Commonfund Study of Independent Schools

CSIS

RETURNS | INVESTMENT OBJECTIVES | ASSET ALLOCATION | INVESTMENT POLICIES | FUND FLOWS RESPONSIBLE INVESTING | GOVERNANCE

2019

2019
Commonfund Benchmarks Study®
of Independent Schools

Commonfund Institute and the National Business Officers Association annual report on independent schools investment performance and management practices.

Commonfund Study of Independent Schools CSIS

WELCOME

February 2020

It is our pleasure to share with you the 2019 Commonfund Benchmarks Study® of Independent Schools (CSIS). This report represents the 15th year of collaboration between the National Business Officers Association (NBOA) and Commonfund Institute. Throughout this decade and a half, our shared goal has been to provide an authoritative and comprehensive annual survey of investment and governance practices at U.S. independent day and boarding schools for the benefit of trustees and staff, as well as for the larger community of U.S. independent schools.

With the advent of the CSIS in 2005, the Institute and NBOA embarked on a rewarding research relationship. For FY2019 we are again releasing the enhanced and expanded Study that we initiated with the FY2018 Study. This includes an in-depth analysis of the data and Viewpoint essays analyzing trends that the data reveal. The result is a single, comprehensive source of information on independent school endowments. We are pleased to note that the number of independent schools participating in this year's Study has grown to 250, up from last year's 223 and FY2017's 213, an increase of 17 percent over the two-year period.

It is important to observe that this report contains data on U.S. independent school endowment funds only.

We wish to express our gratitude to the professionals and volunteers at participating independent schools for their invaluable contributions of time and knowledge. Both Commonfund Institute and NBOA hope that the Study will serve as a valuable tool for independent school boards and senior staff as they make decisions shaping the future of their schools. As always, we welcome your comments and look forward to being of service to you in the future.

George Suttles
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Commonfund Institute

Jeffrey Shields, FASAE, CAE
President and CEO
National Business Officers Association

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2019 Commonfund Benchmarks Study® of Independent Schools

Two hundred fifty U.S. independent boarding and day schools contributed data for the Commonfund Benchmarks Study® of Independent Schools (CSIS) for the 2019 fiscal year (July 1, 2018 – June 30, 2019), an increase over the 223 schools that participated last year. This year's Study comprises: 172 day schools, accounting for 69 percent of the Study universe; 27 day/boarding schools (11 percent); 36 boarding/day schools (14 percent); and five boarding-only schools (2 percent). Ten schools (4 percent of the Study) self-selected the "Other" category.

Participating schools represented $13.1 billion in combined endowment assets as of June 30, 2019, compared with $12 billion in combined assets in last year's Study. Breaking out this data by size:

- Sixty-four schools with assets over $50 million participated in this year's Study (representing approximately $9.8 billion, or 75 percent of participants' combined endowment assets).
- One hundred eighteen schools with assets between $10 and $50 million participated (representing approximately $3.0 billion, or 23 percent of participants' combined endowment assets).
- Sixty-eight schools with assets under $10 million participated (representing approximately $321 million, or 2 percent of participants' combined endowment assets).

Sixty-two percent of schools in this year's Report also participated last year. A high repeat participation rate generally indicates stability and integrity of the data from one Study to the next.

Eighty-six percent of participants (215 schools) that provided data for this year's Study self-identified as members of the National Business Officers Association (NBOA).

Returns

The 250 independent schools participating in the CSIS for FY2019 reported an average return (net of fees) on their endowments of 5.7 percent.

When segmented by size, schools with assets over $50 million reported an average return of 5.1 percent while those with assets between $10 and $50 million reported a return of 5.7 percent and those with assets under $10 million reported a 6.2 percent return.

Longer-Term Returns

Over the trailing three-year period, schools with assets between $10 and $50 million reported the highest average annual return, 8.5 percent, 10 basis points ahead of that reported by schools with assets over $50 million. Schools with assets under $10 million also surpassed the 8.0 percent level, coming in at 8.1 percent.

For the trailing five-year period, returns were in a tight 30-basis-point range of 5.7 percent for schools in the mid-sized cohort, 5.6 percent for smaller schools and 5.4 percent for the larger schools.

For the trailing 10-year period, schools with assets between $10 and $50 million reported the highest return, 8.2 percent, versus 8.0 percent for those with assets over $50 million and 7.8 percent for those with assets under $10 million.

Asset Allocation

Asset allocations changed by no more than one percentage point in FY2019 compared with the previous year. Participating schools reported the following FY2019 dollar-weighted asset allocation (with FY2018 in parentheses):

- U.S. equities: 29 percent (28 percent)
- Fixed income: 14 percent (13 percent)
- Non-U.S. equities: 21 percent (22 percent)
- Alternative strategies: 32 percent (33 percent)
- Short-term securities/cash/other: 4 percent (4 percent)

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.

Fund Flows

The average annual effective spending rate[1] for FY2019 was 3.7 percent, little changed from last year's 3.8 percent. Schools with assets over $50 million spent at the highest annual effective rate, 4.0 percent. Schools with assets between $10 and $50 million spent at a rate of 3.8 percent, while those with assets under $10 million spent at a rate of 3.2 percent.

In terms of spending policy, 64 percent of Study participants reported spending a percentage of a moving average, with the average spending rate of those using this approach being 4.3 percent. Sixteen percent of participating schools reported deciding on an appropriate rate each year. Ten percent said they use a weighted average of hybrid method (Yale/Stanford rule).

Participating schools reported average gifts to endowment of $1.5 million in FY2019, down from $1.8 million in FY2018. When data are viewed by size cohort, yearly changes in gift level were mixed. For schools with assets over $50 million, gifts fell to an average of $3.5 million in FY2019 from $4.3 million in FY2018. Schools with assets between $10 and $50 million reported an increase in giving, an average of $1.1 million compared to last year's $0.9 million. Schools with assets under $10 million reported gifts averaging $0.2 million, down from $0.3 million a year ago.

Operating Budget Support

Participating schools reported that an average of 6.3 percent of their operating budget was funded by the endowment in FY2019, a decline from FY2018's 6.8 percent. Data viewed by size cohort varied widely. Schools with assets over $50 million funded 14 percent of their operating budget from the endowment, while at the opposite end of the spectrum schools with assets under $10 million relied on the endowment to fund just 1.4 percent of their operating budget. Schools with assets between $10 and $50 million funded an average of 4.9 percent of their operating budget from their endowment.

