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Independent Schools Report 5.7% Return on Endowment Assets for FY2019

Investment Results Are Lower than Previous 2 Years but at Mid-Point of 5-Year Returns; 10-Year Returns Show Sharp Increase

WILTON, Conn., February 19, 2020 — Institutions participating in the *Commonfund Benchmarks Study*® of *Independent Schools* (CSIS) for the 2019 fiscal year reported an average return (net of fees) on their endowment assets of 5.7 percent. This was lower than 7.4 percent reported for fiscal 2018 and 11.8 percent reported for fiscal 2017, but ahead of FY2016 and FY2015, when returns were -0.8 percent and 2.3 percent, respectively. The 2019 fiscal year covers the period from July 1, 2018, to June 30, 2019.

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 8.1 percent, a marked improvement from last year's 5.5 percent because the poor return of FY2009—when the financial crisis and recession sparked turmoil in markets worldwide—dropped off the 10-year calculation. Trailing three-year returns also rose, reaching an average of 8.4 percent versus last year's 6.2 percent. Trailing five-year returns declined, however, falling to 5.6 percent from 7.3 percent a year ago. (All returns are reported net of fees.)

Two hundred fifty independent schools representing some $13.1 billion in combined endowment assets provided data for the Study, an increase from last year's database of 223 institutions representing $12.0 billion in assets. 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).

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 250 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. CSIS is once again publishing a set of tables in the Appendix, expanding the size cohorts from three to five for a closer look at endowment management practices and policies among like-sized schools.

Investment Returns

As noted, in FY2019 all participating institutions reported an average return of 5.7 percent. When segmented by size, schools with assets over $50 million reported an average return of 5.1 percent (8.2 percent a year ago); those with assets between $10 and $50 million reported a return of 5.7 percent (7.4 percent); and those with assets under $10 million reported a 6.2 percent return (unchanged).

Longer term, independent schools with assets between $10 and $50 million reported the highest 10-year return, 8.2 percent, versus 8.0 percent for schools with assets over $50 million and 7.8 percent for those with assets under $10 million. Similarly, schools in the mid-range reported the highest trailing five-year return, 5.7 percent, compared with 5.4 percent for the schools in the largest size category and 5.6 percent for schools in the smaller cohort. Trailing three-year returns ranged from 8.1 percent for smaller schools to 8.5 percent for mid-range schools with larger schools at 8.4 percent.

Asset Allocation

Asset allocations showed very little change in FY2019 compared with the previous year. Participating institutions reported the following asset allocation (with a comparison to FY2018):

Asset Allocations* for Fiscal Years 2019 and 2018

numbers in percent (%)	Fiscal Year	
	2019	2018
U.S. equities	29	28
Fixed income	14	13
Non-U.S. equities	21	22
Alternative strategies	32	33
Short-term securities/cash/other	4	4

*dollar-weighted

Of the 32 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. Energy and natural resources and private equity real estate (non-campus) represented 2 percent each. Commodities and managed futures and distressed debt accounted for 1 percent each.

Commenting on the relationship between returns and asset allocation, Commonfund Institute, Director of Research George Suttles pointed out that smaller schools reported the highest return for FY2019 in large part because of their greater allocation to U.S. equities. "In a period of generally strong performance in the U.S. stock market, schools with endowments under $10 million had the largest allocation to U.S. equities—44 percent versus 40 percent for mid-range schools and 25 percent for institutions with larger endowments. By contrast, certain alternative strategies, notably marketable alternatives, lagged over this period and, once again, smaller schools benefited by having the least exposure in this area," Mr. Suttles said.

Spending

The average annual effective spending rate[1] for FY2019 was 3.7 percent, little changed from last year's 3.8 percent. Institutions with assets over $50 million spent at the highest rate, 4.0 percent, which was unchanged year over year. Schools with assets between $10 and $50 million spent at

[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.

a 3.8 percent rate, down 0.1 percentage point, while institutions with assets under $10 million spent at a rate of 3.2 percent, unchanged year over year.

Gifts

Participating institutions reported that new gifts to endowment averaged $1.5 million in FY2019, down from $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, $3.5 million, but this was lower than the $4.3 million reported a year ago (but in-line with $3.5 million reported for FY2017). For the other two size cohorts, outcomes were mixed: Institutions with assets between $10 and $50 million reported new gifts averaging $1.1 million, up from $0.9 million a year ago; schools with assets under $10 million reported $0.2 million in new gifts to endowment, down from $0.3 million in FY2018. There does not seem to be an emerging trend as a result of the Tax Cuts and Jobs Act of 2017 (TCJA), which some believed could have a negative impact on charitable giving due to less individuals gaining tax benefits from smaller donations.

Operating Budget Support

Participating institutions reported that an average of 6.3 percent of their operating budget was funded by the endowment in FY2019, up modestly from 6.2 percent in FY2018. Institutions with assets over $50 million utilized their endowment for budget support at a much greater rate than institutions in the other two size cohorts. These larger institutions funded 14.0 percent of their annual operating budget from endowment versus 4.9 percent for mid-range schools and 1.4 percent for institutions in the smaller size cohort. “Endowment returns in support of a school’s operating budget are critical today more than ever because they provide financial resources necessary to support an independent school’s educational mission and help mitigate pressure to significantly increase tuition annually,” said Jeffrey Shields, FASAE, CAE, president and CEO of NBOA.

Annual giving is also a form of support for operating budgets, and in FY2019 participating institutions funded an average of 7.6 percent of their budget from this source; this compares with 7.8 percent reported last year. The largest participating institutions funded 10.0 percent of their operating budget through annual giving in FY2019 compared with 6.7 percent for mid-size schools and 6.9 percent for smaller institutions. These percentages were about the same as last year for institutions in the over $50 million cohort, moderately higher for those with assets between $10 and $50 million and lower for those with assets under $10 million.

About NBOA

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 1,400 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.

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 teaming with the National Business Officers Association (NBOA) to produce the CSIS, Commonfund also produces the Commonfund Benchmarks Study® series of research reports as well as the Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations. In addition, Commonfund Institute provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; 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. ###