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THE ROLE OF FUND MANAGERS IN DIVERSIFYING ENDOWMENT INVESTMENT PORTFOLIOS OF MALAYSIAN PUBLIC UNIVERSITIES

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ABSTRACT

Endowment is one of the most important sources of income globally for higher education institutions, and it should be invested for permanent use. Unfortunately, such funds are not optimally managed in Malaysia's public universities. Therefore, this study was conducted to find ways to manage funds effectively among universities with the highest recorded collection of endowment funds. The participating universities in the study were: Universiti Malaya, Universiti Kebangsaan Malaysia, and Universiti Teknologi Malaysia. Interviews were conducted with representatives from their financial divisions. This study found that endowment funds in Malaysian public universities can be better invested with the appointment of dedicated fund managers. Their role is to assess the assets in which to invest with their expert knowledge to enhance the investmentportfolio of endowment funds.

Keywords: endowment investment, fund managers, public universities, Malaysia

INTRODUCTION

Higher education institutions (HEIs) provide help to increase theoretical and practical knowledge of university students in a number of fields to offer them good job opportunities and a chance to improve their living standards. Additionally, the human capital bolsters the nation's economic development.

In order to create equitable educational opportunities for the public, the government of Malaysia has established 20 public universities. More than 90% of their expenses are covered by the government [Ministry of Higher Education (MoHE) Malaysia, 2016], which is considerably high. The government has consistently sought to reduce this dependence by granting universities autonomy to seek external funds up to 30% of their own income (Amran & Muhammad, 2015). This initiative is consistent with the Ministry of Education Malaysia (MoE) plan under the Malaysia Education Blueprint 2015–2025 (Higher Education), also known as the MEB (HE) – an effort to reduce HEIs's dependence on the government. The fifth agenda in the MEB (HE) plan emphasises financial sustainability and encourages HEIs in Malaysia to seek alternative income sources to become more flexible, reliable, and sustainable in their finances.

Apart from tuition fees imposed on students as private financial sources, voluntary donations from third parties are a source of income for HEIs. This source needs to be considered as it is relatively unrestricted, unlike allocations from the government and other sources (Leslie & Ramey, 1988). Pérez-Esparrells and Torre (2012) claimed that voluntary donations are the primary fundraising income stream for most institutions. Additionally, studies in the US have revealed that voluntary donations to the tune of USD49.60 billion was received by their HEIs in 2019. This amount was an increase of 6.1% from 2018 (USD46.73 billion), reportedly the highest ever reached according to Voluntary Support of Education (VSE) survey conducted by the Council for the Advancement and Support of Education (CASE) (2020). According to Johnstone (2006), several methods are used to manage voluntary donations in HEIs, including endowments, gifts, or the redistribution of tuition fees (some students can pay less from the financial surplus of more affluent students). It is important to note that the current study was mainly focused on voluntary donations in the form of endowments. The MoHE has supported the implementation of endowments in Malaysian HEIs via its 2016 publication of "Purple Book." This contained guidance for public universities on enhancing income generation through endowment funds. This encouragement from the Malaysian government received a positive response from public universities: all 20 of them established an endowment fund (based on data provided by MoHE to the authors through e-mail) as shown in Figure 1.