Data also showed that an average of 7.6 percent of the operating budgets of participating schools was funded by annual giving in FY2019, down slightly from last year's 7.8 percent.

Resources

Participating schools reported having an average of 7.0 voting members on their investment committees in FY2019. The range was 8.5 voting members on the committees of schools with assets over $50 million; 6.9 voting members for schools with assets between $10 and $50 million; and 5.8 members for schools with assets under $10 million. Participating schools reported that an average of 4.5 committee members were investment professionals; an average of 3.2 had experience with alternative strategies; and an average of 1.7 were non-trustee voting members.

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.

HOW TO READ THIS REPORT

The 2019 Commonfund Benchmarks Study® of Independent Schools (CSIS) is the product of a collaboration between Commonfund Institute and the National Business Officers Association (NBOA). Our purpose is to provide a timely and reliable reference resource for those responsible for investment, financial and governance decisions at independent day and boarding schools throughout the U.S. This section of the report explains the structure of the Study and provides answers to commonly asked questions, with the aim of helping readers and their organizations to obtain the greatest benefit from the Study.

BACKGROUND

The CSIS is built on data gathered from the 250 independent schools that participated in this year's report. The data are presented in the tables and charts appearing throughout the report, and an accompanying narrative interprets and analyzes the data presented in the tables.

ACCESS AND NAVIGATION

The CSIS is delivered as an Adobe Acrobat file in pdf format. Readers who want to take full advantage of the pdf should download and install the free program Adobe Acrobat Reader (available from www.adobe.com). All items in the document's Table of Contents can be reached by clicking on the chapter, subhead or page. This is also true of the figures listed on page ii. In addition, by opening the "Bookmarks" tab in Acrobat Reader, an internal table of contents is revealed, permitting you to easily navigate back and forth and jump from one section directly to another.

TABLES

The tables in the main body of the report generally display data by total number of respondents, further breaking it into three cohorts, segmented according to the size of their school's assets. The three size cohorts are schools with total endowed assets:

Over $50 million

Between $10 million and $50 million

Under $10 million

Supplemental data is provided in Appendix II, where additional figures provide readers with another data set for further analysis. While Appendix III presents many of the tables from the main report broken into smaller size cohorts.

Over $100 million

Between $51 million and $100 million

Between $26 million and $50 million

Between $10 million and $26 million

Under $10 million

CSIS LEADERS

Chapter 1 offers three tables (1.3 through 1.5) that present investment return data for schools whose one-year FY2019 return ranks them in the top decile and top quartile of all Study participants. The top decile refers to the 10 percent of Study participants with the highest one-year return for FY2019; the top quartile are those schools whose one-year FY2019 return places them in the top 25 percent of all Study respondents.

RESEARCH PROCESS AND METHODOLOGY

Data gathering took place in the fourth quarter of calendar 2019 using Qualtrics, an online survey instrument.

The respondents were the individuals most knowledgeable about investment matters at participating schools, and their answers to our questions provided both the quantitative data and qualitative commentary that form the basis of this report. An asset allocation worksheet also was completed by all Study participants.

The distribution of the 250 schools across size cohorts was designed to produce data that are statistically representative throughout the full sample. This aspect of the research design is crucial in that it underlies the ability to benchmark a particular school against true peers. Of significance for the stability of the data, 62 percent of schools participating in this year's CSIS also participated in last year's Study.

Given the turbulent market and economic environment that has prevailed in the past decade, apparent changes in the demographics of Study participants can be misleading. Changes from year to year can reflect fluctuations in portfolio values and lead to the reclassification of schools into larger or smaller size categories. The research team has prepared a matched sample of data from this Study and last year's to identify those areas where findings may reflect significant migrations across size categories or new participants coming into the Study universe and, where relevant, these have been noted. Any trend information presented in this report, however, should be interpreted only directionally as an indication of change.

GLOSSARY

A glossary of frequently used terms may be found in Appendix V.

FREQUENTLY ASKED QUESTIONS

How does this Study calculate three-, five- and 10-year investment returns for participating schools, and what constitutes the top decile and top quartile?

Study participants provide their three-, five- and 10-year annualized returns, and we report average responses. In short, these returns are reported, not derived.

Of the 250 schools participating in the Study, there are 26 schools in the "top decile" of one-year investment returns. In the top quartile, there are 63 schools.

What is "dollar-weighted"?

Dollar-weighted means that individual responses are weighted according to size or asset base when calculating average results—meaning that responses from large participants have a greater impact on average results than those of smaller participants. By contrast, when overall results are calculated on an "equal-weighted" basis, each response has an equal impact on the average, regardless of the size of the respondent. Unless otherwise noted, asset allocation figures in this Study are dollar-weighted. Selected tables showing equal-weighted data may be found in Appendix II.

Why do the bases (or number of respondents) change between Figures?

Charts and tables contain one of two labels: "Total Schools" or "Responding Schools." The Total Schools label indicates that the figure depicts responses from the full set of 250 Study participants. Responding Schools indicates that the responses come from a subset of participants. For example, Appendix II's Figure 3.2EC, which depicts participating schools' allocations to alternative strategies, carries the Responding Schools label because only 177 of the 250 Study participants reported using alternative strategies.

Are all the data reported as averages?

Most, but not all. The majority of the figures and most of the related commentary present data as the average value (the arithmetic mean, calculated by adding all the observations and dividing by the number of observations). However, some commentary and a few figures present median data. As differentiated from the mean or average, the median is the middle value or data point in the middle. That is, half of the data points are above the median and half below. The median can be useful in presenting data that have extremely high or low points that can skew the average and make it a misleading indicator.

Chapter 1
The Commonfund Benchmarks Study®
of Independent Schools

INTRODUCTION

Two hundred fifty schools participated in the 2019 Commonfund Benchmarks Study® of Independent Schools. These schools reported an average investable asset pool of $53 million as of June 30, 2019, and median investable assets of $23 million as of the same date. Investable assets include endowment/foundation funds, funded depreciation, working capital and other separately treated assets.

Participating schools are segmented into three cohorts based on asset size. The size categories and the number of organizations in each are shown in Figure 1.1, while the composition of the participating schools by type is shown in Figure 1.2.

