RETROSPECTIVE:
Commonfund Benchmarks
Study of Independent Schools

Tracing Twenty

Reporting and Analyzing Independent Schools' Endowment Management and Governance Policies and Practices

FY2005 - FY2024

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A special publication of Commonfund Institute and NBOA: Business Leadership for Independent Schools commemorating 20 years of our annual report on independent schools' investment performance, endowment management and governance practices.

WELCOME LETTER: DATA FOR DECISIONS

Every year since 2005—to be precise, every fiscal year since fiscal 2005—NBOA and Commonfund Institute have teamed to produce the Commonfund Benchmarks Study of Independent Schools, an in-depth study of the endowment management and governance practices of independent schools, as well as key outcomes these practices yield, investment returns being a prime example. With this publication, our two organizations seek to commemorate those 20 years as well as our ongoing partnership.

Our objective over this period has been to provide data for decision-makers—trustees, investment committee members, financial staff members and senior administrators. Securing and growing an endowment is a Daunting Task—cap D, cap T. Hard, yes; but achievable. We believe timely, reliable data are an essential tool in that pursuit. Not just numbers, but data and analysis that are useful, relevant, and actionable.

The annual Study for FY2024 presents this information, gathered from 221 participating schools. This companion publication is different—a chance to step back and examine trends that have shaped the past 20 years. We have also invited thought leaders in education and endowment management to share their reflections on independent schools and the role of endowment in their missions.

Earlier we mentioned outcomes and cited investment returns as an example. For independent schools, the real outcomes are the young people who sit in their classrooms, grow as individuals and move ahead, well prepared for the challenges of a changing world. The real value of endowments? We believe it's increasing the likelihood of that outcome.

Jeffrey Shields, FASAE, CAE
NBOA
President and CEO

George Suttles
Executive Director
Commonfund Institute

Tracing Twenty

Commonfund Study of Independent Schools® Marks its 20-Year Milestone

In 2005, what was then called the National Business Officers Association (now NBOA: Business Leadership for Independent Schools) had reached the seventh anniversary of its founding. Having its formative years behind it, the association was broadening its services and teamed with Commonfund to produce the first annual Commonfund Benchmarks Study of Independent Schools (CSIS). NBOA's mission statement speaks to the motivation behind the Study's founding: "NBOA develops, delivers and promotes best business practices among independent PK – 12 schools."

Even before the first CSIS, there was a much more fundamental relationship: Commonfund donated key funds to launch the startup that in 1998 was known as NBOA. Before NBOA, independent school business officers were served by regional groups. A national organization was more robust, more strategic and would be able to provide support unavailable on a regional level. (For more insight into NBOA's founding, please see the essay by former Commonfund Institute Executive Director John Griswold on page 8.)

It was a natural partnership: the mission and purpose of these two organizations were (and remain) virtually interchangeable, starting with the aforementioned development and promulgation of best practices in endowment management and institutional governance in the independent school community[1]. Toward that goal, both organizations focused on ongoing education for practitioners; served as timely, reliable sources of information and data; and published original research. The ultimate objective was and is enabling institutions to fulfill their mission over the long term by helping to secure their financial health and well-being.

For endowed independent schools, best practices are of critical importance to the fulfillment of their mission. The data offered in each annual CSIS is intended to support that task by providing a useful, relevant tool for boards, investment committees and financial staff members to use in their deliberations and decisions.

This publication, a special supplement to the 20th annual CSIS, presents selected data on returns, asset allocation, spending, gifts and more gathered and summarized in the annual Studies from FY2005 through FY2024. Presented in one place and analyzed over this period of time, the data offer insight into trends that evolved during the period and that helped to shape current endowment management practices.

Following this analysis is a series of short essays by thought leaders sharing their insights and experiences in or in service to the independent school community—a personal, qualitative contrast to the quantitative analysis and charts of the core narrative.

Interested in participating in the next Study of Independent Schools?

Scan the QR code to join the list for the FY2025 Study fielding this fall. Gain insight by joining your peers in this comprehensive analysis in partnership with NBOA.

1 Commonfund more broadly serves the nonprofit community, to include independent schools but also higher education, private and public foundations, operating charities, and nonprofit healthcare.

The Endowment Landscape

Unless noted, all charts are sourced from the Commonfund Benchmarks Study® of Independent Schools (CSIS) from FY2005 through FY2024. Asset allocation is shown equal-weighted to be more representative of the allocations of the average independent school.

Managing endowed assets of independent schools requires a long-term view, as the ultimate goal is to maintain the purchasing power of these assets through time. Doing so enables an institution to provide similar or increasing levels of support for both the current and future generations of students—in other words, intergenerational equity. In investment parlance, a generation is often defined by a period spanning 20 – 30 years, but the nature of independent school governance and operational models often lends itself to measuring performance and trends over shorter periods.

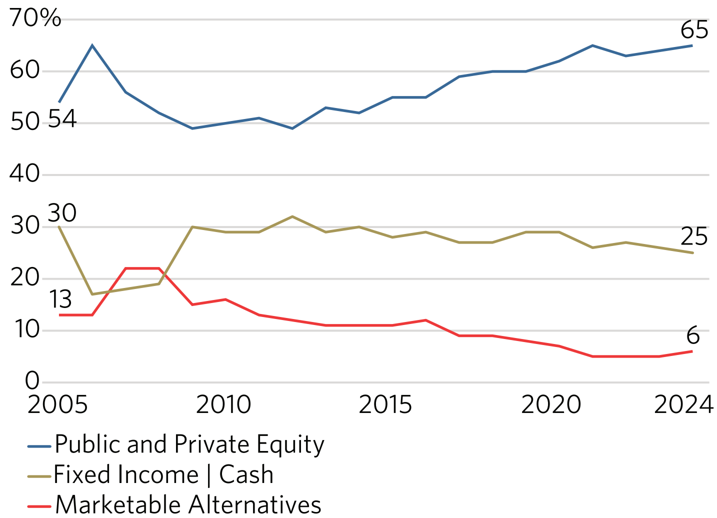
Growth-based Assets, Passive Investing Trend Higher

The majority of the periods analyzed between FY2005 and FY2024 can be characterized as conducive for growth-based assets, given the post financial-crisis boom supported by a prolonged period of low interest rates and inflation, strong employment, sustained corporate earnings and accommodative fiscal policies. Not surprisingly, this led to an increase in allocations to growth (or risk-based) assets in portfolios of independent schools.