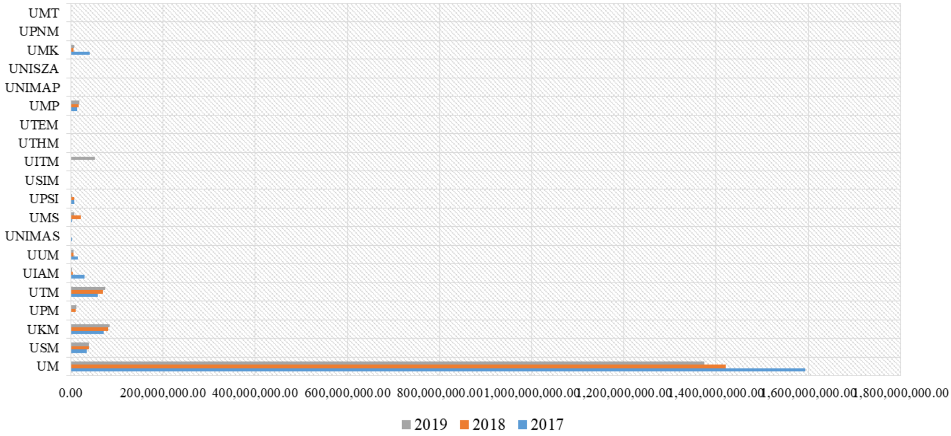

Figure 1. Collection of endowment by Malaysian public universities (2017–2019)
Source: Ministry of Higher Education (2016)

The implementation of endowment funds should be encouraged to ensure its maintenance; an example of its success is Universiti Malaya (UM) whose endowment fund was established before its separation from National University of Singapore on 15 January 1959. This fund must be invested to ensure its permanent maintenance, which led UM to record the highest collection of endowment funds at RM1.6 billion, RM1.4 billion, and RM1.4 billion in 2017, 2018, and 2019, respectively (Figure 1). The second highest endowment recipient is Universiti Kebangsaan Malaysia (UKM) recording RM71 million, RM80 million, and RM84 million in 2017, 2018, and 2019, respectively followed by Universiti Teknologi Malaysia (UTM) with RM59 million, RM69 million, and RM74 million, respectively for the three years. Sub-optimal management of the endowment plan is a big challenge due to lack of proper governance structures and fund structures (Abdul Hamid et al., 2018). These scholars also recommended greater development of innovative products and services to enhance the funds' investment portfolios. (see also Hassan et al., 2017). The current study thus, was conducted to find ways of enhancing investment portfolios of these funds.

LITERATURE REVIEW

"Endowment" is defined as the bestowal of a permanent fund or income, and as money or property given to an institution, person, or object for permanent use (The New International Webster's Comprehensive Dictionary of English Language, 1996). Money or property given can be permanently used since it grows through investment of the financial assets so that the returns generated can be spent for current and future operations of the institution (see for example, Ehrenberg, 2009; Sazonov et al., 2017; Qu, 2020; Angelini et al., 2020). Endowment funds, having an element of perpetuity (Hasbullah & Ab Rahman, 2021), are very important for public and private HEIs to implement because they are an effective protection against financial problems. Private universities rely heavily on student fees to operate primarily in western countries like the US and they are in urgent need of financial reserves due to their inflexible costs (Hansmann, 1990). This is confirmed by Baum and Lee (2019), who noted that endowment funds are necessary for universities to maintain their operations in the long run while being protected from temporary decline in enrolment and revenue, disruptions in financial markets, and unexpected large expenses. In the context of Malaysian public universities, which rely on government funding as their main source of income, endowment funds are also important due to the decline in government allocations to these institutions from 2014 until 2017 (see Figure 2). Therefore, voluntary support (especially in the form of endowment) plays an important role in balancing the universities' resources and expenditure, particularly as institutional expenditure continues to increase (Leslie & Ramey, 1988).

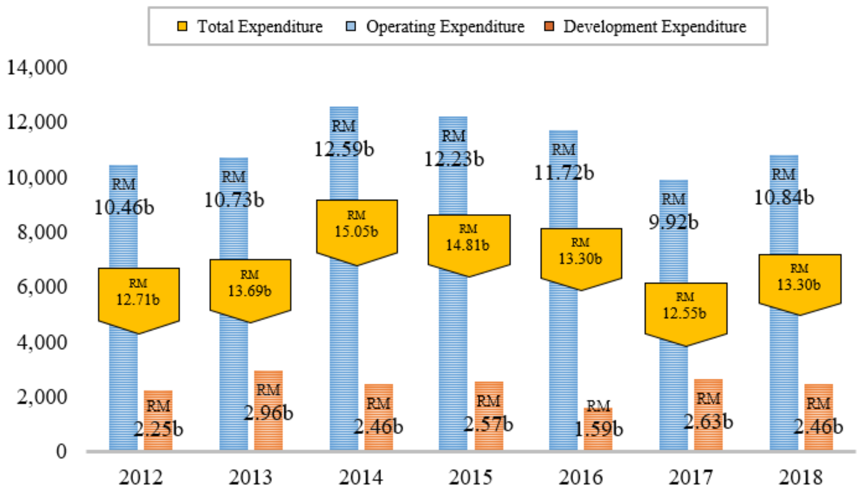

Figure 2. MoHE's budget allocation (2012–2018)