CSIS LEADERS

- The average return for schools reporting return data in this year's Study was 5.7 percent. For the top decile, however, the average return was 11.2 percent and top quartile reported a return of 9.4 percent, as shown in Figure 1.4. This makes the CSIS Leaders' returns 50.0 percent and 39.4 percent higher than the average, respectively. For the top quartile, this is a wider spread than was reported a year ago, when the return differential was 26.7 percent. For the top decile, the FY2018 differential was 48.6 percent, i.e., basically in-line with FY2019's 50.0 percent.

- The biggest difference in asset allocation between Total Schools and CSIS Leaders was in U.S. equities as shown in Figure 1.5. All participating schools reported this allocation at an average of 29 percent, while the top decile

Figure 1.1 **Schools by Size**

Large	Total assets over $50 million	64
Mid-size	Total assets between $10-$50 million	118
Small	Total assets under $10 million	68
Total Schools		250

Figure 1.2 **Schools by Type**

Day school (include international boarding)	172
Day/Boarding school (less then 50% boarding)	27
Boarding/Day school (less than 50% day)	36
Boarding school	5
Other	10
Total Schools	250

reported a 52 percent allocation and the top quartile a 44 percent allocation. CSIS Leaders would have been helped, in particular, by strong returns from large cap U.S. stocks (10.4 percent, as measured by the S&P 500 Index). The top decile also had a lower allocation to non-U.S. equities, which lagged in FY2019 (a return of 1.3 percent, as measured by the MSCI World Ex-U.S. Net Index).

- Over all longer periods, the one-year return differential between all reporting schools and the Benchmark Leaders narrowed significantly. In the case of 10-year returns, the spread between the Study universe was zero—with all participants and the top decile at 8.1 percent, the top quartile outperformed both with an average annual return of 8.8 percent. The top decile and top quartile both reported higher average annual returns for trailing three- and five-year periods.

Figure 1.3 **Top Decile and Top Quartile Performers* by Size**

	Total Schools	Top Decile	Top Quartile
	250	26	63
Over $50 million	64	4	9
$10-$50 million	118	12	27
Under $10 million	68	10	27

* based on reported returns for fiscal year 2019

Figure 1.4 **Average Net Returns for Top Decile and Top Quartile Performers**

numbers in percent (%)	Total Schools	Top Decile	Top Quartile
	250	26	63
FY2019 net annual total return	5.7	11.2	9.4
3-year net return	8.4	10.4	9.9
5-year net return	5.6	7.7	7.0
10-year net return	8.1	8.1	8.8

Figure 1.5 **Asset Allocation* for Top Decile and Top Quartile Performers**

numbers in percent (%)	Total Schools	Top Decile	Top Quartile
	250	26	63
U.S. equities	29	52	44
Fixed income	14	15	17
Non-U.S. equities	21	12	15
Alternative strategies	32	15	19
Short-term securities/cash/other	4	6	5

* dollar-weighted
Note: Equal-weighted asset allocation tables may be found in Appendix II on page 21.

Chapter 2
Returns and Investment Objectives

INVESTMENT ENVIRONMENT

At first glance, returns generated by key benchmarks in fiscal years 2019 and 2018 suggest the two periods were relatively similar, with the clear exception being fixed income. As was true in FY2018, venture capital and private equity generated the highest returns in FY2019. Also, in both years, U.S. equities generated the second-highest returns. However, a closer look reveals that in FY2019 returns were generally lower than in FY2018 (as noted, fixed income being the exception). Two areas where returns declined significantly were non-U.S. equities and marketable alternatives, as the summary of key benchmarks below indicates. Ultimately, despite topline similarities, the two fiscal years were dramatically different from each other.

Benchmark	FY2019 Return	FY2018 Return
S&P 500 Index	10.4	14.4
MSCI World ex-U.S. Index	1.3	7.0
HFRI Fund of Funds Composite Index	1.2	5.2
Burgiss Private IQ – VC and PE Index	12.6	17.9
Bloomberg Barclays U.S. Aggregate Bond Index	7.9	-0.4

In the U.S., three of the fiscal year's quarters generated positive returns for equities. In fact, the third fiscal quarter (first calendar quarter of 2019), the S&P 500 rose a solid 13.7 percent. This would be considered a good full-year return in just a quarter's time. The culprit dragging fiscal year returns lower was the previous quarter—October 2018 through December 2018, when the S&P 500 declined 13.6 percent to produce the poorest three-month return since the financial crisis of 2007-2009. The move seemed to come as a surprise as the three previous quarters in calendar 2018 produced positive returns and investor sentiment seemed favorable. Economic data was uniformly positive. A strong labor market in the U.S. resulted in an unemployment rate of 3.8 percent. Consumer spending and corporate earnings were strong and inflation remained muted, which was reflected in soft commodity prices and labor costs. Real GDP in the April-June quarter grew at a 4.1 percent annual rate, its best since 2014. However, beneath the surface lurked concerns. The first was a growing belief that in raising the Fed Funds rate four times in 2018 the Federal Reserve may have gone too far. After passage of the Tax Cut and Jobs Act in December 2017, it was anticipated that corporations' capital spending would ramp up—but it never materialized to the expected level. The trade dispute between the U.S. and China seemed to escalate with each new pronouncement from Washington or Beijing; and the U.S. government went into its longest shutdown ever. In Europe, Brexit muddled on without resolution and economies on the continent exhibited a distinct absence of growth. Then, almost as quickly as the sell-off occurred the risk markets reversed, leading to the strong third fiscal quarter followed by the final fiscal quarter advance of 4.3 percent for the S&P 500 and a full fiscal year return of 10.4 percent.

Regarding the S&P 500, it should be noted that large-cap stocks—especially growth style stocks—generated the best performance in the fiscal year while small-cap, mid-cap and value style equities failed to keep pace.

DEVELOPED MARKETS EX-U.S. LAG

In international developed markets, Europe underperformed the U.S. due to persistent weakness in manufacturing, particularly in Germany, as well as Brexit risks. As the European Central Bank scrambled to stimulate growth and inflation, interest rates moved into negative territory. Political fragmentation across Europe reduced the ability to build either coordinated fiscal stimulus or meaningful structural reform. Both Europe and developed Asian economies ex-Japan were held back due to concerns that the ongoing trade dispute between China and the U.S. would leave their export-reliant economies vulnerable to the trade wars.

