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Independent Schools Report 2.8% Return on Endowment Assets for FY2020—Lowest Since 2016

Longer-term Returns Ease; Spending in Support of Mission Holds Steady

WILTON, Conn., February 17, 2021 — Institutions participating in the Commonfund Benchmarks Study® of Independent Schools for the 2020 fiscal year reported an average return (net of fees) on their endowment assets of 2.8 percent. This represented a marked decline from recent returns: 5.7 percent in FY2019, 7.4 percent in FY2018 and 11.8 percent in FY2017. It was ahead of -0.8 percent reported for FY2016 and 2.3 percent for FY2015, however. The 2020 fiscal year covers the period from July 1, 2019, to June 30, 2020.

Longer-term returns—of primary importance to the financial health and sustainability of perpetual institutions—declined compared with FY2019 figures. Trailing 10-year returns declined to an average of 7.7 percent from last year's 8.1 percent. Trailing three-year returns declined to 5.8 percent from 8.4 percent in last year's report, while trailing five-year returns decreased moderately to 5.5 percent from last year's 5.6 percent. (All returns are reported net of fees.)

Two hundred independent schools representing some $9.8 billion in combined endowment assets provided data for the Study. The number of participants was smaller than last year's record high 250 participating institutions. Comments from independent school representatives indicated the smaller sample size stems from immediate priorities and time constraints imposed on staff members by the coronavirus pandemic. Commonfund Institute Executive Director George Suttles observed, “While the survey size declined this year after steady growth in recent years, we are gratified that the response was as robust as it was given the challenging environment that confronted independent schools across the nation.” “We are grateful to the school business leaders who allocated time during the highly demanding 2021-22 school year to participate in this one-of-a-kind survey and share their 2020 fiscal year endowment data,” said Jeffrey Shields, FASAE, CAE, president and CEO of NBOA. “Endowments continue to provide essential financial resources that help a school offset unremitting tuition increases, and therefore it is essential to track our schools’ investment positions before, during and following the COVID-19 pandemic. The Commonfund Benchmarks Study® of Independent Schools will play a key role in assessing the pandemic’s short- and long-term impact on our industry.”

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), a nonprofit organization focused exclusively on supporting world-class business and financial operations at independent schools.

Data gathered in the Study are aggregated for all 200 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 FY2020 all participating institutions reported an average return of 2.8 percent. When segmented by size, schools with assets over $50 million reported an average return of 2.7 percent (5.1 percent a year ago); those with assets between $10 and $50 million reported a return of 2.4 percent (5.7 percent a year ago); and those with assets under $10 million reported a 3.3 percent return (6.6 percent a year ago).

Looking at longer-term results, independent schools with assets under $10 million reported the highest 10-year average annual returns, at 8.9 percent. Ten-year returns for the other two size cohorts were equal at 7.3 percent. Schools with assets under $10 million also generated the highest average returns for trailing three- and five-year periods: 6.9 percent and 6.6 percent, respectively. Schools in the other two size categories trailed these returns by 140 to 170 basis points annually for the trailing three-year period and 140 to 160 basis points annually for the trailing five years.

Asset Allocation

Asset allocations showed little change in FY2020 compared with the previous year. Participating institutions reported the following asset allocation (with a comparison to FY2019):

Asset Allocations* for Fiscal Years 2020 and 2019

numbers in percent (%)	Fiscal Year	
	2020	2019
U.S. equities	31	29
Fixed income	15	14
Non-U.S. equities	19	21
Alternative strategies	30	32
Short-term securities/cash/other	5	4

*dollar-weighted

Of the 30 percent allocated to alternative strategies, marketable alternative strategies accounted for the largest single sub-allocation, at 17 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). Venture capital accounted for a 3 percent allocation. All other categories accounted for 1 percent each: energy and natural resources; private equity real estate (non-campus); commodities and managed futures; and distressed debt.

Historically, larger schools in the survey have reported the highest annual returns, largely because of their bias toward greater equity allocations—including alternative strategies—and their access to investment managers whose performance often placed them in the top quartile of their peers. This trend reversed in recent years, however, as schools with smaller endowments have produced the highest annual returns. This can be attributed, in large part, to the relative outperformance of traditional assets classes, like domestic equities and fixed income, where smaller schools frequently have greater allocations than their larger counterparts.

Commenting on the recent outperformance of traditional asset classes, Suttles said, "A prime example in the FY2020 Study was fixed income. The Bloomberg Barclays U.S. Aggregate Bond Index delivered the highest one-year return of all the asset classes and strategies in the Study at 8.7 percent. Schools with assets under $10 million benefited because they averaged a 31 percent allocation to this asset class, whereas schools with assets over $50 million allocated just 11 percent on average."

Spending

The average annual effective spending rate[1] for FY2020 was 3.7 percent, unchanged from FY2019 and all but unchanged from 3.8 percent reported for FY2018. As was true last year, institutions with assets over $50 million spent at the highest rate, 4.0 percent, which was unchanged year over year. Schools in the other two size cohorts both spent at an effective annual rate of 3.6 percent. This was slightly below the 3.8 percent reported last year by schools with assets between $10 and $50 million but above the 3.2 percent rate reported by schools with assets under $10 million.

Coronavirus Impacts Schools' Spending in Late FY2020

In response to a new, special survey question that probed schools' response to the coronavirus, 27 percent of participating schools said they increased spending to address virus-related issues in the fourth quarter of the fiscal year. Seventeen percent said they decreased spending and 47 percent made no change (9 percent were uncertain or gave no answer). By size of institution, responses were very similar: 28 percent of institutions with assets over $50 million increased spending to address virus-related issues, while 26 percent each of institutions with assets between $10 and $50 million and those with assets under $10 million increased spending. Nine percent of the largest participating schools decreased spending, whereas 22 percent of schools

[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.

with assets between $10 and $50 million and 17 percent of those with assets under $10 million did so.

Gifts

Gifting trended lower again in FY2020. Participating institutions reported that new gifts to endowment averaged $1.2 million, down from $1.5 million in FY2019, $1.8 million in FY2018 and $2.1 million in FY2017. Schools with endowments over $50 million reported the highest average new gifts to endowment, $2.5 million, but this was lower than $3.5 million reported last year and $4.3 million in FY2018. Institutions with assets between $10 and $50 million reported new gifts averaging $1.0 million, down from last year's $1.1 million, while those with assets below $10 million reported new gifts averaging $0.2 million, unchanged year over year.

Operating Budget Support

Participating institutions reported that an average of 5.9 percent of their operating budget was funded by the endowment in FY2020 compared with 6.3 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, at 12.1 percent. That was significantly above 4.8 percent reported by institutions with assets between $10 and $50 million and more than six times the 1.9 percent reported by schools with assets under $10 million.

Annual giving is also a form of support for operating budgets, and in FY2020 participating institutions funded an average of 7.2 percent of their budget from this source; this compares with 7.6 percent reported last year. The largest participating institutions funded 10.1 percent of their operating budget through annual giving in FY2020 compared with 5.9 percent for mid-size schools and 6.4 percent for smaller institutions.

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 $25.7 billion in assets for 1,372 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 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); 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 dedicated to developing, delivering and promoting best business practices to advance independent schools. The association has grown from 23 founding member schools in 1998 to over 1,300 U.S. member schools, in addition to member schools in Mexico, Canada and 23 other countries around the globe. The association annually delivers the NBOA Annual Meeting, Business Officer Institute, online professional development, original research and its award-winning magazine, Net Assets. Each offering covers timely and relevant topics for independent schools including finance, accounting, tax compliance, human resources, risk management, facilities and information technology.

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