Source: Kementerian Kewangan Malaysia (2020, 2018, & 2015)

Internationally, there are two types of legal structures involved in managing endowment funds at HEIs, described by McElhaney (2010), Dimmock (2012), Madanchi et al. (2016), and Kaffe (2019). The first is a legal structure that is part of the university. The second is a separate legal entity, such as a foundation or investment management company. The example of a university applying the first type of endowment management is Emory University (i.e., Emory Investment Management Office), while an example of the second type is the University of Texas System [i.e., The University of Texas Investment Management Company (UTIMCO)] (McElhaney, 2010). Although two types of legal structure are involved inendowment management for HEIs, Binfarè et al. (2018), Lord (2014a), and Fishman (2014) argued that most universities delegate the responsibility for managing their endowment fund to an investment committee. Malaysia has also adopted a similar structure. Abdul Hamid et al. (2018) reported that the investment committee at these local universities is located in their finance departments. Since they are appointed by the university board, they are responsible for overseeing the management of the university's endowment matters relating to the investment of the fund, including managerial selection decisions (e.g., active versus passive strategies).

According to Commonfund Institute (2018), there are large differences in asset allocation for different endowment organisations (i.e., healthcare organisations, educational endowments, and community foundations) that lead to variations in investment returns. Top-performing university endowments tend to invest in alternative assets in order to gain higher returns, although this is riskier and more illiquid (Lerner et al., 2008; Kaplan & Schoar, 2005; Rosen & Sappington, 2015; Dimmock et al., 2018; Black, 2013; Qu, 2020) and may have an adverse effect on the performance of endowment funds (Ennis, 2021). However, the performance of an endowment fund does not depend on investment in alternative assets only, but also on other significant factors, such as asset allocation strategy and the ability of endowment managers to select profitable shares and other investment portfolios (Moore, 2017; Brown et al., 2010). An asset allocation strategy often discussed by the various scholars is the diversification of endowment investment portfolios (Leković, 2018; Azlen & Zermati, 2017; Lord, 2014b; Gurrib & Alshahrani, 2012; Tuttle, 2009). According to Lord (2014b, p. 7), this strategy promotes either greater returns given a specified risk level or reduces risk for a specified level of return. It has been practised by Harvard and Yale universities to build their investment portfolios (Azlen & Zermati, 2017). This is supported by Angelini et al. (2020), who noted that this strategy also allows those universities to perform successfully in investing long-term. Since such a strategy consists of very risky assets as well as those of low risk – such as stocks and bonds (Tuttle, 2009) – the appointment of an investment manager is critical since they could select assets from particular classes for investment (Lerner et al., 2008). Black (2013, p. 95) and Fishman (2014) also argued that accurate asset selection can be accomplished by investment managers who can assess risks related to investment and operations.

Although Barber and Wang (2013, p. 26) found that manager selection and tactical asset allocation do not generate best results for elite institutions, Azlen and Zermati (2017, p. 7) revealed that top-performing endowments can consistently earn attractive investment returns with modest volatility due to their multi-asset approach to investing, as well as their significant exposure to alternative asset classes – hedge funds and private equity. According to Wain and Shenkin (2009), the diversification of investments can be increased by selecting two or more discretionary managers to each manage a portfolio composed, for example, of cash, equities, and bonds. Top-performing endowments have around 100 investment managers (Tuttle, 2009). Such investment managers can allocate investments to various assets: public U.S. equities (10.0%), public non-US equities (12.7%), public global equities (7.3%), private equity and venture capital (25.6%), marketable alternatives (21.1%), fixed income (11.0%), and real estate (12.3%) – based on the study conducted by the National Association of College and University Business Officers (NACUBO) and Teachers Insurance and Annuity Association of America (TIAA) in 2020. The appointment of investment managers and the diversification of investment portfolios are thus co-related.