Among emerging markets, China has been a key contributor to the global economy over the last two decades, but this growth has come at a cost, namely, asset bubbles due to unconstrained debt growth. China is among the most indebted nations in the world. While the Chinese government is taking steps to contain its debt growth, it will take time and in the interim China may be forced to deal with bank failures if companies default on bad loans—something that has not occurred in two decades in China. In addition, China faces the problem of deflation—which makes the repayment of outstanding debt more burdensome. It is interesting to note that while China is now the world's second largest economy, it is still classified as an emerging market. The reason is that it remains a relatively closed economy. Until it resolves its balance sheet problems, opens its market to foreign investors and achieves a sustained normalized growth rate, China may not move from "emerging market" status to a developed market.

FIXED INCOME RETURNS STRONG

In contrast to the previous fiscal year, U.S. fixed income returns were strong in FY2019, with the Bloomberg Barclays U.S. Aggregate Bond Index generating a return of 7.9 percent versus -0.4 percent in FY2018. Economic concerns—principally, the U.S.-China trade dispute and fears of recession—were good news for bond investors. Interest rates declined and bond prices rose, especially in the latter part of the fiscal year. In the first half of the fiscal year, rates generally rose with the yield on 10-year Treasury notes hitting a seven-year high in October and, as previously mentioned, the Federal Reserve raising short-term rates four times during calendar 2018. In March and May of 2019, a potentially negative signal emerged when the yield curve inverted, with the yield on three-month Treasury bills commanding a slightly

One-, Three-, Five- and 10-year Returns for Periods Ending June 30, 2019

numbers in percent (%)

Index	1-Year	3-Year	5-Year	10-Year
S&P 500	10.4	14.2	10.7	14.7
Russell 3000	9.0	14.0	10.2	14.7
MSCI ACWI	5.8	11.6	6.2	10.1
MSCI World ex-U.S.	1.3	9.3	2.0	6.7
MSCI Europe*	4.5	8.6	5.1	9.2
MSCI Emerging Markets Free Net	1.2	11.2	2.5	5.8
Burgiss Private IQ†	12.6	15.3	12.0	14.4
Bloomberg Barclays US Aggregate Bond	7.9	2.5	3.0	3.9
HFRI Distressed Debt	0.2	6.8	1.6	6.3
HFRI Funds of Funds Composite	1.2	4.2	2.2	3.2
NCREIF	6.5	6.9	8.8	9.2
Wilshire Real Estate Securities	9.8	3.7	7.6	15.3
Bloomberg Commodity	-6.8	2.4	-9.3	-3.7
3-Month Treasury Bill (Average Yield)	2.3	1.4	0.9	0.5

*local currency
†Venture Capital and Private Equity Point-to-Point group median IRRs calculated through Burgiss Private IQ.
Sources: Bloomberg, Burgiss Private IQ

higher yield than that of 10-year notes. By fiscal year-end, however, rates eased for most maturities even though the curve remained inverted (its normal shape was restored later in 2019 as the Federal Reserve stepped up its interest rate reductions and fears of recession dissipated).

Among alternative strategies, private equity and venture capital provided the better returns in FY2019, at 12.6 percent according to the Burgiss benchmark, but could not keep pace with the strong 17.9 percent generated in FY2018. Private strategies in general were hurt by the public equity market contraction in latter 2018. Hedge funds, as measured by the HFRI Fund of Funds Composite Index, were among the year's laggards, with a return of 1.2 percent. Hedge managers in general were also hurt by the equity market sell-off in latter 2018, and many were slow to re-enter the market in early 2019, thus missing the strong rebound.

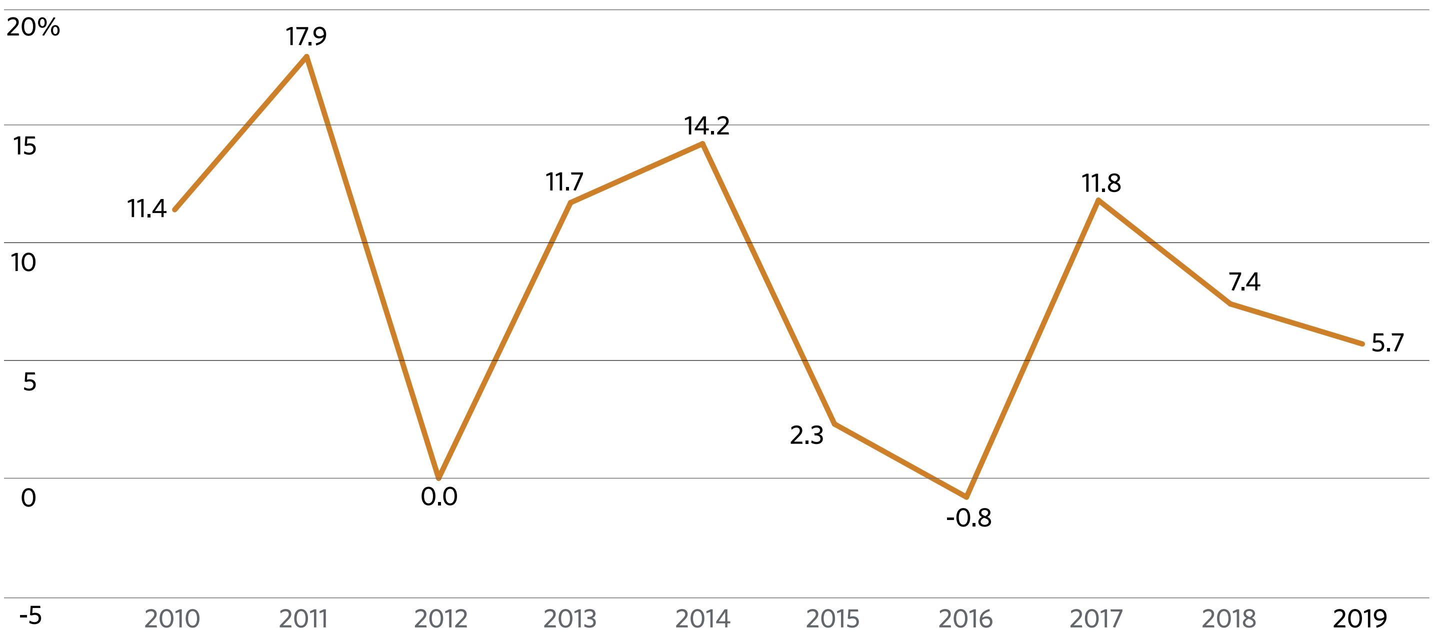
INVESTMENT RETURNS

Among Total Schools participating in the CSIS for FY2019, returns averaged 5.7 percent, representing a decline from FY2018 when they averaged 7.4 percent. These two-year returns compare with 11.8 percent reported for FY2017; -0.8 percent reported for FY2016; and 2.3 percent reported for FY2015. In the span of this five-year period, FY2019's 5.7 percent return falls squarely in the middle, with fiscal years 2017 and 2018 producing higher returns and fiscal years 2015 and 2016 resulting in lower returns.

