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Independent Schools Report 25.8% Return on Endowment Assets for FY2021, Highest Since Study's 2005 Inception

Return Bolsters Long-Term Performance; Schools Draw More from Endowment

WILTON, Conn., February 22, 2022 — Institutions participating in the Commonfund Benchmarks Study® of Independent Schools for the 2021 fiscal year reported an average 25.8 percent return on their endowment assets, a strong upward move compared with last fiscal year's 2.8 percent return. It was also the highest average annual return since the study commenced for fiscal year 2005. (All returns are reported net of fees. Fiscal year 2021 covers the period from July 1, 2020, to June 30, 2021, and coincides with the budget year of most independent schools.)

The exceptional return bolstered longer-term performance, which is of primary importance to the financial health and sustainability of perpetual institutions. Average 10-year returns for participating schools rose to 8.2 percent from last year's 7.0 percent. Three- and five-year returns were even better, nearly doubling, compared with last year's data. Five-year returns rose to an average of 10.4 percent in FY2021 compared with 5.4 percent in fiscal 2020. Three-year returns averaged 11.1 percent, well ahead of the previous fiscal year's 5.7 percent.

George Suttles, Executive Director of Commonfund Institute, observed that "It would be hard to overemphasize the significance of fiscal 2021's strong return when it comes to the long-term health and vitality of our nation's independent schools. Endowments are a major source of funds to support operating budgets, which are under pressure in an environment shaped by the global pandemic and inflationary forces. Even beyond that, however, a sound endowment gives schools the confidence that their vision and mission will endure in the future."

"It is gratifying to share some good financial news with the PK-12 independent school community," said Jeffrey Shields, President and CEO of the National Business Officers Association. "Our industry has been challenged by unanticipated expenses related to pandemic management since winter 2020, during which time schools were seeking cash to respond as quickly and effectively as possible. Schools that had access to endowment funds, and pulled these funds in a responsible manner, are being rewarded by investment returns far exceeding any prior year during which this research was conducted. This is indeed a silver lining following the most disrupted school year of our lifetime. Of course, asset allocations need to be considered as the market's period of correction is underway."

Two hundred fifteen independent schools representing some $13.8 billion in combined endowment assets provided data for the Study. Institutions participating in the Study comprise day schools, boarding schools and schools that are a combination of both. Independent schools are private, nonprofit institutions enrolling students from 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 the National Business Officers Association (NBOA), the only national nonprofit membership organization focused exclusively on fostering financial and operational excellence among independent schools.

Data gathered in the Study are aggregated for all 215 participants and, for closer analysis, are segmented into three main size cohorts: institutions with endowment assets over $50 million; those with assets between $10 and $50 million; and those with assets under $10 million. For schools looking to compare themselves on a more granular level, additional analysis on expanded size cohorts is presented in an Appendix of the full report.

Investment Returns

As noted, in FY2021 all participating institutions reported an average return of 25.8 percent. When segmented by size, data show that the larger the endowment the greater the return; schools in each size cohort, however, reported average returns that were the highest since the study's inception.

Schools with assets over $50 million reported an average return of 29.3 percent (2.7 percent a year ago); those with assets between $10 and $50 million reported a return of 25.3 percent (2.4 percent); and those with assets under $10 million reported a 21.2 percent return (3.3 percent).

The same size correlation held true when looking at longer-term results. Independent schools with assets over $50 million reported the highest 10-year average annual return, 8.4 percent. Just behind, at 8.2 percent, were schools with assets between $10 and $50 million, while schools with assets under $10 million reported a 10-year return averaging 7.6 percent. For the trailing three- and five-year periods, schools with assets over $50 million reported returns of 11.9 percent and 11.0 percent, respectively. For schools with assets between $10 and $50 million respective returns were 11.0 percent and 10.3 percent. Schools with assets under $10 million reported an average annual return of 9.9 percent for the three-year period and 9.7 percent for the trailing five years.

While investment returns correlated with size in FY2021, that has not always been the case. Last fiscal year, for example, schools with assets under $10 million generated not only the best one-year return, but also the best returns for the trailing three- and five-year periods. Further, their 10-year average return lagged that of schools with assets over $50 million by just 10 basis points.

In FY2021, U.S. equity returns were strong, and all schools benefited from 30 percent-plus allocations to the asset class. While schools with assets over $50 million had exactly a 30 percent allocation, schools with assets between $10 and $50 million reported a 45 percent allocation and those with assets under $10 million had an even higher 47 percent allocation. Schools with the largest endowments gained the return edge owing to two other allocations: 1) the smallest allocation to fixed income, which produced the poorest return in FY2021 (after producing the best return in FY2020); and 2) the largest allocation to alternative strategies, which by virtue of stellar returns from private equity and venture capital, generated the fiscal year's best return.[1]

[1] Fixed income returns as measured by the Bloomberg Barclays U.S. Aggregate Bond Index; venture capital and private equity returns as measured by the Burgiss Private IQ – VC and PE Index.