As the following chart shows, the combined allocation to public and private equities reached 65 percent in FY2006—exactly where it returned for the current FY2024 Study. It was anything but steady, however. The financial crisis and Great Recession drove this level as low as 49 percent in FY2012 before a gradual recovery set in. The growth in equities came largely at the expense of fixed income/cash, which declined from 30 percent to 25 percent throughout the period. Starting at 13 percent in FY2005, this allocation quickly jumped to 22 percent in FY2007 and FY2008 before a steady trend down to 5 percent in FY2022, followed by a modest rebound to 6 percent in FY2024.

Asset Allocation Trend: Growth Oriented vs. Diversifying

Equal-weighted | FY2005 – FY2024



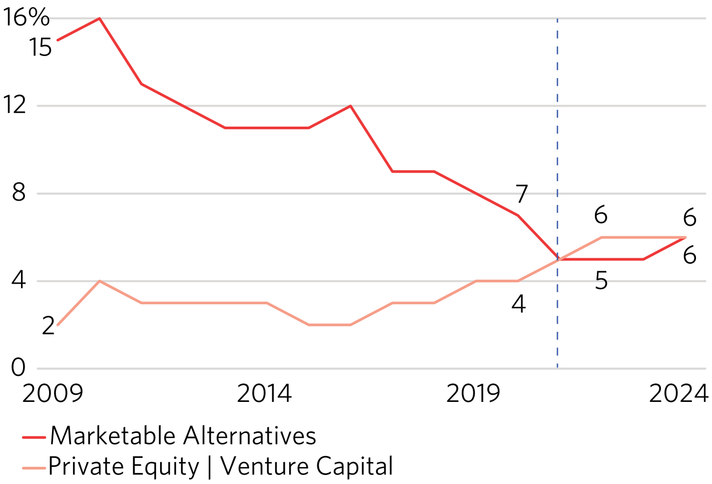
Private Equity is defined as private equity and venture capital. This chart does not add to 100 percent as it excludes other alternative strategies, including private real estate, energy and natural resources, commodities and managed futures, distressed debt, other alternatives (not broken out), and private credit, which did not see a notable change during this period.

The shift in the composition of independent schools' allocations to alternative strategies has been quite dramatic over the period. In FY2016, the average (equal-weighted) allocation to marketable alternatives (hedge funds) was 12 percent, which represented 67 percent of the total allocation to alternative strategies in that year. At the same time, the combined average allocation to private equity and venture capital was a modest 2 percent, representing approximately 12 percent of the total allocation to alternatives. At that point, a reversal set in and there was a steady increase in the build-out of private equity and venture capital allocations, while the predominant use of marketable alternative strategies as an equity substitute waned as institutions placed greater emphasis on growth-oriented strategies.

By FY2022, independent schools' average allocation of 6 percent to private equity and venture capital had supplanted marketable alternatives (5 percent equal-weighted allocation) as the largest allocation within the alternative strategies bucket (38 percent versus 33 percent of the total alternatives asset mix, respectively). In FY2023, the trend started to moderate with allocations to private equity and venture capital remaining the same, while allocations to marketable alternatives saw a slight increase to 5 percent. Now, with the Study for FY2024, we see the marketable alternatives and combined private equity/venture capital allocations level at 6 percent each—during a period when public equity markets were exceptionally strong, e.g., in FY2023 the S&P 500 returned 19.6 percent followed by a 24.6 percent return for FY2024 (in calendar 2023 and 2024 the S&P 500 posted its first back-to-back 20 percent-plus gains since 1997 – 1998).

Asset Allocation Trend: Select Alternative Strategies

Equal-weighted | FY2009 – FY2024

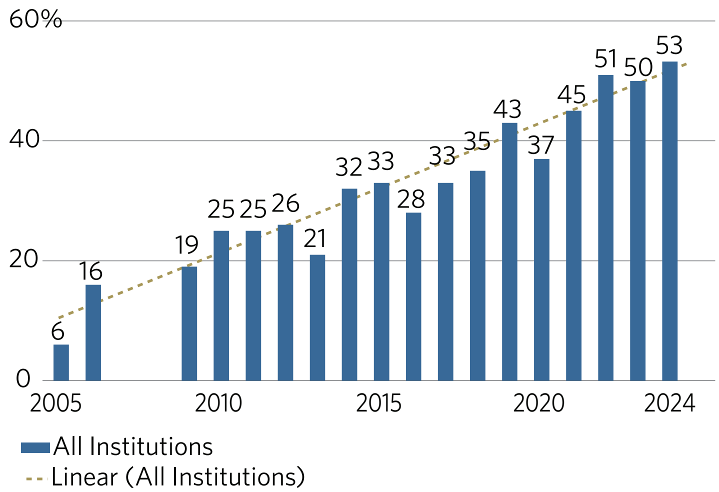


Marketable Alternatives (Hedge Funds) and Private Equity | Venture Capital are subsets of Alternative Strategies.

A similar trend has emerged in the increasing allocation to passive index exposures, particularly within U.S. equities. The mix of passively managed funds held as part of a school's allocation to U.S. equities grew from just 6 percent in FY2005 to a high of 51 percent in FY2022. This is consistent with broader market trends, as data reported by the Investment Company Institute suggest that FY2022 represented the first time that passively managed funds accounted for a larger share of ownership of the U.S. stock market than actively managed funds. This was not entirely surprising given the proliferation of exchange-traded funds and a growing view that the U.S. equity market is among the most difficult to consistently generate excess returns from active management. In the two most recent Studies, for FY2023, the allocation to passively managed U.S. stocks declined moderately to 50 percent and then in FY2024 rose to 53 percent, which may be viewed as normal fluctuations.