Trailing three-year returns rose to an average of 8.4 percent as FY2016's -0.8 percent return dropped off the calculation. Trailing five-year returns averaged 5.6 percent, down from last year's 7.3 percent; returns for three of those five years (fiscal 2015, 2016 and 2019) averaged just 2.4 percent. Ten-year returns got a boost to 8.1 percent from 5.5 percent a year ago when FY2009's -18.0 percent return dropped out of the calculation.

Figure 2.1 **Average Annual Total Net Returns for Total Schools for Fiscal Years 2010-2019**

numbers in percent (%)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Schools	118	122	133	139	142	175	211	213	223	250

Figure 2.2 **Average One-, Three-, Five- and 10-Year Net Returns**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
FY2019 net annual total return	5.7	5.1	5.7	6.2
3-year net return	8.4	8.4	8.5	8.1
5-year net return	5.6	5.4	5.7	5.6
10-year net return	8.1	8.0	8.2	7.8

Note: One hundred percent of the 250 participating independent schools provided return data for the 2019 fiscal year. For the trailing three-year period, 89 percent (223 schools) provided return data; for the trailing five-year period, 82 percent (205 schools) provided return data; and for the trailing 10-year period, 64 percent (161 schools) provided return data

Year-over-year returns were lower for schools in all three size cohorts. Schools with assets over $50 million reported returns averaging 5.1 percent in FY2019, down from 8.2 percent in FY2018. For schools with assets between $10 and $50 million, returns fell to 5.7 percent from 7.4 percent, while schools with assets under $10 million reported returns averaging 6.2, unchanged year over year.

Three- and five-year returns were mixed across the size cohorts, but 10-year returns rose for all three. Schools with assets over $50 million saw their 10-year return increase to 8.0 percent from 6.3 percent; schools with assets between $10 and $50 million saw an increase to 8.2 percent from 5.5 percent; and those with assets under $10 million saw the greatest improvement, a 340-basis-point increase to 7.8 percent from 4.4 percent.

Return spreads among the three size cohorts often narrow as the timeframe increases and that was the case again this year. Across the size categories, the FY2019 return spread (high to low) was 110 basis points. Longer-term return spreads were remarkably consistent: 40 basis points for the trailing three years, 30 basis points for the trailing five years and 40 basis points for the trailing 10 years.

Chapter 3
Asset Allocation

FY2019 average asset allocation among the Total Schools group stood at: 32 percent, alternative strategies (33 percent in FY2018); 29 percent, U.S. equities (28 percent); 21 percent, non-U.S. equities (21 percent); 14 percent, fixed income (14 percent); and 4 percent short-term securities/cash/other (4 percent).

Schools with assets over $50 million had by far the largest allocation to alternative strategies—39 percent versus 13 percent for schools with assets between $10 and $50 million and 6 percent for those with assets under $10 million.

The latter size cohort of smaller endowments reported the largest allocations to U.S. equities and fixed income, 44 percent and 29 percent, respectively.

Schools with assets over $50 million reported the largest allocation to non-U.S. equities, but just two percentage points larger than that of schools in the mid-sized cohort.

Schools in the largest cohort reported an allocation of 4 percent to short-term securities/cash/other, while those in the mid-sized and smallest cohorts reported 5 percent allocations.

For FY2019, the predominant alternative strategies allocation continues to be marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives). This allocation accounted for 17 percent of all schools' alternatives allocation, down slightly from 18 percent a year ago. It was largest, at 20 percent for schools with assets over $50 million and smallest, at 3 percent, for schools with assets under $10 million.

The next-largest allocation, at 6 percent was to private equity (LBOs, mezzanine, M&A funds and international private equity). Only schools with assets over $50 million had a meaningful allocation to this strategy, at 7 percent. Mid-size schools allocated 3 percent and smaller schools just 1 percent.

Venture capital accounted for 3 percent of the alternatives allocation; energy and natural resources and private equity real estate (non-campus), 2 percent each; and commodities and managed futures and distressed debt, 1 percent each.

NOTE: The asset allocation tables that follow are dollar-weighted. Equal-weighted asset allocation tables, may be found in Appendix II on page 21.