Nevertheless, there is a need to select suitable managers who can properly assess investment and operational risks. According to Donnelly (1985), there are three criteria in selecting fund managers: (1) investment performance, (2) investment philosophy, and (3) professional skills. Lerner et al. (2008, p. 218) argued that only skilled managers can contribute to a university's endowment success as they can explain the differences in investment performance. Tuttle (2009, p. 51) endorsed this finding, arguing that skilled managers can generate most of the returns from alpha (outperformance and due to their skills), which is key to developing these types of portfolios, while allowing the university to utilise their network (Angelini et al., 2020, p. 9). The importance of skills criteria in selecting investment managers was also stressed by Ellis (2011), who reported that managers with professional skills learned from their gruelling experience, which leads them to invest carefully (i.e., "bold, but not too bold" and "modern, but not too modern") and not follow the crowd's approach. This criterion was applied by Yale in selecting their investment managers (Deguchi, 2018).

Additionally, public universities need to examine the rules set by their governments in choosing investment managers. In the Malaysian context, if universities select fund managers registered with the Securities Commission Malaysia (SC), then their expertise is assured as the SC has a number of core principles that they must adhere to. These principles are set out below (SC, 2005, pp. 4–5):

a) Integrity	:	A fund management company must conduct its business with integrity.
b) Skill, care, and diligence	:	A fund management company must conduct its business with due care, skill, and diligence.
c) Acting in clients' interests	:	A fund management company must always act in the interest of its clients and must not jeopardise or prejudice clients' interests.
d) Supervision and control	:	A fund management company must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management and supervisory system.
e) Adequate resources	:	A fund management company must maintain adequate financial, human, and other resources which commensurate with its business.
f) Business conduct	:	A fund management company must conduct its business in a manner that promotes a fair and orderly market.
g) Client asset protection	:	A fund management company must ensure that clients' assets are safeguarded at all times and must not make improper use of clients' assets.
h) Communication with investors and clients	:	A fund management company must provide relevant information to investors and its clients in a manner that is fair, accurate, and timely.
i) Conflict of interest	:	A fund management company must manage conflict of interest fairly, both between itself, its employees and clients, and between a client and another client.
j) Compliance culture	:	The Board of Directors of a fund management company must ensure proper policies and procedures are in place to ensure a sound compliance framework which safeguards clients' interests.
k) Dealing with the SC	:	A fund management company must deal with the SC in an open, co-operative, and timely manner.

Furthermore, guidelines are issued by the Malaysian government on the types of assets that can be invested by public universities, stipulated in Universities and University Colleges Act 1971 (AUKU 1971), such as low-risk investments like fixed-deposits [Section 4 (1)(k)] and other assets [i.e., shares, stocks, debentures, debenture stocks, bonds, obligations, and securities issued or guaranteed by the authority bodies (Section 4A (1)(f)]. Therefore, these guidelines are applied and included in their income generation policy (UKM, 2017; UPNM, 2017).

Institutions without internal fund managers with investment skills could appoint external fund managers. They could not expect the endowment investments to be managed only by their internal fund managers. Even the largest foundations of endowment still hire external fund managers to perform day-to-day or detailed tasks related to investment management (Gonzales, 2003, p. 16). Their ability to hire both internal and external fund managers may be due to their adequate financial sources (Moore, 2017). This has been practised by Harvard (Harvard University, 2019) and Yale (Yale University, 2019) universities, although the cost of external fund managers is slightly higher than internal fund managers. Callan Associates (2013, p. 2) reported that external investment management fees represent the lion's share of total fund expenses at 90%. This finding is in line with Charles Skorina and Company (2017), whose noted in his study that all universities spent a greater amount of money on external fund managers compared to internal fund managers, at an average of 123 basis points. Yale University also spent a substantial amount hiring its external fund managers. Although their action was criticised, Yale defended it in its annual report, stating that a low-cost, passive strategy would have "short-changed" the Ivy League school's students and faculty (Yale University, 2016, p. 18).