Large Increase in Passive

Dollar-weighted | FY2005 – FY2024



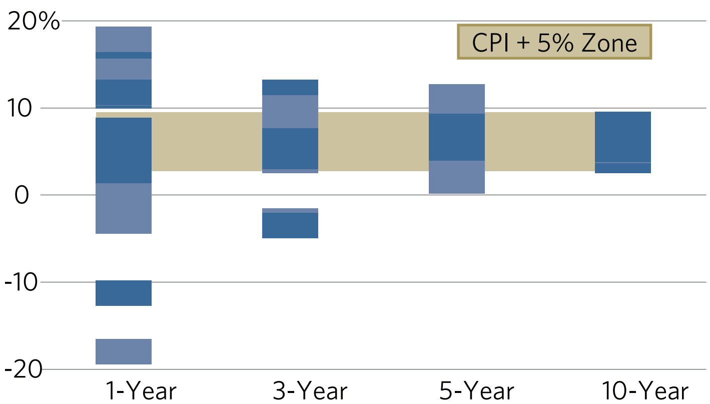
One Year Is Just ... One Year

It is often said that perhaps the least relevant figure reported in the annual CSIS is the average one-year performance figure. Given an endowment pool's long-term focus and its ultimate goal of maintaining purchasing power to support the mission of the school, a one-year performance number offers little insight regarding the alignment of the portfolio's historic performance and its long-term return objectives. For example, an institution that takes a 5 percent spending draw from the endowment annually should have an implied return objective over the long-term that is sufficient to meet the 5 percent payout and keep pace with inflation. As a result, future draws from the endowment should have a similar level of impact on the operating budget or other areas supported by the endowment spending. As such, this sample institution's return objective would be 5 percent + inflation, e.g., the Consumer Price Index (CPI) or the Higher Education Price Index (HEPI), to ensure that the portfolio maintains its purchasing power and provides intergenerational equity in its support of the school's mission into perpetuity.

Given the nature of the capital markets and their exposure to wide-ranging levels of volatility in different economic cycles, often there is significant dispersion in the annual endowment returns reported by schools over time. Therein lies the problem of comparing a short-term return with a long-term investment goal. The chart below illustrates this challenge as it plots the range of one-, three-, five- and 10-year returns reported into each annual Study from FY2005 through FY2024 against a similar range of CPI + 5 percent returns for the same time periods. There are significant outliers from the "CPI + 5 percent zone" when comparing returns in shorter time periods (one and three years). Conversely, there is much more consistency in the distribution of returns from the endowment portfolios in comparison to the CPI + 5 percent zone over longer time periods (five and 10 years), reinforcing the sentiment that comparative endowment performance should be viewed through a long-term lens.

Return Distribution

Percent of U.S. equities in passive strategies | FY2005 - FY2024

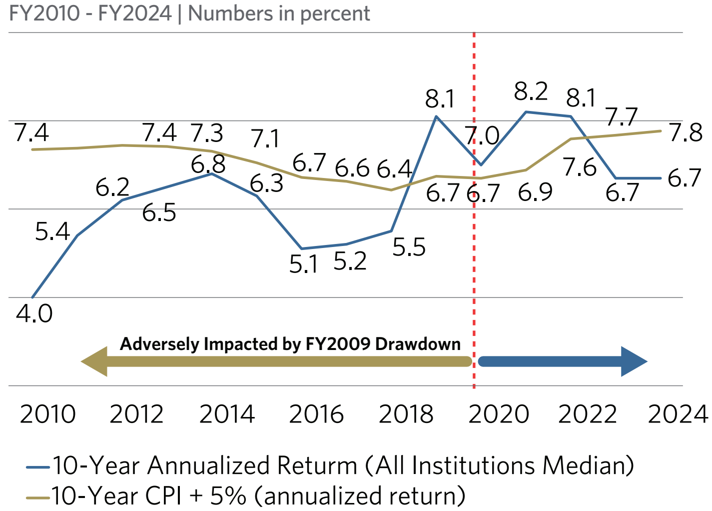


Return Distribution represents 1-, 3-, 5-, and 10-year returns reported by independent schools through the Commonfund Study of Independent Schools annual reports. CPI is the Consumer Price Index. Past performance is not indicative of future performance.

As noted at the beginning of this commentary, the trend data that we are analyzing is still in the early stages relative to long market cycles. Major market dislocations can have an outsized effect on shorter- to intermediate-term data trends, showing dramatic peaks and troughs and painting a bleak picture that may be less alarming when viewed in the context of a much longer cycle. While the data from the CSIS only dates back to FY2005, it is clear that the large drawdown experienced during the financial crisis and Great Recession of FY2009 impacted the average independent school's ability to generate the sufficient long-term annualized returns needed to keep pace with spending and inflation for a good portion of the ensuing decade. The average reported drawdown of -18.1 percent in FY2009 tempered rolling 10-year returns that largely fell short of a traditional inflation-plus spending goal. The chart below notes that it has taken a full decade for median endowment long-term returns to again outpace spending plus inflation (represented by CPI + 5 percent in this example). More recently, the -11.3 percent return for FY2022 pulled the 10-year return below the 10-year CPI + 5 percent return.

Annualized 10-Year Endowment Performance vs. CPI +5%

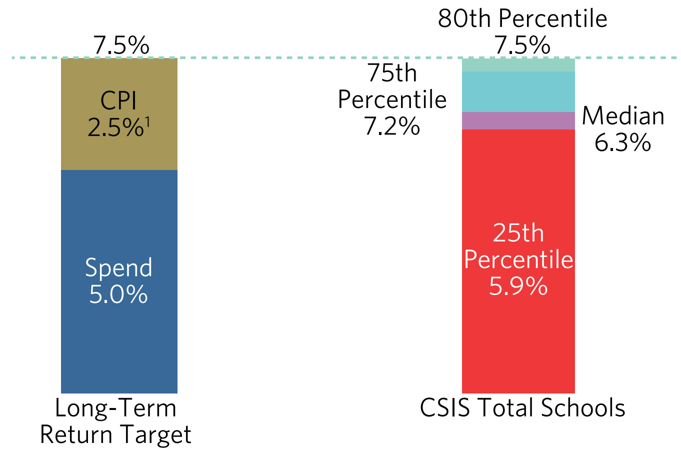
FY2010 - FY2024 | Numbers in percent



Past performance is not indicative of future performance.