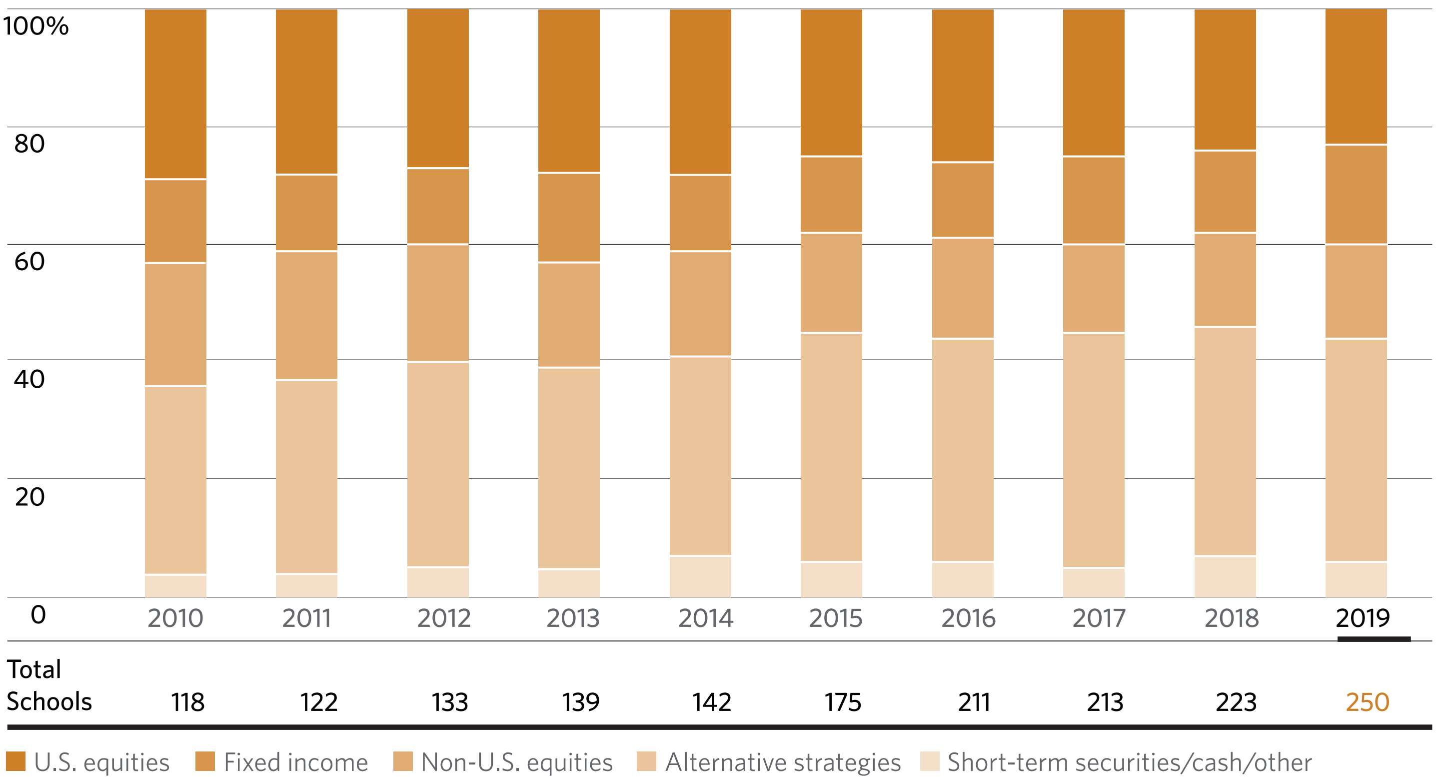
Figure 3.1 Asset Allocations* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
U.S. equities	29	25	40	44
Fixed income	14	11	23	29
Non-U.S. equities	21	21	19	16
Alternative strategies	32	39	13	6
Short-term securities/cash/other	4	4	5	5

*dollar-weighted

Figure 3.2 **Asset Allocations for Total Schools for Fiscal Years 2010-2019**

numbers in percent (%)



*dollar-weighted

Figure 3.3 **Alternative Strategies Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Type of investment strategy				
Private equity (LBOs, mezzanine, M&A funds and international private equity)	6	7	3	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	17	20	6	3
Venture capital	3	3	1	0
Private equity real estate (non-campus)	2	3	1	2
Energy and natural resources	2	3	1	0
Commodities and managed futures	1	1	1	0
Distressed debt	1	2	0	0

*dollar-weighted

Viewpoint
Responsible Investing: Evolution, Not Resolution

In recent years, responsible investing has received mounting levels of attention from all quarters of the investment management field, from institutional investors large and small to global asset managers to reporting and analytical service providers, not to mention organizations whose mission it is to promulgate responsible investing. Many of their comments and study results have found their way into the media, keeping the industry's attention riveted on the subject and raising visibility among the investing public.

Responsible investing is not new. In the U.S., its roots go back to the colonial era and a century ago (1921) the first mutual fund to screen out investments in tobacco, alcohol and gambling began operations. In the 1960s, socially responsible investing, or SRI, surfaced in powerful movements that included civil rights, the environment, feminist issues and antiwar protests. The 1970s and '80s saw a focus on environment (e.g., chemicals seeping into Love Canal in Buffalo, New York, and the Exxon Valdez oil spill) and apartheid in South Africa. In this century, malfeasance in governance was the focus of cases like WorldCom and Enron that led to the passage of the Sarbanes-Oxley Act in 2002. In part because of the widespread adoption of the Principles for Responsible Investment—originally promulgated by the United Nations—responsible investing has become a global initiative. Melting icecaps, plastics ingested by fish and fires in Australia keep topics related to responsible investing in the media on a daily basis.

Responsible investing has broadened its scope from the days when screening out or prohibiting certain investments deemed to be inconsistent with institutional mission was the primary tool for expressing social concerns. Today, implementing environmental, social and governance criteria, or ESG, gives investors a more flexible way to integrate responsible investing into their investment policies. (See the accompanying sidebar for definitions of the most widely-practiced approaches to responsible investing.)

Definitions of Responsible Investing Practices

Socially responsible investing (SRI): A portfolio construction process that attempts to avoid investment in certain stocks or industries through negative screening according to defined ethical guidelines.

Impact investing: Investment in projects, companies, funds or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return.

Environmental, social and governance (ESG): An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

Divestment of fossil fuel: A type of exclusionary screening strategy through which investors actively exclude companies involved with fossil fuels from their investment portfolio.

Diverse/Minority managers: An active effort to identify and invest with women and minority managers investing in equities, fixed income and credit, private equity and venture, real estate and hedge funds. Diverse managers are defined as firms with 33 percent or more ownership by women, people of black or African American, Latino/Hispanic, Asia, Native American or Pacific Islander descent, veterans and/or people with disabilities.

Among the metrics underscoring the growth of responsible investing, assets managed in accord with responsible investment principles is frequently cited. This figure, according to Bloomberg.com, grew to $30.7 trillion in 2019.

Figure VP.1 **Currently Required/Permitted Responsible Investing Practices***

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
Seek to include investments ranking high on ESG criteria				
Yes	6	6	4	10
No	70	81	75	53
No answer/uncertain	24	13	21	37
Exclude or screen out investments inconsistent with school's mission				
Yes	9	8	6	15
No	68	80	73	50
No answer/uncertain	23	12	21	35
Allocation portion of endowment to investments that further school's mission				
Yes	3	2	3	4
No	73	84	75	59
No answer/uncertain	24	14	22	37
Seek to include investments with diverse managers				
Yes	4	5	3	3
No	73	81	75	62
No answer/uncertain	23	14	22	35

**multiple responses allowed*

First CSIS Inquiry into Responsible Investing

In its various studies of the investment management and governance policies and practices of nonprofit schools, Commonfund Institute has inquired about the adoption of responsible investing. This year, for the first time, we included a suite of questions about this topic in this study.