METHODOLOGY

Research Design

A qualitative approach was adopted for this study as it was deemed appropriate. It comprised interviews with informants from the selected Malaysian public universities on how their endowment funds were invested. Detailed information from informants was also gleaned in order to identify the strategies which increase the asset allocation of these funds' investments. Interviewing is an important technique for researchers to obtain rich and detailed information rather than "yes-or-no," "agree-or-disagree" responses (Rubin & Rubin, 2012).

Content analysis was used to draw replicable and valid inferences from verbal or written data describing a specific phenomenon. This method is useful since it provides new insights and increase a researcher's understanding of a phenomenon under study (Krippendorff, 2004, p. 18).

Participants

Based on data obtained from MoHE – as discussed in the introduction above – the current study examined Malaysian public universities that recorded the highest collections of endowment funding: UM, UKM, and UTM. In line with the scope of this study, only this aspect of their investment was investigated. Since the investment of endowment funds at those three universities are managed by their bursar's office, this study conducted an interview with their representatives rather than with endowment management units. The informants were selected using purposive sampling with the help of the bursar's office in consultation with the authors. This sampling technique is important for the present study because it can increase the likelihood that variability common in the phenomena under study will be represented in the data obtained (Maykut & Morehouse, 1994). The informant from UM was a Financial Officer in the Accounts and Investment Division, Bursar's Office; that from UKM was the Assistant Bursar, Bursar's Office; from UTM, an accountant in the Bursar's Office.

Data Collection

Data collection occurred in the informants' offices as well as by phone between March and April 2020. Before interviews began, the informants were informed of the purpose of this study. All interviews were initiated with an open-ended question: "How are endowment funds invested in this institution?" They were also asked if external fund managers were appointed to manage the endowment investments of the institutions. If the answer was positive, they were then asked what their roles are and how the institution chose them — on what basis were they appointed, and how much does the institution ought to remunerate them. In order to encourage informants to think more deeply about the questions and obtain in-depth data, follow-up questions included: "Do you agree that theamount of money spent to pay the fund manager is worth their service performance?" and "In which area does this manager perform really well?" All these interview questions went through an evaluation process with two relevant experts. Each interview lasted 30–60 minutes and was audio recorded.

Data Analysis

The audio recordings were later transcribed verbatim. After this was completed, their data was analysed using thematic analysis. This was done using ATLAS.ti program and involved six phases (Braun & Clarke, 2006). In the first phase, the authors read the texts several times in order to gain in-depth understanding of the content obtained from the informants. Then, in the second phase, initial ideas about the lists of codes that might be created was generated and in the third phase, the authors identified potential themes and sub-themes. The fourth phase involved checking that each theme and sub-theme identified had sufficient supporting data. This was followed by the development of a thematic map in the fifth phase. An example of a theme in this study is "Characteristics in appointing fund managers," while those of the sub-themes is "Have expertise and resources" and "Registered with the SC with banks operating behind them." In the last phase, data analysis reported was generated in the form of an illustration containing quotations. After the report was generated, the authors conducted several discussions to ensure that the verbatim quotations could provide appropriate answers to the research questions.

Ethical Consideration

This study was conducted with the approval of Universiti Malaya's Research Ethics Committee (UMREC) based in Kuala Lumpur. The informants received a letter outlining the aim of the study, its procedure and its benefit. As evidence of the voluntarily nature of the informants' participation, a consent form was attached to the letter, to be completed by them. They were assured that their participation entailed minimal risk; however, they were entitled to withdraw from the study if, at any time, they felt uncomfortable during its conduct. They were also assured that their participation was confidential and that their names would not be publicly disclosed. They were supplied with the phone number and the email and mailing addresses of UMREC if they had any concerns or questions about the study.