Maintaining Intergenerational Equity is Not Easy...

10-Year Annualized Returns as of June 30, 2024



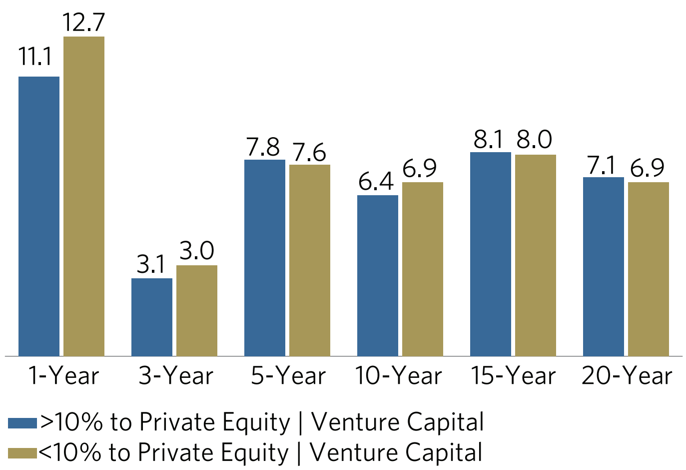
[1] Commonfund 20-year projection

Past performance is not indicative of future performance.

The challenges associated with keeping pace with a CPI + 5 percent return hurdle over the long term is one of several factors that likely influenced the shift in asset allocation to greater incorporation of growth-based strategies over the past decade. As previously noted, independent schools have increased exposure to public and private equities from 54 percent to 65 percent of the total portfolio since FY2005. Moreover, allocations to private equity and venture capital have tripled since FY2016 as institutions seek to capture a liquidity premium over traditional public markets to potentially enhance longer-term return profiles. Based on the most recent Study data, the illiquidity premium has been challenged by exceptional returns in the public equity markets, driven by large- and mega-cap U.S. technology and communication services stocks. The following chart shows this recent relative outperformance of institutions with lower allocations to private equity and venture capital.

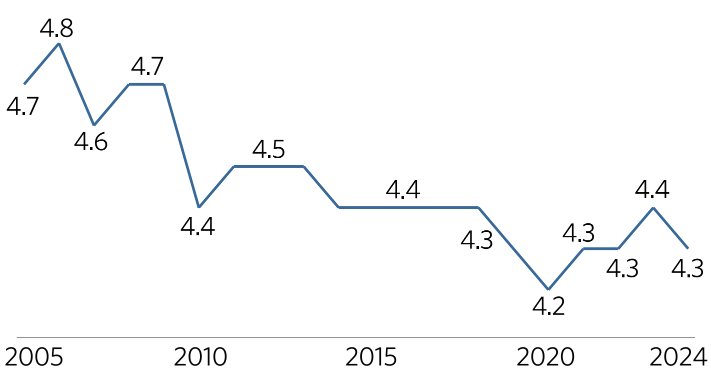
Short-Term Private Investment Returns Diverge from Longer-Term Record

FY2010 - FY2024 | Numbers in percent



Spending Rate

FY2005 - FY2024 | Numbers in percent

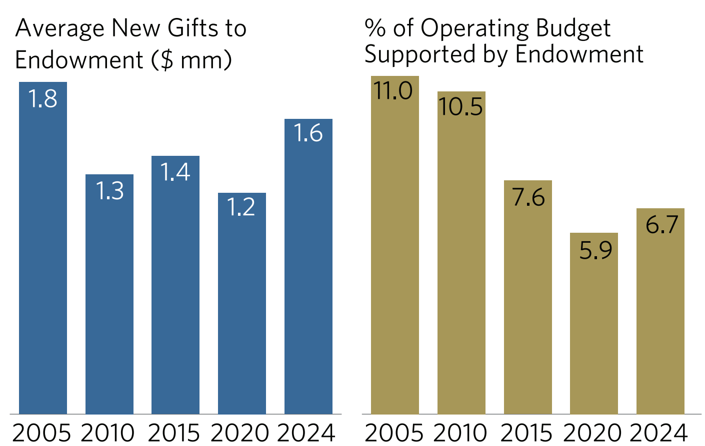


Recent Gift Data Show Sharp Fluctuations

Among the most noteworthy findings was the sharp increase in new gifts to the endowment in the FY2022 Study: new gifts jumped to an average of $2.4 million, the highest level since inception of the Study. This increase represented an encouraging recovery from the steady decline from the previous high of $2.1 million in FY2017 to the low of $1.2 million during FY2020, likely impacted by the onset of the COVID-19 pandemic. There were any number of potential reasons for the spurt, including a time-delayed wealth effect from the Tax Cut and Jobs Act of 2017 and stronger financial markets in FY2021, aided by an accommodative Fed. But myriad forces act on giving trends and the generosity of FY2022 proved to be short-lived. Despite favorable investment and economic environments, gifts to endowment reversed course in FY2023 and declined 30 percent to an average of $1.7 million with a further decrease, to an average of $1.6 million, following in FY2024. A reversion to the mean? Perhaps. We will continue to monitor gift flows going forward.

