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Independent Schools Report 9.2% Return on Endowment Assets for FY2023, Marking Reversal from Last Year's -11.3% Loss

Returns Rebound; New Gifts to Endowments Fall, Responsible Investing Tempers

WILTON, Conn., February 26, 2024 — Institutions participating in the Commonfund Benchmarks Study® of Independent Schools for the 2023 fiscal year reported an average annual return of 9.2 percent on their endowment assets. The average one-year return increased by 20.5 percentage points from -11.3 percent posted in fiscal 2022. This marks another year of dramatic swings in returns, following fiscal year 2022 when returns fell by 37 percentage points – the largest year-over-year reversal since the study commenced for the 2005 fiscal year. (All returns are reported net of fees. Fiscal year 2023 covers the period from July 1, 2022, to June 30, 2023, and coincides with the budget year of most independent schools.)

Positive one-year returns were a welcome change from the prior year, but longer-term portfolio gains are of primary importance for the financial health and sustainability of perpetual institutions. Returns in FY2023 boosted 3-year average returns from 5.5 percent in FY2022 to 7.1 percent in FY2023. Meanwhile, five-year average returns of 6.0 percent were on par with last year's report, and 10-year average returns were 6.7 percent for this year's participating schools, compared with 8.1 percent average 10-year returns posted by last year's cohort. The drop in 10-year returns could potentially be attributed to a positive year being dropped out of the 10-year calculation coupled with the inclusion of fiscal year 2022's low performance.

George Suttles, Executive Director of Commonfund Institute, and Jeffrey Shields, President and CEO of NBOA, noted in a joint statement that investment returns have been volatile in recent years, but this year was a turn in favor of independent school endowments.

"After last year's study reported that independent schools saw negative 11.3 percent returns, many were back on track in fiscal year 2023, posting 9.2 percent gains on endowment assets. These gains secured higher 3-year returns of 7.1 percent on average across responding schools as longer-term returns held steady. This demonstrates that despite fluctuations year to year, independent schools can be confident that their strategies are in line with the purpose of perpetuity."

Two hundred ten independent schools representing roughly $12.7 billion in combined endowment assets provided data for the Study. Data gathered in the Study are aggregated for all participants and, for closer analysis, are segmented into three size cohorts: institutions with endowment assets over $50 million; those with assets between $10 and $50 million; and those with assets under $10 million. Institutions participating in the Study comprise day schools, boarding schools and schools that are a combination of both, and some analysis in the study segments data by day and schools with boarding. Independent schools are private, nonprofit institutions enrolling students from pre-kindergarten through 12th grade. In the U.S., approximately 10 percent of the student population attend an independent school, according to the National Association of Independent Schools (NAIS).

Commonfund conducts the annual study of independent school endowment management practices and policies in conjunction with NBOA: Business Leadership for Independent Schools, the only national nonprofit association focused exclusively on fostering financial and operational excellence in independent PK-12 schools.

Investment Returns

In FY2023 all participating institutions reported an average return of 9.2 percent. Often the report data show that returns correlate with institution size, i.e., the larger the endowment the higher the return. However, in FY2023 the size cohort with the highest returns, 9.7 percent, were schools with endowment sizes between $10 and $50 million. Responding institutions with endowments below $10 million reported 8.9 percent returns, and the largest schools – those above $50 million – reported 8.6 percent returns. In other words, smaller schools outperformed larger ones in FY2023, which has only been the case in seven out of 21 years since Commonfund has tracked these data.

Since larger independent schools typically outperform smaller ones on average, 3-, 5- and 10-year returns were all relatively higher for those institutions in FY2023. Average 10-year returns, perhaps the most important indicator for financial well-being of endowed perpetual institutions, were 7.0 percent on average for schools with endowments that exceed $50 million in FY2023, 6.5 percent and 6.6 percent for those with endowment assets $10-$50 million, and less than $10 million, respectively.

Independent schools with endowments in the largest respondent category reported 7.9 percent 3-year returns on average (up from 5.6 percent in FY2022), compared with 6.8 percent for those in the middle size category (up from 5.4 percent) and 5.7 percent among those in the small size group (up from 5.4 percent). Independent schools with assets over $50 million reported an average 5-year return of 6.4 percent, which was unchanged from the prior fiscal year. Those with assets $10-$50 million reported an average 5.8 percent 5-year returns (down from 6.2 percent), and those with assets under $10 million, 5.6 percent (down from 5.7 percent).

Asset Allocation

Despite market fluctuations, there were minimal changes to asset allocations in FY2023 for respondents on average. There were two two-percentage point changes: an increase in allocations to fixed income to 16 percent and a decrease in alternative strategy allocations to 29 percent (matching FY2021). There was also a one-percentage point decrease in short-term securities/cash to 4 percent, a one-percentage point increase in the allocation to U.S. equities, and no change to non-U.S. equities.