Asset Allocation

Asset allocations showed greater change in FY2021 compared with recent years. As the table below shows, U.S. equities accounted for a 34 percent allocation, up three percentage points year over year. Fixed income, international equities and short-term securities/cash/other each moved by two percentage points. There was a one-percentage-point decline in the allocation to alternative strategies. Participating institutions reported the following asset allocation (with a comparison to FY2020):

Asset Allocations* for Fiscal Years 2020 and 2021

Asset Class	Fiscal Year	
	2021	2020
U.S. equities	34%	31%
Fixed income	13%	15%
International equities	21%	19%
Alternative strategies	29%	30%
Short-term securities/cash/other	3%	5%

*Dollar-weighted

Of the 29 percent allocated to alternative strategies, marketable alternative strategies accounted for the largest single sub-allocation, at 12 percent. This was, however, down year over year, from 17 percent in FY2020, among schools with assets over $50 million and those between $10 and $50 million declining five- and four-percentage points, respectively. (Marketable alternative strategies include hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives.) The second-largest allocation, at 7 percent, was to private equity; this represented a one-percentage-point increase compared with last year. (Private equity includes LBOs, mezzanine, M&A funds and international private equity). Venture capital accounted for a 3 percent allocation, unchanged year over year. Private credit and energy and natural resources each accounted for 2 percent allocations. Three other categories accounted for 1 percent each: private equity real estate (non-campus); commodities and managed futures; and distressed debt.

Spending

Participating schools' stated policy spending rate in FY2021 was 4.3 percent. By size, it ranged from 4.4 percent for schools with assets over $50 million to 4.3 percent for schools with assets between $10 and $50 million to 3.9 percent for schools with assets under $10 million. Ninety-five percent of participating schools said they have a formal spending policy.

Spending in Response to the Pandemic

Sixty-four percent of study respondents said they kept their spending the same in response to COVID-19 in FY2021. Seventeen percent said they responded with increased spending and 16 percent said they reduced spending. Schools with assets between $10 and $50 million most frequently increased or decreased spending in response to the pandemic, with 20 percent increasing it and 21 percent decreasing it.

Gifts

Participating institutions reported that new gifts to endowment averaged $1.5 million, up from $1.2 million in FY2020. Schools with endowments over $50 million reported the highest average new gifts to endowment, $2.8 million, up from $2.5 million a year ago but below the levels reported in fiscal years 2019 and 2018. Institutions with assets between $10 and $50 million reported new gifts averaging $1.0 million, unchanged year over year. Schools with assets below $10 million reported new gifts averaging $0.2 million, also unchanged.

Operating Budget Support

Participating institutions reported that an average of 6.8 percent of their operating budget was funded by the endowment in FY2021 compared with 5.9 percent in the previous fiscal year. Responding institutions with assets over $50 million by far reported the highest percentage of their budget funded by endowment, 12.5 percent. That was significantly above 4.7 percent reported by institutions with assets between $10 and $50 million and 1.7 percent reported by schools with assets under $10 million.

Annual giving is also a form of support for operating budgets, and in FY2021 participating institutions funded an average of 7.2 percent of their budget from this source, level with the year-ago figure. The largest participating institutions funded 8.1 percent of their operating budget through annual giving compared with 7.3 percent and 5.4 percent for the other two cohorts (in descending order by size of endowment).

Responsible Investing

A suite of questions regarding responsible investing was introduced for the fiscal 2019 Study. For fiscal 2021, the Study showed an acceleration in the rate at which various responsible investing practices are being adopted or considered for adoption in coming months.

Ten percent of respondents reported seeking to include investments ranking high on ESG (environmental/social/governance) criteria, up from 4 percent a year ago. Eight percent seek to screen out investments not consistent with the institution's mission (socially responsible investing, or SRI) compared with 6 percent in fiscal 2020. Four percent said they allocate a portion of their endowment to investments that further the institution's mission (impact investing), up from 2 percent; and 7 percent seek to include investments with diverse managers, up from 3 percent. Double-digit increases were reported in the share of schools whose investment committees are actively discussing ESG, SRI, impact investing or diverse managers; the same was true for institutions that are considering adding responsible investing to their investment policy statement within the next 12 months. This slow but steady increase is consistent with data we have seen across our other studies. Moving forward, the challenge for organizations will be to move from intent to action as these topics continue to gain momentum.

About Commonfund

Commonfund was founded in 1971 as an independent asset management firm with a grant from the Ford Foundation. Today, Commonfund provides investment solutions to sophisticated investors through two affiliates. Commonfund Asset Management provides outsourced CIO services designed for nonprofit institutions using investment subadvisers for discretionary and non-discretionary engagements. Commonfund Capital is a global private capital manager with over 30 years of experience offering a full suite of private investment strategies to sophisticated investors, both nonprofit and for-profit. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides long-term, nonprofit institutional investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on 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); Commonfund Institute Online – a learning management system to deliver educational content and courses to fiduciaries of nonprofit organizations; and events such as the annual Commonfund Forum and Investment Stewardship Academy.

About NBOA

The National Business Officers Association (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 1,500 member schools from the U.S., Canada, Mexico and 23 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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