What we found is that responsible investing is a presence in the endowment management policies of many independent schools, but those actively practicing it remain a distinct minority. This is consistent with what we have found in Benchmarks Studies of other markets in the nonprofit sector—foundations and nonprofit healthcare organizations, for example—although rates of adoption can and do vary widely among individual schools.

Figure VP.1 is representative of the current status of responsible investing among independent schools. Among all participants in the 2019 CSIS:

- Six percent seek to include investments ranking high on ESG criteria, while 70 percent say they do not.
- Nine percent seek to exclude or screen out investments inconsistent with the school's mission, while 68 percent say they do not.
- Only 3 percent allocate a portion of the endowment to investments that further the school's mission, while 73 percent do not.
- And only 4 percent actively seek to invest with diverse investment management firms, while 73 percent say they do not.

Figure VP.2 **Investment Committee Discussions of ESG, SRI, Impact Investing or Diverse Managers in 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	176	52	88	36
ESG				
Yes	23	27	26	8
No	68	67	63	83
Uncertain/no answer	9	6	11	9
Responding schools	171	51	86	34
SRI				
Yes	23	24	27	12
No	69	73	63	79
Uncertain/no answer	8	3	10	9
Responding schools	183	54	89	40
Impact investing				
Yes	9	9	11	5
No	79	80	76	85
Uncertain/no answer	12	11	13	10
Responding schools	182	52	88	42
Diverse managers				
Yes	12	15	13	5
No	78	75	77	83
Uncertain/no answer	10	10	10	12

**multiple responses allowed*

Figure VP.1 shows some variability among the size cohorts, as is to be expected. For example, 10 percent of schools with assets under $10 million say they seek to include investments ranking high on ESG criteria, roughly two times greater than the other size cohorts. These smaller schools also exclude or screen out investments that are inconsistent with institutional mission at a greater rate than the other two size cohorts. But they are the only two areas in which the rate of adoption of some form of responsible investing reaches the double-digit threshold.

Another point of inquiry reveals a situation that has been found in other studies: Namely, that while an official policy action may have been taken by relatively few independent schools, a larger percentage of boards or committees have actively discussed responsible investing. As Figure VP.2 shows, 23 percent of participating independent schools say they have discussed ESG and/or SRI. The figure is lower for impact investing, at 9 percent, and for investing with diverse managers, at 12 percent. And, once again, the frequency with which these topics are discussed by trustees varies across the size cohorts. But responsible investing is clearly an ongoing topic of discussion.

Further to the previous point, Figure VP.3 shows that various forms of responsible investing are being considered for adoption within the next 12 months. Ten percent of respondents say they are considering ESG, 8 percent are considering SRI, 5 percent are considering impact investing and 6 percent are considering investing with diverse managers. In the case of schools with assets over $50 million, 17 percent are considering adoption of ESG within 12 months and 12 percent are considering SRI.

Fossil fuel divestment is a topic that receives media coverage, especially on some college campuses in the form of student protests or various student/faculty resolutions calling for divestment, with such actions often be driven by the need to combat global warming. However, data gathered in the 2019 CSIS show this subject is seemingly receiving little attention among independent schools.

Figure VP.3 **Considering Adding ESG, SRI, Impact Investing or Diverse Managers to IPS in the Next 12 Months**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	176	52	88	36
ESG				
Yes	10	17	8	6
No	59	62	59	56
Uncertain/no answer	31	21	33	38
Responding schools	171	51	86	34
SRI				
Yes	8	12	6	6
No	64	69	64	59
Uncertain/no answer	28	19	30	35
Responding schools	183	54	89	40
Impact investing				
Yes	5	6	4	5
No	67	72	66	63
Uncertain/no answer	28	22	30	32
Responding schools	182	52	88	42
Diverse managers				
Yes	6	8	6	5
No	66	71	67	60
Uncertain/no answer	28	21	27	35

**multiple responses allowed*

Two percent of responding schools say they have divested of publicly-traded fossil fuel investments and an equal 2 percent say they have divested of private investments in the fossil fuel industry. Among the size cohorts, percentages are also low, although highest among schools with assets under $10 million.

On the subject of new managers' commitments to integrating ESG into their investment process, 71 percent of participating schools replied that it was neither important nor unimportant. A combined 17 percent said it was important/very important, while a combined 10 percent said it was not at all important or unimportant.

Conclusion

Responsible investing practices are increasingly making their way into the investment policies and practices of nonprofit schools, but the rate of formal adoption seems tepid. As is true in other areas of the nonprofit sector, independent school investment committees are discussing the topic and we expect this will continue. The entire field of responsible investing is maturing rapidly, however, and challenges of the past are being addressed; these include a lack of standards, added complexity in reporting, the lack of investment vehicles needed to provide acceptable portfolio diversification and empirical evidence that potential returns are not being negatively impacted.

Figure VP.4 **Divesting Certain Fossil Fuel Exposures from Endowment**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
Public Traded Securities				
Yes	2	2	2	4
No	78	81	78	75
Partial	0	0	1	0
Uncertain/no answer	20	17	19	21
Private Investments				
Yes	2	0	1	4
No	78	81	79	75
Partial	0	0	1	0
Uncertain/no answer	20	19	19	21

Figure VP.5 **Importance of New Managers' Commitment to ESG Integration into Their Investment Process**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
Not At All Important	5	6	5	4
Unimportant	5	6	5	3
Neither inportant or unimportant	71	72	73	68
Important	15	13	14	19
Very Important	2	0	2	3
No answer	2	3	1	3

Chapter 4
Fund Flows

Participating schools reported an average annual effective spending rate of 3.7 percent for FY2019, down modestly from 3.8 percent in FY2018 and 3.9 percent in FY2017. The FY2019 was level with the rate reported in FY2016 and up slightly from 3.6 percent in FY2015.