Endowment Support and Fundraising

FY2005 – FY2024



While new gifts to the endowment have been dynamic over the years, support to the operating budget from annual giving has been reasonably consistent over the past decade, hovering between 5.9 percent and 7.6 percent of the operating budget. During this same period, however, we have witnessed a decline in the level of operating budget support coming from the endowment, as seen in the chart above. While this question was first introduced in 2005, it was not a part of the annual Study until 2009. There has been a significant drop from the peak level of 11.0 percent reported in 2005, to the 5.9 percent and 6.7 percent reported in FY2023 and FY2024, respectively, which could indicate a trend reversal moving forward. There are many factors that have contributed to the decline, including the impact of the major endowment drawdown experienced in FY2009 contributing to long-term returns not keeping pace with spending plus inflation; the concerted effort of institutions to lower spending rates (the average dropped to 4.3 percent from 4.7 percent during this same period as shown in the chart on the previous page); and the expansion of operating budgets as per-student expenses continued to escalate throughout much of the decade.

Responsible Investing: Now a Range of Options

Responsible investing has been perhaps the most significant trend to emerge over the 20 years since the inception of the Study. Responsible investing itself is not new, but what's different now is the wider range of choice as to how responsible investing commitments are implemented. Responsible investing is now broadly recognized as an investment approach using one or more of the following: environmental, social and governance (ESG) investing, negative screening (also referred to as socially responsible investing or SRI), impact investing, diverse managers, divestment of fossil fuels or other related strategies. In more detail, these approaches may be defined as the following:

Environmental, social and governance (ESG) investing

An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.[2]

Impact investing

Investment in projects, companies, funds or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return.

Negative screening

A portfolio construction process that attempts to avoid investment in certain stocks or industries according to defined ethical guidelines.

Diverse managers

Investing with investment management firms that are either fully or in significant measure owned or operated by diverse managers. Diverse managers include women, Black/African American, Latinos/Hispanic, Asian, people of indigenous descent, veterans and people with disabilities and other diverse persons potentially not covered in these categories.

ESG investing has seen an increasing emphasis on research that highlights positive environmental, social and governance factors, and how they may be able to contribute to an endowment's long-term growth potential. As noted, formerly limited to socially responsible investing processes characterized by negative screening, the opportunities to express ESG values in institutional investing practices have increased the range of options.

Analysis of ESG practices demonstrates that they can not only fulfill traditional fiduciary responsibilities but even bolster them. Additionally, research shows that ESG practices can have a positive impact on investment performance. Whether or not a particular institution decides to add ESG practices to its investment toolkit, fiduciaries need to bear in mind its ever-increasing presence and, potentially, its increasing global influence and visibility.

In FY2014 and FY2015, the Study asked a question regarding responsible investing, discontinued the question for three years and then commenced again in the FY2019 report.

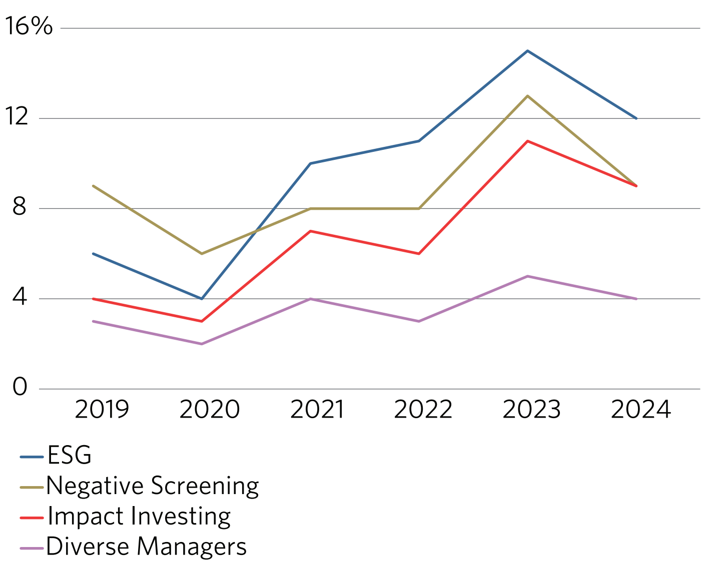
As the chart on the following page shows, in the FY2024 Study ESG was either required or permitted in the investment policy statements of 12 percent of participating independent schools; negative screening and impact investing, 9 percent each; and diverse managers, 4 percent. These rates were higher compared with data from FY2019, reflecting a period when responsible investing practices were adopted at increasing rates. However, FY2024 rates were down from those reported in FY2023, which could signal a trend in the slowing of adoption by these schools.

2 For further information on ESG and ESG trends, see Navigating the Changing ESG Landscape: Challenges and Opportunities, accessible on Commonfund's website at https://info.commonfund.org/navigating-the-changing-esg-landscape-challenges-and-opportunities

This potential slowing of adoption rates may be reflective of hurdles, such as: a lack of standards, added complexity in reporting, the lack of investment vehicles needed to provide acceptable portfolio diversification and little empirical evidence that potential returns are not being negatively impacted. The good news is that these challenges continue to be addressed. At the same time, new challenges have emerged, as ESG and responsible investing generally have become politicized, introducing another obstacle to broader adoption of responsible investing practices.

What we found and continue to find in data from the FY2024 Study, is that responsible investing practices are increasingly making their way into the discussions of investment committees, even though the rate of formal adoption still remains tepid. For example, while only 12 percent of Study respondents permit or require ESG in their investment policy statements, 31 percent of respondents' investment committees held discussions on the topic.

Permitted or Required Responsible Investing Practices



Conclusion

In broad terms, the 20-year period from FY2005 to FY2024 condensed most of the investment environments that even the most far-sighted institutional investors are likely to encounter into just two decades:

- A recession and banking crisis that teetered on the edge of depression
- A decade-plus of benign inflation followed by some of the sharpest price increases in 40 years
- The S&P 500 falling -26.21 percent in one fiscal year (FY2009) and the same index closing out the period with successive 20 percent-plus gains
- An extended period when bond yields were negative in real terms followed by an inverted yield curve and the mixed blessing of higher rates
- A global health crisis that stressed healthcare providers, upended international trade, changed the way and where people work, and splintered public opinion

For endowed independent schools, this period served to reinforce what was already widely understood: achieving and maintaining intergenerational equity is a challenging task. Spending at an average annual rate of 4.3 percent and adding inflation (CPI) that averaged 2.6 percent means running in place on an annual return of 6.9 percent. Coincidentally, that is exactly the average 20-year return reported by institutions participating in the FY2024 Commonfund Benchmarks Study of Independent Schools. That's the good news; the bad news: no excess return for reinvestment and growth and little to no room to pare spending for most schools.