Participating institutions reported the following asset allocation for FY2023 (with a comparison to FY2022):

Asset Allocations* for Total Institutions, Fiscal Years 2023 and 2022

	FISCAL YEAR	
numbers in percent (%)	**2023**	**2022**
U.S. equities	33	32
Fixed income	16	14
Non-U.S. equities	18	18
Alternative strategies	29	31
Short-term securities/cash/other	4	5

*dollar-weighted

Trends in asset allocations are dependent on institution size, according to Study data. For example, as of FY2023 responding institutions with assets over $50 million had a 35 percent allocation to alternative strategies on average, compared with 11 percent and 6 percent alternative allocations for those with assets $10-$50 million and under $10 million, respectively.

Looking within alternative strategies, schools with assets over $50 million allocated 10 percent of assets to private equity and 12 percent to marketable alternatives on average in FY2023, whereas the smallest group, those with under $10 million, reported no allocation to private equity and 2 percent to marketable alternatives on average. Mid-sized schools reported 3.0 percent allocations to each of those strategies. (Note: private equity includes LBOs, mezzanine, M&A funds and international private equity. Marketable alternatives include hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives.)

It is important to highlight three things related to changes in asset allocations: 1) the participants across study years are not a perfect matched sample, which can lead to year-over-year changes, 2) some changes are due to rebalancing – 68 percent of responding institutions rebalanced throughout FY2023, and 3) some changes are due to fluctuations in the value of existing allocations, for example outperformance of equities relative to alternative strategies in FY2023.

Spending

Participating schools' stated policy spending rate in FY2023 was 4.3 percent, unchanged since FY2021. By size, schools in the mid- and large- size categories had a spend policy rate of 4.3 percent and those in the smallest size group had an average spend policy rate of 4.1 percent. Ninety-four percent of participating schools said they have a spending policy, unchanged from the prior year.

Spending in Response to Inflation

Sixty-two percent of study respondents said they kept their spending the same in response to the inflationary environment in FY2023. More than one in five responding institutions, or 21 percent, increased spending in response to increased costs, whereas 8 percent decreased spending.

Gifts

Average new gifts to independent school endowments were $1.7 million in FY2023. This figure is down from the $2.4 million reported in FY2022 – the highest since Commonfund began tracking these data in 2003 but exceeds the average gift of $1.5 million reported in FY2021. Average gifts typically vary by independent school size. In FY2023, respondents in the largest size group reported $2.9 million in average gifts (down from the highest average gift of $4.4 million to large institutions in last year's Study), $0.9 million in the mid-size group (down from $1.5 million), and $0.4 million for the smallest group (down from $0.6 million).

Operating Budget Support

Participating institutions reported that an average of 6.5 percent of their operating budget was funded by the endowment in FY2023, compared with 6.1 percent in FY2022 and 6.8 percent in FY2021. Responding institutions with assets over $50 million reported the highest share of their operating budget funded by endowment, 11.2 percent, which was unchanged from the prior year. That was significantly above 4.4 percent reported by institutions with assets between $10 and $50 million and 1.7 percent reported by schools with assets under $10 million.

Responsible Investing

Since that initial set of questions was asked regarding responsible investing in the FY2019 Study, respondents have indicated an increasing rate of adoption of responsible investing practices, although the pace of adoption may have slowed.

In FY2023, 15 percent of respondents required or permitted including investments ranking high on ESG (environmental/social/governance) criteria, compared with 11 percent in FY2022. Thirteen percent seek to screen out investments not consistent with the institution's mission (socially responsible investing, or SRI), compared with 11 percent in FY2022. One area of growth was in respondents required or permitted to invest with diverse managers – this figure was up to 11 percent, nearly double the FY2022 rate of 6 percent.

One potential indicator of a slowdown in responsible investing in coming years is the percentage of those reporting discussion of responsible investing strategies in investment or committee meetings. Only 30 percent of responding institutions reported discussion of ESG in

FY2023, down from 43 percent in FY2022. Thirteen percent discussed negative screening/SRI in FY2023 compared with 32 percent in FY2022, and 11 percent discussed impact investing in FY2023, down from 20 percent. Discussion of diverse manager investing held relatively steady at 20 percent in FY2023, down from 25 percent in the prior Study.

About Commonfund

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Commonfund Institute is among the nation's most trusted sources for relevant, useful, and proprietary data, analytics, and best practices in financial management. The Institute provides a wide variety of resources, including conferences, seminars, roundtables, and online learning through Commonfund Institute Online. Insights cover topics such as endowments and governance; proprietary and third-party research such as the Commonfund Benchmark Studies®; publications including the Commonfund Higher Education Price Index® (HEPI); and events such as the annual Commonfund Forum and Investment Stewardship Academy.

About NBOA

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.

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