

College Endowments Benefited Greatly From Oil And Gas, Study Finds

By Darren Barbee, Hart Energy January 24, 2013

University and college endowments have profited mightily from their stakes in oil and natural gas companies, exceeding all other asset classes, Robert Shapiro, chairman of Sonecon LLC, said in a Jan. 23 press call.

For at least a decade, such shares produced the highest returns for those endowments and crushed other U.S. stocks in comparable time frames, said Shapiro, a former U.S. Department of Commerce official.

Climate activists such as Bill McKibben have launched initiatives to get universities to divest within five years from corporations that hold fossil fuel reserves. But McKibben's campaign, called "Do the math," to rid endowments of oil and gas holdings might prove to have an ironic slogan.

The math, in fact, adds up exceptionally well for higher education endowments that invested in oil and gas stocks. The ratio of returns for oil and natural gas assets to their share of endowments' total assets was 2.8 to 1, Shapiro said.

Shapiro, an economic advisor to the presidential campaigns of Bill Clinton, Al Gore, Sen. John Kerry and President Obama, said his study had nothing to do with McKibben's campaign. He said the study was meant to show the best payoff for educational needs.

"University endowments can do whatever they want," he said. "The question is do they want to dump their highest-performing assets?"

A former Harvard University fellow, Shapiro added that the first responsibility of a "university is to the education of the kids that go there, and that requires a lot of money."

Shapiro said an examination of 823 colleges and universities found 2.1% of their endowment investments were in oil and natural gas company stocks in fiscal year 2010 to 2011. During that time, those shares comprised 5.7% of all endowment gains.

In all, endowments invested \$8.45 billion in oil and natural gas company stocks.

The study, commissioned by the American Petroleum Institute, examined one-year, five-year and 10-year returns on oil and gas returns for college and university endowments.

"Over all three periods, U.S. shares of oil and natural gas companies outperformed both the overall performance of these endowments and every other asset class examined here," Shapiro said.

Over the most recent five-year period, June 2006 to June 2011, oil and gas company stocks held by college and university endowments produced average annual returns of 7.9%. The returns far outstripped other asset classes, such as U.S. stocks' average five-year returns of 2.9%, global equities' 2%, bonds' 6.5%, and real estate's 1.6%.

In perspective, the 7.9% average annual five-year returns from oil and natural gas company stocks were 172% higher than the average annual 2.9% five-year returns on all U.S. stocks for endowments.

That trend also holds up over the average annual 10-year returns, which were 11.5% for oil and natural gas company stocks. Those returns were a whopping 326% higher than the average annual 10-year, 2.7% returns on all U.S. stocks and 105% greater than average returns on college and university endowment assets.

Over the past decade, oil and natural gas stocks also outperformed the S&P 500 30.7% to the S&P's 2.9%.

API chief economist John Felmy said the institute began a series of studies years ago after criticism by people who "thought our companies were owned by space aliens."

Felmy said the study shows that in addition to ownership by millions of Americans, retirees, and pension funds, oil and gas industry success is also tied to the future of education.

Average Annual Five-Year, 10-Year and One-Year Returns on College and University Endowment Assets, By Asset Class:

	Five Years: June 2006-June 2011	10 Years: June 2001-June 2011	One Year: June 2010-June 2011
All Endowments	4.7%	5.6%	19.2%
Large (over \$1 billion)	5.4%	6.9%	20.1%
Medium (\$100 million - \$1 billion)	4.5%	5.5%	19.3%
Small (under \$100 million)	4.9%	5.0%	18.8%
Public institutions	4.9%	5.4%	19.1%
Private institutions	4.6%	5.6%	19.3%
<i>Benchmark Returns by Asset Class</i>			
Oil and Natural Gas Stock	7.9%	11.5%	52.8%
S&P 500	2.9%	2.7%	30.7%
MSCI World Index Excluding U.S.	2.0%	6.1%	30.3%
Barclays Aggregate Bond Index	6.5%	5.7%	3.9%
Wilshire Real Estate Securities Index	1.6%	10.4%	35.2%
Dow Jones Commodities Index	0.0%	6.6%	25.9%
HFRI Distressed Debt Index	4.7%	9.4%	11.8%
Three-month Treasury Bills	2.0%	2.1%	0.2%

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