%	-2.5
FY 2019	6.5%	10.4%	-3.9
FY 2020	5.1%	7.5%	-2.4

Thus, to date, the explanation remains elusive.

*These notes supplement my January 2021 report entitled “Union College Endowment: An Analysis and Evaluation of Investment Strategy and Performance,” available [here](#).

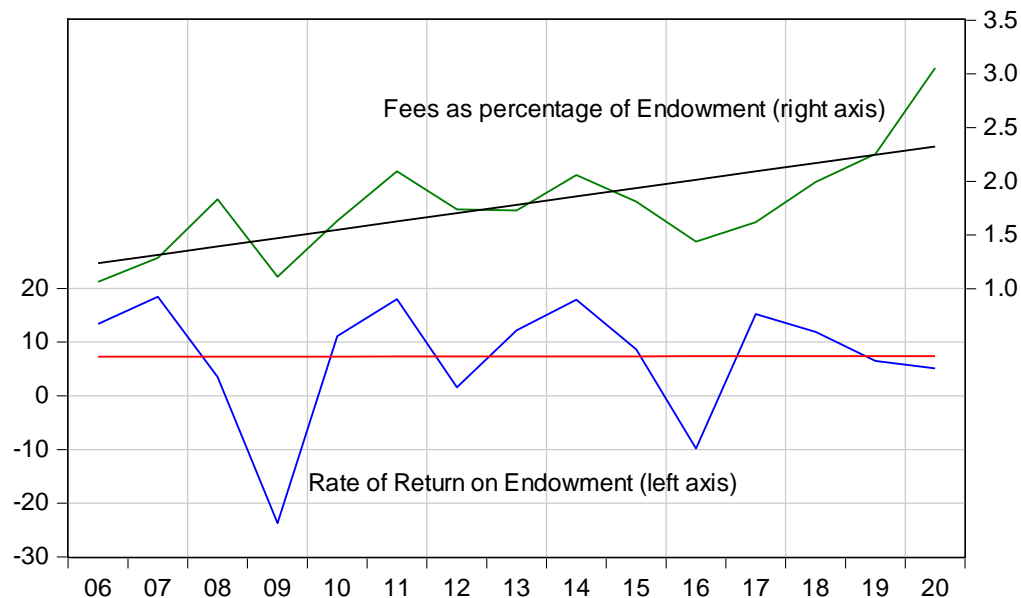
3. **Between June 30, 2015 and June 30, 2016, the value of the endowment dropped by \$52 million (please see my January 2021 report, [here](#), Table 1, p. 2, from \$441 to \$389 million).** I have been able to find explanations for about \$13 million.¹ But almost \$39 million in losses remain without an explanation.

Unlike the Global Financial Crisis of 2008, to my knowledge, and based on consultations with peers, there is no external, market-driven explanation for the \$39 million loss. In fact, S&P 500 returns for FY 2015, 2016, and 2017 were, respectively, 7.4%, 4.0% and 17.9%. The opportunity cost of that loss is substantial. Using G&T's own data and methodology, if Union had not lost that \$39 million in 2016, its endowment, as of June 30, 2020, would have been higher by \$56 million (based on Union's performance), or \$62 million (based on S&P 500's performance). At this point, I do not have any information to explain the \$39 million loss.²

Conclusions

Subsequent to Union losing \$39 million in 2016, fees have accelerated at a consistent and substantial rate. As a percentage of the endowment, they have grown at an average annual rate of 21.1%. The absolute dollar amount has grown at an average annual rate of 27.3%. To date, after extensive research, I have not been able to find any publicly available information that can explain these increases.

Moreover, for the entire period under study in my report and in these notes, 2006-2020, the fees have shown a steady upward trend, while the rate of return on endowment has not. (See figure below.)



- *Consistent with principles of transparency and accountability, all my spreadsheets and econometric workfiles are available upon request.*

¹ Details are as follows (numbers have been rounded): total decrease, \$52 million; “investment income to support operations”, \$20 million; “gifts and other additions”, \$7 million; “investment income” loss, \$39 million.

² Coincidentally, the percentage of Union endowment's investments in “Central America and the Caribbean” dropped from 50% in 2014 to 39% in 2017. At this point, I do not have any evidence about either correlation or causality between the “Central America and the Caribbean” phenomenon and endowment performance in 2016 and/or the accelerating fees. Nor do I have any hypothesis about even if any causality existed, what the direction of that causality might be.