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Contact:
Kate Sylvester
Prosek Partners
646-818-9127
ksylvester@prosek.com

Commonfund Study of Independent Schools Report 7.4% Return on Endowment Assets for FY2018

Investment Result Is Lower Compared to Previous Year, but Long-Term Returns Generally Improve

WILTON, Conn., February 27, 2019 — Institutions participating in the Commonfund Benchmarks Study® of Independent Schools (CSIS) report for the 2018 fiscal year reported an average return (net of fees) on their endowment assets of 7.4 percent. The 2018 fiscal year covers the period from July 1, 2017, to June 30, 2018.

Commonfund conducts the annual study of independent school endowment management practices and policies in conjunction with the National Business Officers Association (NBOA), a nonprofit organization focused exclusively on independent school financial and operational matters.

The 223 participating institutions 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).

The FY2018 return is a decline from 11.8 percent reported for FY2017, but higher compared to fiscal years 2016 and 2015, when respective returns were -0.8 percent and 2.3 percent. Longer-term returns—of primary importance to the financial health and sustainability of perpetual institutions—were generally higher year over year. Trailing 10-year returns rose to an average of 5.5 percent from last year's 5.2 percent. Trailing five-year returns declined to an average of 7.3 percent from last year's 7.9 percent, while average three-year returns rose to 6.2 percent from 4.4 percent a year ago. (All returns are reported net of fees.)

"Just like we see with colleges and universities, independent schools are facing rising costs and limits on their ability to raise tuition," said Cathleen Rittereiser, Executive Director of the Commonfund Institute. "Raising non-tuition sources of revenue is an imperative, maximizing the returns of their endowments is an important part of that strategy."

Jeff Shields, NBOA President and CEO added, "Independent school endowments remain a key resource that provide schools with critical financial resources that mitigate the need for steep tuition increases and help fund many need-based financial-aid programs. To that end, the Commonfund/NBOA study demonstrates that FY18 was a beneficial year for independent schools and the students and families they serve."

Two hundred twenty-three independent schools representing some $12 billion in combined endowment assets provided data for the Study. Data gathered in the Study is aggregated for all 223 participants and, for closer analysis, 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.

Investment Returns

As noted, in FY2018 all participating schools reported an average return of 7.4 percent. When segmented by size, schools with assets over $50 million reported an average return of 8.2 percent while those with assets between $10 and $50 million reported a return of 7.4 percent and those with assets under $10 million reported a 6.2 percent return.

Longer term, schools with assets over $50 million reported the highest return for all periods (three, five and 10 years). For the longest of these, the largest schools reported an average return of 6.3 percent. For the same 10-year-period, institutions with assets between $10 and $50 million reported an average return of 5.5 percent while those with assets under $10 million realized a 4.4 percent average return.

Asset Allocation

Asset allocations showed very little change in FY2018 compared with the previous year. Participating institutions reported the following asset allocation (with a comparison to FY2017):

Asset Allocations* for Fiscal Years 2017 and 2018

Asset Class	Fiscal Year	
	2018	2017
U.S. equities	28%	27%
Fixed income	13%	13%
Non-U.S. equities	22%	20%
Alternative strategies	33%	35%
Short-term securities/cash/other	4%	5%

*Dollar-weighted

Of the 33 percent allocated to alternative strategies, marketable alternative strategies accounted for the largest single sub-allocation, at 18 percent. (Marketable alternative strategies include hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives.) The second-largest allocation, at 6 percent, was to private equity (LBOs, mezzanine, M&A funds and international private equity). Energy and natural resources accounted for a 3 percent allocation, and venture capital and private equity real estate (non-campus) 2 percent each. Commodities and managed futures and distressed debt accounted for 1 percent each.

Spending

The average annual effective spending rate[1] for FY2018 was 3.8 percent, little changed from last year's 3.7 percent. Institutions with assets over $50 million spent at the highest rate, 4.0 percent, followed closely by those with assets between $10 and $50 million, at 3.9 percent. Institutions with assets under $10 million spent at a rate of 3.2 percent.

Gifts

The average participating institution reported $1.8 million in new gifts to the endowment during FY2018, a decline from the average of $2.1 million reported for FY2017. While the largest participating institutions reported an increase in new gifts to the endowment, an average of $4.3 million versus $3.5 million in FY2017, the other two size cohorts reported a decline: to an average of $900,000 from $1.2 million for institutions in the middle size range and to an average of $300,000 from $600,000 for the smallest institutions.

Operating Budget Support

Participating institutions reported that an average of 6.2 percent of their operating budget was funded by the endowment in FY2018, ranging from a high of 13.2 percent of the budgets of institutions with assets over $50 million to a low of 1.9 percent of the budgets of institutions with assets under $10 million. Data also show that an average of 7.8 percent of the operating budgets of Study institutions was funded by annual giving in FY2018. Once again, the largest institutions reported the highest rate of budget support from annual giving, 10.1 percent. The lowest proportion of the operating budget supported by annual giving was 6.4 percent, reported by institutions with assets between $10 and $50 million.

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[1] The effective spending rate is the actual total spending in dollars during the fiscal year divided by the endowment's beginning-of-year market value.

About NBOA

NBOA is the premier national association serving the needs of business officers and business operations staff at independent schools in areas including accounting, finance, tax, risk management, human resources, facilities and information technology. The association has grown from 23 founding member schools in 1998 to more than 1,400 U.S.-member schools, in addition to member schools in Mexico, Canada and more than 20 countries around the globe. NBOA provides its growing membership with a full range of services including live professional development events, webinars, online courses, publications, and original research.

About Commonfund

Commonfund was founded in 1971 as an independent asset management firm focused on not-for-profit institutions. Today, we are one of North America's leading investment firms, managing $25 billion in assets for some 1,400 institutional clients, including educational endowments, foundations and philanthropic organizations, hospitals and healthcare organizations and pension plans. Our primary business is investment management, and we are active in all sectors of the global capital markets, both public and private.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term 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. In addition to the Commonfund Benchmarks Study® series of research reports, the Institute provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and governance; proprietary and third-party research and publications, including the Commonfund Higher Education Price Index® (HEPI); and events such as the Investment Stewardship Academy® and the annual Commonfund Forum.

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