RESULTS

Although there are few types of endowment fund, the most common type employed by all the selected universities in this study was the true endowment, which required them to invest the funds that have been contributed by the donors. Such investment can ensure that the funds can grow for permanent use. In endowment investment, a large proportion of funds is usually invested as assets. Although there are investments in other activities (e.g., commercial activities), the financial sources for funding these activities come from returns on investment in assets. In other words, the fund must first be invested in assets before other activities. Typically, endowment investments in assets are managed by the investment committee under delegation by the bursar (Abdul Hamid et al., 2018, p. 21). However,the asset that can be invested by this committee is limited to fixed deposits, as stipulated in AUKU 1971, Section4 (1)(k).

The Role of Fund Managers in Diversifying Investment Portfolios

The investment committees of UM and UKM also appoint fund managers to manage the investment of the endowment fund in those assets which are outside their jurisdiction. The funds managed by them are also quite large – around RM600 million in 2018 for UM (Universiti Malaya, 2018) and RM113 million in 2020 for UKM (data gained from UKM informant). The fund managers act on behalf of the investment committee in investing, so there are specific mandates on them, such as adhering to the requirements of the university. However, they are responsible for self-assessing the appropriate assets to be invested as mentioned by an informant:

> Their (fund managers) discretion is based on our requirements. However, they do the self- assessment by themselves, which is the best investment. (UM informant)
>
> Recently, we have…[chosen] fund managers. The features for selecting them are, first, they must meet our investment needs. For example, we want investment in the form of equity, and people who managed those funds also must have the investment in equity…They invest according to what has been specified by the donors. We give money to the fund managers to decide what kind of investments to be made. (UKM informant)

Although the fund managers are responsible for analysing the potential assets that can generate higher returns, decisions by them to invest are still bound by the consent of the investment committee, the university management board and, ultimately, the Ministry of Finance (MoF). Based on the experiences of UM, fund managers are more likely to invest in diverse assets, such as bonds, equities, and properties. Although the UKM fund managers only allocated endowment funds to equity assets, this still benefits the university because they can invest in other traditional assets rather than only having an investment in fixed deposits managed by their investment committee. The asset allocations available at the selected universities in this study are made by the appointed fund managers as shown in Table 1.

Table 1
Appointment of fund managers and asset allocations

University	Appointed Fund Managers	Asset Allocations		
		Equities	Bonds	Properties
UM	Yes	Yes	Yes	Yes
UKM	Yes	Yes	No	No
UTM	No	No	No	No

The allocation of endowment funds in such assets implemented by the UM and UKM fund managers is permissible due to a provision granting universities additional power under Section 4A (1)(f) of AUKU 1971. The adoption of this additional power is clearly described in their investment guidelines, such as Dasar Penjanaan Pendapatan, UKM (UKM, 2017). Although the investments made by the fund managers are only allowed in traditional assets, these still give significant returns to the universities because investment assets, such as bonds, equities, and properties, can provide higher returns than fixed deposits. An informant from UM explained: "In general, bonds and equities usually provide higher returns when the market condition is good."

Characteristics in Appointing Fund Managers

The fund managers have a very important role in investing in various assets, including bonds and equities, where such assets may give higher returns to the university. However, the university needs to appoint the right fund personnel. The UM and UKM have several criteria in appointing their fund managers, such as performance, expertise, resources, and registration with the SC. This was described as below by the informants:

> Usually, they were chosen based on their performance or something like that. This is because we don't have any structured product…So, their expertise and resources which are not available to us become one of the reasons why we have appointed the fund managers to make the investments on our behalf. (UM informant)

> They must be registered with the SC and bank back. The bank back means banks operating behind the fund managers. In simple words, we do not take a fund manager who manages the investment privately. Just people who work in the bank only who are not agents but officers. (UKM informant)

Fund managers are registered with the SC and are backed by banks, and hence, they are considered professional fund managers. Under SC guidelines, fund managers must comply with the core principles as discussed earlier. As there is a culture of compliance, and since professionalism, ethical standards and responsible conduct of the fund managers are encouraged by the SC, the investments made by them can be trusted. Furthermore, the scope of fund managers' functions in those listed assets are guaranteed by the appropriate Malaysian authorities—as provided by Section 4A (1)(f)(i)–(v) of AUKU 1971—which increases confidence that investments made by fund managers are safe.