That may point leaders in the direction of the fundamentals that this report highlights: a well-diversified portfolio with an equity bias (including public and private equities), a carefully considered annual spending rate, active institutional advancement efforts with a focus on both annual gifts and gifts to endowment, and a focus on the long term, consistent with mission and objectives.

What Is Financial Governance and Why Is it Important?

by John S. Griswold

Founder and Former Executive Director of the Commonfund Institute

Let's begin with some background: we founded the Commonfund Institute in 1999, and I served as its Executive Director until I retired from Commonfund in December 2016. Our focus was on market research, investor education and publishing. Having started what became our Commonfund Forum, the Endowment Institute and regional Trustee Roundtables several years earlier, we partnered with leading educational associations to present our research findings and offer our services in educating their membership about managing their short- and long-term funds. In 2000, we introduced the NACUBO Commonfund Study of Endowments (NCSE), an expanded version of the NACUBO Endowment Study (NES) of higher education, which originated in 1974. At the time there were few sources of data available to finance and investment managers of independent school endowments.

While NACUBO was well established in the realm of higher education, there was no corollary organization for independent schools. There was a move afoot, however, to launch such an organization ... stories have it that the idea for NBOA was drawn up on a cocktail napkin. Whatever the venue, there were, for certain, meetings to get things started, including one between NBOA Board Chair (then known as President) Terry Armstrong and founding business officer Will Hancock. As noted in the introduction to this 20-year retrospective, Commonfund President Bob Bovinette donated key funds to launch the startup known as NBOA.

Fast forward a few years: in my role as a trustee of my alma mater, Pomfret School, I had gotten to know Sarah Daignault, NBOA's founding executive director. We agreed to partner in the establishment of a new endowment research study. We launched the study for FY2005 and for several years it was published under the somewhat unwieldy name of the Commonfund Benchmarks Study® Independent Schools Report/National Business Officers Association. With the study for fiscal 2017 we streamlined the name to the Commonfund Study of Independent Schools, or CSIS. It is this Study's founding and 20th anniversary that we commemorate in this publication, but we should also recognize the evolution in financial governance that has taken place over the past half century.

> *"The Study has grown to be an increasingly vital tool in the development of best practices."*

In the 1970s and '80s (earlier for some), endowments began adding "alternative assets" into their portfolios. In many cases they were introduced to these strategies by their high-net-worth trustees who were successful investors and large donors to their schools. Alternative strategies included private equity, venture capital, hedge funds and equity real estate, most of which contained lockup provisions and required extensive and more sophisticated due diligence than publicly traded securities. These asset classes and strategies generally performed well throughout the 1990s and 2000s, and the percentage of alternative strategies allocations in endowments grew rapidly. This growth, combined with the increased reliance on endowment income to support schools' operating budgets, began to put greater emphasis on "financial governance."

A simple definition of "financial governance" is that it is the structure, personnel and decision-making process used to oversee the financial assets of an institution. As their portfolios became more diverse and complex, volunteer investment management by committee became obsolete: the boards and administrations of schools needed new governance models to oversee the management of their funds. Boards established investment committees, and these committees hired professional investment consultants to help develop asset allocation, manager selection and spending policies, all of which were eventually incorporated into their investment policy statements. Business officers evolved into chief financial officers and became key advisors to heads of schools, and investment committees recruited successful investors from among their friends, alumni and parent bodies. Most recently, the employment of investment consultants has expanded into the rapidly growing use of the outsourced chief investment officer (OCIO) model, allowing investment committees to better focus their attention on governance and overall strategy.

For the past 20 years, these evolutionary improvements in financial governance have been chronicled in the annual CSIS. The data and trends the Study tracks allow boards and investment committees to compare their governance policies, investment performance and operational practices with those of their peers using key measures and a large database of well over 200 participating independent schools. The Study has grown to be an increasingly vital tool in the development of best practices in the field.

Measure Endowments not in Dollars, but in Human Outcomes

by Jess Hill

Head of School, Harpeth Hall, Nashville

In 1955, Harpeth Hall received its first endowment gift in the amount of $83.70. Since then, our school community has embraced the vital importance of a strong endowment in nourishing Harpeth Hall as an educational leader. Our endowment today has grown to over $75 million.

Endowments are more than just the dollar figures displayed in financial reports. Harpeth Hall's endowment is a permanent source of funding for carefully managed resources that support our students' aspirations in education and the essential needs of the school — while also protecting the future of our institution. The gifts represent the generosity of generations of donors who believe in Harpeth Hall and an all-girls education and wish to see the school continue unabated.

A strong endowment ensures that our school can navigate shifting economic cycles, absorb unforeseen building repairs or educational expenses, and remain true to our mission in challenging times. The trustees of the board and school administrators who comprise the investment committee diligently pursue best practices in the oversight of the management of the funds. This careful stewardship inspires each generation to continue that tradition of philanthropy. Endowment gifts create our school's capacity to educate boldly, strategically design for the future, and, at Harpeth Hall, ensure that excellence in girls' education is not only an ambition but also a sustainable reality. And donors who have established named funds at Harpeth Hall receive a letter annually, at a minimum, conveying their positive impact in measurable terms.

At independent schools throughout the country, tuition often covers only a portion of the true cost of educating a student. To fulfill Harpeth Hall's mission of educating girls to think critically, lead confidently and live honorably, that gap must be bridged with grants, fundraising and other streams of community support. An endowment is one of the most important of those bridge builders. These gifts uplift the educational legacy of beloved teachers. They support the academic travel that sends our girls across oceans for life-changing experiences. And they make a difference in welcoming bright and talented new students to our school when, without endowed financial aid support, tuition costs would have been a barrier.

