Singapore's approach to endowments rare in region
Favorable government treatment allowing school funds to bloom in area of few peers

BY DOUGLAS APPELL | FEBRUARY 18, 2013

The Singapore University of Technology and Design campus

The Singapore University of Technology and Design, launched by the city-state's government in collaboration with the Massachusetts Institute of Technology last year, is moving quickly to build what remains a rarity in Asia — an endowment fund capable of providing material support for the school's growth and development.

Late last year, SUTD tapped Internet job sites such as Monster.com to find a chief investment officer for its newly minted endowment fund. In January, meanwhile — years before SUTD's first graduating class — the school hired Yvonne Ho, the number two executive in rival Singapore Management University's office of advancement and alumni, to lead its own endowment donations effort.

SUTD's effort, to both source donations for its endowment and invest those funds for the long term, is occurring in an environment in Asia where governments continue to supply the bulk of university funding, making endowments “a bit of an afterthought,” noted Mark Wills, a Sydney-based managing director with State Street Global Advisors' institutional solutions group for the Asia-Pacific region.
Cultural factors as well as a lack of supportive tax treatment for donations have left the biggest endowments in Australia ranging between US$1 billion and US$1.5 billion, and endowments in other relatively developed parts of the region, such as South Korea and Taiwan, at a fraction of those levels, said Mr. Wills.

Meanwhile, in stark contrast to their U.S. counterparts, who led the push into alternative and illiquid asset classes in recent decades, managers of permanent endowment and foundation funds at universities in the Asia-Pacific region more often than not opt to invest very conservatively.
Universities in Japan, for example, don't segregate their permanent funds from the university's accounts, contributing to a focus on fiscal year results that inhibits risk taking, noted Masafumi Hikima, a professor with Sophia University, who serves as investment adviser on the Tokyo-based school's bureau of financial affairs.

Focus on fixed income

Most Japanese universities focus on fixed-income allocations, instead of putting together diversified, risk-controlled portfolios capable of delivering higher annualized returns over five- or 10-year periods, said Mr. Hikima, who is a former president and CEO of first Nikko Asset Management and also Alliance Bernstein Japan Ltd.

In recent years, however, leaders of universities from Sydney to Seoul to Nagoya have cited the need to attract more donations from alumni and other wealthy individuals in order to maintain or establish a competitive edge.

An endowment fund capable of supporting a university in an increasingly competitive global environment will be a differentiator — allowing the university to attract world-class faculty and researchers, noted Wee Sin Tho, vice president, endowment and institutional development, with the National University of Singapore.

The sense that deeper resources are needed to fund a leading cancer or biotechnology program has “definitely intensified,” noted SSgA's Mr. Wills, who said the competition increasingly resembles “an arms race.”

If it's an arms race, then Singapore is a regional superpower. Government support over the past decade has helped put the endowments of the city-state's three leading universities — National University of Singapore, Nanyang Technological University and Singapore Management University — on the radar screens of money managers' institutional sales teams.

Singapore has been “on the leading edge in terms of active government promotion” of establishing an endowment culture, with generous matching funds and tax treatment accelerating a “buildup” stage that should continue for a few more years, noted Soon Kian Lee, a Singapore-based principal with Mercer as well as the firm's head of investments, ASEAN.

The Singapore government's supportive measures include allowing S$2.50 of tax deductions for every S$1 Singaporeans donate, and in 2010, setting aside a S$2 billion pool to provide matching contributions of between S$1.50 to S$3 on the dollar to endowments, depending on the specific donation.
One donor, who declined to be named, noted that the policies effectively mean every $1 contributed could potentially become $8 for the endowment.

Terry Alan Farris, chief development officer with Nanyang Technological University, said university endowments haven't been a magnet for high-net-worth donations, but as family offices have become increasingly professional and the children of company founders have studied abroad, the tide has turned. Toward that end, having a strong investment team to oversee a university endowment is a further help in getting entrepreneurs in the region to trust somebody else to do a decent job making the most of their money, he added.

NUS' Mr. Wee noted that having prominent U.S. endowment veterans — such as Allan Buffett, who retired in 2005 as the treasurer and long-time chief investment officer of the Massachusetts Institute of Technology's endowment — serve as advisers to NUS helped “fast-track our learning” on the investment side. According to an NUS spokes-man, the current asset allocation for the university's endowment, which is overseen by external managers, is: publicly traded equities, 35%; marketable alternatives (hedge funds), 20%; fixed income, 20%; real assets (such as real estate, commodities), 12.5%; and private equity, 12.5%.

For the coming year, however, the fixed-income allocation — focused on Singapore sovereign bonds to ensure needed liquidity — will fall toward 10%, with NUS' investment team looking to reallocate the difference to growth assets offering the most compelling valuations, the spokesman said.

Showing is important

Having a credible internal investment team is “relevant” to a university's fundraising efforts, but a university's ability to show that it's effectively using its endowment in pursuit of the university's mission is arguably more important, noted Teo Jwee Liang, chief investment officer of Singapore Management University's close to S$1 billion in endowment and other permanent funds, in a recent interview.

Mr. Teo said SMU engages external firms to manage its investment portfolio. The target allocations are: global publicly listed equities, up to 40%; marketable alternatives, 20% to 25%; 10% to 15% in fixed income; 10% to 15% in real assets; and 5% to 10% in private equity.

Over the past year, however, the portfolio has added more equity and absolute-return strategies with low-volatility characteristics, he noted.
While SMU doesn’t announce endowment performance results, Mr. Teo said his team compares its returns to those of similarly sized endowments in the U.S., because of the similarities in portfolio construction.

SMU’s March 31 fiscal year end makes for inexact comparisons with U.S. universities using a June 30 year end, but for most time periods in the short life of the SMU endowment, it would have enjoyed above-median results in that U.S. universe, he said.

A recent survey by Mercer showed the typical university endowment in Asia contributing less than 1% of the university’s annual expenditures. According to market veterans, Singapore’s government is looking for the endowments of the city-state’s established universities to be capable of funding 10% of their expenditures within five to 10 years. SUTD’s endowment, meanwhile, got off to a flying start with a more than S$350 million grant from the government for its fiscal year ended March 31, 2012.