Cost-Benefit Analysis: External Fund Managers Fees vs Return on Investment

An important criteria for appointing an endowment fund managers is their remuneration. According to SC guidelines, the fees charged by fund managers to their clients must be fair, reasonable, and transparent (Securities Commission Malaysia, 2005, p. 15). According to informants from UM and UKM, the charges imposed by fund managers are based on signed agreements. Typically, when the bursar receives the dividends, no payment is required for the fund manager's service as their payment is deducted before submission to the respective bursar. Although the informants did not provide a specific figure paid to each of their fund managers, one of them (from UM) provided an average percentage paid, around 0.25%, based on the net asset value (NAV) achievedby the fund managers: "Most of them are based on performance. It means like…there is a portion for them which is around 0.25% on average" (UM informant).

Another informant (from UKM) did not state the amount on average, instead giving the latest payment as an example, around 0.28% to 0.25% to the fund managers based on the performance and negotiationswith them:

> For the old one, I do not remember how much. But the recent one is around 0.28% to 0.25%. That percentage is based on what they have achieved and negotiated. This percentage is an example only. It cannot be generalised to others. (UKM informant)

Their remuneration, reasonable under SC guidelines, is worthwhile and makes a huge impact on the endowment investment in public universities as they generate returns on capital and provide returns for the fund. Nevertheless, there were only ten and five fund managers at UM and UKM, respectively, compared with 100 in the study of Tuttle (2009) who managed more than USD30 billion in funds (Harvard University). Nevertheless, this is still a positive development in the management of endowment investments in Malaysia because other public universities may not have fund managers. At the same time, the number of fund managers available at the UM and UKM are proportionate to the size of their endowment funds. It is thus, noteworthy that fund managers can generate a return on the endowment investment, even though they are investing only in traditional assets (such as bonds, equities, and properties). The UM benefited from this recording the highest collection of endowment funds compared with other public universities in the past three years. At the same time, investments by the fund managers in assets are also guaranteed and secured since there are authority bodies who monitor them. Their performance is also monitored by the university's investment committee. UM's experience shows that, if the fund managers' performance is not good enough, then the investment committee will remind them to improve their performance. If there is no such improvement, then their services may be terminated by the committee upon the approval of the university management board.

DISCUSSION

The bursars of Malaysian public universities, including those selected in this study (UM, UKM, and UTM) have an endowment plan to manage their funds. However, the investment of these funds is delegated to the investment committees by the university (see Abdul Hamid et al., 2018, p. 21). Nevertheless, their investment is only as fixed deposits as per the regulations set by the universities, following government regulations stipulated by AUKU 1971, Section 4 (1)(k). This is also practised at all three participating universities in this study. Besides the investments managed by the investment committee investing in the fixed deposits, the two universities in this study (i.e., UM and UKM) also appoint fund managers to invest their endowment fund. The role of the fund managers is quite important as they have to invest the endowment fund according to the university's requirements. In addition, they are also responsible for self-assessing the appropriate assets to be invested according to their skills and qualifications. This is in line with what has been discussed by previous scholars, such as Lerner et al. (2008), Black (2013, p. 95), and Fishman (2014).

Although fund managers are able to assess appropriate assets for investments, they still need to seek approval from the university investment management to ensure that the investments meet the latter's requirements. Typically, the investments made by fund managers are in assets, such as bonds, equities, and property, as found in this study. The investment in such assets is allowed under regulations set by the government (Section 4A (1)(f) in AUKU 1971). Although scholars such as Lerner et al. (2008) and Azlen and Zermati (2017) have argued that top performing endowment funds tend to invest in diverse assets, including alternative assets, but Malaysian public universities are different because their fund managerscan only invest in low-risk assets as discussed above. What makes their investment pattern different is that endowment funds which are the main source of income for top-performing universities need aggressive investment for high returns. However, because endowment funds are only an additional source of income for Malaysia's public universities, whose main funding is provided by the government, investments made by them are not very aggressive but tend to be safer. This may be the reason that most Malaysian public universities have not sought fund managers. However, having fund managers for endowment investments at those universities can make their endowment investment portfolio more diverse, as shown in Figure 4. The effect of fund managers can be seen through the experience of UM and UKM. Although the number of fund managers is small, they can still provide a high return on investment through the assets which they have invested, as in the experience of UM.