> *"Endowment gifts create our school's capacity to educate boldly, strategically design for the future and ensure that excellence in girls' education is a sustainable reality."*

As part of the school's mission, Harpeth Hall is committed to offering financial aid to support students whose families demonstrate need. With tuition costs of independent schools continuing to rise, endowed funds can be the difference between welcoming a bright and talented student to Harpeth Hall or losing her to another opportunity.

Through the support of endowment, Harpeth Hall's financial aid program grants just under $3 million in need-based aid to qualifying families annually.

At Harpeth Hall, we also strive to cover those last-mile expenses beyond tuition — a Model U.N. competition trip, participation in a Winterim international exchange, a robotics club tournament or a rowing regatta. A recent article published by the National Association of Independent Schools (NAIS) noted: "...66 percent of parents stated that receiving financial aid to help with nontuition expenses was extremely or very important in the decision to enroll. Yet, 67 percent stated that the school did not provide such support." These endowment-supported opportunities make a difference for our students and our families as they are making their education decisions. Each student is able to enjoy and participate in the full Harpeth Hall experience.

Without an endowment, a school is often vulnerable to outside economic and social factors and can be forced in challenging times to limit financial aid, defer essential maintenance and upkeep, and even cut programs and salaries — all of which can compromise the student experience and the longevity of the institution itself.

In essence, the purpose of an endowment is practical and profound — it provides financial stability, enhances flexibility and enables innovative thinking for the long term.

Spending: Aligning with Strategic Direction and Tactical Execution

by Ron Salluzzo

Partner Emeritus, Attain Partners, LLC, co-author of the NBOA book "Effective Financial Governance for Independent School Trustees" and co-developer of the Composite Financial Index that measures financial health in higher education and independent schools.

The board's view of the role of the endowment and similar funds (referenced as endowment funds in this essay for convenience) is a critical function in strategic planning and the tactical execution of any plans. While larger portfolios are viewed as better, the more critical issue is whether funds are available to deploy for the institution's highest purposes. This becomes more relevant if the funds have purposes that no longer best fit the institutional strategies or the funds are insufficient to provide support across institutional programs.

The financial aspects of an institution are often thought of in terms of annual results, but the endowment funds are intended to support the institution "in perpetuity."

A shorter-term view, particularly in times of financial crises, will sometimes result in an overspending of endowment funds, which is unsustainable but also may hide structural deficits. In effect, the overuse of endowment funds results in addressing the symptom (cash needs) rather than the problem (structural deficits).

Excess spending may be appropriate if the spending is related to a specific project and the recovery is clearly evident in a reasonable timeframe. An example is the funding of a capital campaign. The costs associated with a campaign are absorbed by operations, but the funds raised come over a period of years, or may fund non-operating activities, such as facilities or funds held in perpetuity.

Should the board approve an unsustainable spending rate, there should be a clear plan to bring the spending rate back to a sustainable level, even if it will occur over a period of years.

The role of endowment funds must be considered in context of the institutional tolerance for risk. This is usually measured within the investment committee and is reflected in decisions such as the asset allocation or how much beta risk is assumed. In a broader sense, however, risk tolerance is an institutional issue well beyond only what is considered by the investment committee.

The overall measure of risk tolerance is determined by all components of the institution and should be informed by a well-developed strategic plan. As an example, constructing a new building needs a funding source to complete and equip the facility as well as a revenue source to cover the continuing operating costs once completed. Should an issue arise, such as a shortfall in funding, this measure becomes the starting point of the discussion of how the risk assumed fits with the institution's tolerance in responding to the issue.

> ***"While larger portfolios are viewed as better, the more critical issue is whether funds are available to deploy for the institution's highest purposes."***

Perhaps the simplest way to state this is to be sure that when looking at investment options, whether using endowment funds or other sources, the institution should select the "best in line," or most important to achieving institutional strategy and not the "next in line," which is often the short-term need and may not reflect strategic direction.

Funding Daily Operations ... but also Perpetual Mission and Values

by Debra P. Wilson

President, National Association of Independent Schools (NAIS)

For 20 years the Commonfund Benchmarks Study of Independent Schools (CSIS) has provided school leaders with essential benchmarks and education around endowment management. In this commemorative edition, a review of trends over the two decades reveals new insights that school heads, boards and business managers will no doubt find informative.

The 20-year milestone also provides an opportunity to reflect on how fundamentally important endowments—and the sound management of them—are to schools. In providing long-term financial leverage, endowments enable smooth operations, while also helping independent schools live out their values and mission, in perpetuity.

Indeed, endowments help keep the lights on and doors open, literally and figuratively, by helping to bridge the financial gap between tuition and the full cost of running a school. For many schools, endowments provide necessary funds for everyday operational costs—the sometimes mundane but often costly expenditures that families and even faculty and staff may not know about. Endowments also help schools live out their highest ideals. Expanding access is a core tenet of independent schools' missions, visions and values—and at many schools, endowments are a key part of opening doors to more families through financial aid. At other schools, the long-term financial leverage of endowments allows schools to invest in high-quality teachers and high-quality teaching, the core of the educational experience. In these ways and more, endowment management is a key tool through which leaders, particularly board members, can keep their eye on the future, putting in place plans to ensure the "lights stay on" in their schools for many years to come. This helps boards fulfill their fiduciary duties not just for the school community of today, but also for that of tomorrow.

It goes without saying that the educational landscape has changed dramatically in the last 20 years. From shifting demographics to volatile geopolitical forces, from advances in technology to changing consumer behaviors and perceptions, independent schools have navigated many changes—and there are very few signs that the pace of change will let up anytime soon. A strong financial foundation allows independent schools to weather changing tides and continue to do what they do so well, that is, educate and nurture students and contribute meaningfully to the wider educational discourse.

"A strong financial foundation allows independent schools to continue to do what they do so well: educate and nurture students and contribute meaningfully to the wider educational discourse."

Finally, the CSIS project by itself is a testament to what we so often find at NAIS, that is, the willingness of independent school leaders to share data, insights and support with each other. As a community we are stronger for it.

Right-sizing Endowment: A Partnership with Advancement

by Ann Snyder

Senior Advisor and Philanthropy Consultant, Huron GG&A Consulting, former Sr. Director, Council for Advancement and Support of Education (CASE)

We all know that a well-managed endowment allows an independent school to thrive into the future. The right gift acceptance and endowment spend policies can mean a substantial source of ongoing investment revenue to offset operational costs and ensure affordability for current and new families. The question is, how much is the right amount?

While the answer is certainly dependent on the school, the donor base and the needs of your constituents, we must look at endowment from the lens of integrated advancement. The vital relationship between philanthropy, engagement, enrollment and finance can answer this question using a strategic framework. Instead of asking "how much endowment is enough," begin with the question "what students do we want and need to deliver the education we promise in our mission." Any strategic enrollment manager and any informed business officer will have data about the school's market position, how many families can afford what you offer and the gap that inevitably follows. It is this conversation that will get you toward a strategic endowment goal.

Schools want and need socioeconomic diversity among their populations for many reasons, but, with affordability becoming an increasing concern, it's more difficult every year to meet the needs of our families through simple tuition discounting and net tuition revenue. Moreover, I would suggest that tuition discounting in an environment with a healthy philanthropic culture means leaving money on the table. If you have the donor capacity for funded (endowed) financial aid, then bringing leaders together from the aforementioned areas of advancement can help you right size what you need in terms of building endowment.

The "perfect" endowment target is one that covers the school's full financial aid budget each year at a strategically advantageous endowment spending rate.

> ***"Conveying to donors the power of endowment giving allows them to invest in your mission for the entire life of the school."***

To do this, we may have to prioritize endowment campaigns over bricks and mortar. I can already hear some heads of school arguing with me, saying they must improve X building or Y facility. My question to you is this, however: do you want to leave the school better than you found it? Few other decisions will ever position the school for better long-term success. Savvy donors want to make an investment in the school. They do not want to throw good money after bad. Buildings come and go. Many initiatives are ephemeral. By contrast, conveying to donors the power of endowment giving allows them to invest in your mission for the entire life of the school. If we come together as an integrated advancement team to set an endowment goal at a fully funded financial aid level, then the financial model of the school becomes a sustainable one over time. No legacy of any leadership team could be stronger.

So, I ask, how are you ensuring your school's future? The "right size endowment" is one that will ensure success for future generations.

Managing Endowments: Time, the Great Equalizer

by Tim Yates

President and CEO,
Commonfund OCIO

Managing endowments is a challenge. Think about it: a group of volunteers comes together a few times a year to make decisions about funds that have been given, or designated, to support your school in perpetuity. The need for that support, whether it be for operations, financial aid or anything else, usually increases over time, meaning that the spending dollars from the endowment must increase commensurately and provide all future generations with the same level of support as the current generation. This concept, which we define as "intergenerational equity," is easy in theory: grow the endowment at a rate of at least spending (i.e., 5 percent) plus inflation (i.e., 2.5 percent). History, however, illuminates the reality of just how challenging this objective has been.

The 221 institutions participating in the Commonfund Study of Independent Schools (CSIS) for fiscal 2024 reported an average annual 10-year return on their endowments of 6.7 percent. With an average spending rate in FY24 of 4.4 percent and an average annual CPI over the past 10 years of 2.8 percent it is clear that the average independent school has been challenged to preserve the purchasing power of its endowment in real terms.

Given this historical reality, what is an investment committee to do? The opportunity lies in the challenge itself: managing endowments. How you do that can make a major difference in long-term outcomes. We believe there are three time-tested tenets underlying sound endowment management: pursuing an equity bias, capturing the illiquidity premium and diversification.

Equity bias

Fundamental economic growth is the source of real returns on invested capital and, thus, long-term portfolios should reflect an equity bias. Equity assets derive their return from the productivity of invested capital, such as growth in earnings and/or appreciation in the value of the asset owned.

> ***"Given their annual spending rates and inflation over the past 10 years, most independent schools have been challenged to preserve the purchasing power of their endowments in real terms."***

Illiquidity premium

Endowments have long-term time horizons and can use this to their advantage when structuring their investment portfolios. Investors' willingness to deploy significant capital into illiquid (i.e., private market) strategies is driven by the expectation of higher returns associated with accepting illiquidity. Buyer beware, though, as many private market strategies have demonstrated a wide dispersion of returns historically, making the selection of those investments' paramount to their relative success.

Diversification

With meaningful exposure to "risk-assets," those managing endowments should also seek to diversify away from the primary risks in the portfolio. In particular, that means owning asset classes that not only diversify market risk but also mitigate, protect against or hedge fundamental risks such as inflation or deflation.

Of the three, perhaps the greatest long-term opportunity—not only for return potential but also for diversification—lies in pursuit of the illiquidity premium through private strategies that include private equity, venture capital, natural resources, private credit, private real estate and others. Yet CSIS data show that over the past decade the allocation to these strategies on the part of participating independent schools has declined.

Trustees and investment committee members must weigh a wide range of factors when making asset allocation decisions for their institution. But if they make use of it, time is on their side. As someone who attended an independent school and is the parent of two previous students plus one current independent school student, I'm most definitely on your side as well.

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Commonfund Institute

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NBOA: Business Leadership for Independent Schools

NBOA is the only national nonprofit membership association focused exclusively on supporting independent school business officers and business operations staff while fostering financial and operational excellence among independent PK-12 schools. The association has grown from 23 founding member schools in 1998 to more than 1,600 members including schools, business partners and associations from the U.S. and 25 other countries around the globe. NBOA offers in-person programming, including the NBOA Annual Meeting and Business Officer Institute; online professional development; original research; and an award-winning magazine, Net Assets. Each offering covers timely and relevant topics for independent school business and operations professionals, including finance, accounting, tax, compliance, human resources, risk management, facilities and information technology.