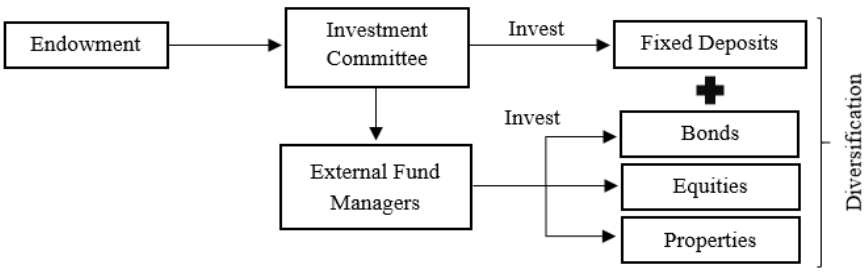

Figure 4. Investment portfolios with fund managers

Several criteria are used by UM and UKM to select fund managers, including performance, expertise, resources, and registration with the SC. Investing in bonds, equities, and properties is safe, and as the fund managers are registered with the SC, their ability to invest in those assets should not be doubted; instead, they should be considered professional fund managers as they adhere to core principles of SC. Their qualifications and skills should increase confidence that endowment investments can be successfully managed by them (Lerner et al., 2008). Moreover, the investments made by fund managers are monitored by the authority bodies, providing assurance that investments made by them are safe, as well as generating a higher return compared with fixed deposits. In this regard, their remuneration is worth while for public universities.

CONCLUSION AND IMPLICATION

Endowment funds are one of the income sources of universities. Therefore, universities must ensure that these funds are properly managed and invested so that their endowments can grow, even though they are considered additional sources of income. This growth is important because it can provide a sustainable source of income for universities, especially when funding from the government is in a steady decline. One factor that can drive substantial investment returns from endowment funds, especially for Malaysian public universities, is the appointment of fund managers. The appointment of fund managers to manage endowment investments is very important as they are professionals with access to various assets (i.e., bonds, equities, and properties) in the market. Malaysian fund managers can be trusted to invest in such assets because of their performance, expertise and resources, their affiliation to the country's financial institutions and possession of certified licenses registered with the SC. At the same time, the investments made by them are guaranteed by monitoring of the authorised bodies.

The findings of this study have an impact on theory, practice, and policy makers. In terms of theory, this study corroborates (for Malaysia) with previous studies in that fund managers play an important role in asset selection at universities. Although they can only access traditional assets, they are still able to play a role in diversifying the investment portfolio. As they are qualified to manage the investment in Malaysia, this study advocates that they also manage endowment investments. In terms of practice, while fund managers are engaged in Malaysia's financial sector, their penetration into the university sector should also be considered in order to grow endowment funds. This would not be exceptional since some public universities (UM and UKM) have hired them—an established practice by foreign universities, such as Harvard and Yale.

The study findings are also useful to policy makers. The MoHE, which manages HEIs, should consider formulating policies related to the appointment of fund managers. For example, there is a regulation in AUKU 1971 concerning assets that are allowed for investment by universities in order to grow endowment funds. To ensure that universities can invest in the assets listed in that specific regulation, the ministry may make a policy about appointing fund managers, especially in public universities. However, while the ministry may make general rules for appointing fund managers, the appropriate fund managers for each university may be chosen by the investment committee and board of each university. They can thus choose fund managers according to their preferences on endowment investments. The SC may be able to create a specific fee structure for fund managers in HEIs. Specific fee rates will encourage fund managers to invest better in order to expand the size of HEIs' endowment funds.

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