As we pointed out in last year's Viewpoint analysis of trends over the past decade, the average annual effective spending rate among participating independent schools fell below the 4.0 percent mark in FY2014 and has stayed there ever since. The average effective spending rate for the previous five years (FY2009 – FY 2013) was 4.0 percent or more and topped out at 4.6 percent in FY2010.

After FY2017's 11.8 percent return, the past two fiscal years have produced more modest gains of 7.4 percent and 5.7 percent. On that basis, the effective annual spending rate—while not as high as in earlier years—appears to be holding up.

For FY2019, schools with assets over $50 million spent at the highest rate, 4.0 percent, which was unchanged year over year. Those with assets between $10 and $50 million spent at a rate of 3.8 percent (3.9 percent last year) while schools with assets under $10 million spent at a 3.2 percent rate, also unchanged.

As has been true in the past, the most frequently used methodology among participating schools in FY2019 was to spend a percentage of a moving average of endowment value. Sixty-four percent of Study respondents reported using this method, with the average spending rate being 4.3 percent. More than 70 percent of the two largest size cohorts used the moving average method, while slightly less than half of the smaller size cohort did so.

Figure 4.1 **Average Annual Effective Spending Rates for Fiscal Year 2019**

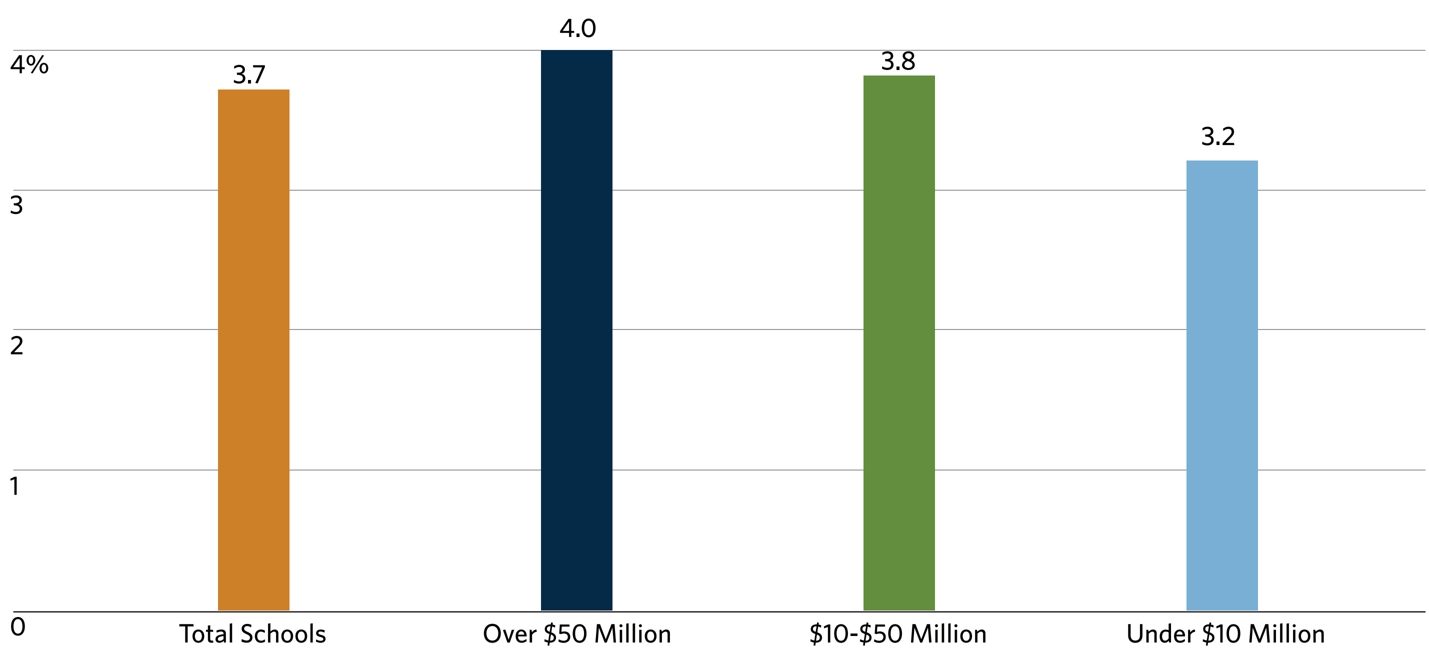


Figure 4.2 **Spending Policy* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Spend all current income	1	0	1	1
Percentage of a moving average	64	73	72	43
Average percentage	4.3	4.5	4.3	4.2
Decide on an appropriate rate each year	16	8	13	28
Grow distribution at predetermined inflation rate	0	2	0	0
Spend a pre-specified percentage of beginning market value	4	2	3	9
Average pre-specified percentage spent	4.8	†	†	†
Last year's spending plus inflation with upper and lower bands	2	2	3	0
Weighted average or hybrid method (Yale/Stanford rule)	10	14	8	7
Other	12	11	14	7

*multiple responses allowed
†sample size too small to analyze

Sixteen percent of participating schools decided on an appropriate spending rate each year, up from 12 percent a year ago. We note that this particular approach to spending has fluctuated over the past decade, reaching highs of 22 percent and 19 percent of responding schools in FY2014 and FY2015, respectively, and a low of 7 percent in FY2012. Before the current fiscal year's increase to 16 percent, this methodology had been in a stable period at 12 percent for three consecutive years.

Schools with assets under $10 million most frequently decided on an appropriate rate each year—28 percent, up markedly from 18 percent in last year's Study. Just 8 percent of the largest schools use this approach. Further to the discussion in the preceding paragraph about this methodology, schools with assets under $10 million have used this approach most frequently over the past decade, including fiscal years 2015 and onward. But in the three-year period of fiscal years 2012, 2013 and 2014 the largest schools were the most frequent users. Mid-range schools have consistently fallen into the middle ground when it comes to use of this approach.

Ten percent of participating schools used the weighted average or hybrid method (the Yale/Stanford rule), up from 7 percent a year ago. This approach was practiced most frequently by schools with assets over $50 million. Just 1 percent of all respondents reported spending all current income, a decline from 3 percent last year.

SPENDING POLICY ACTUAL PRACTICES

The vast majority of independent schools reported following their spending policy in FY2019. Eighty-seven percent reported doing so, while 9 percent reported making excep-

Figure 4.3 **Spending Policy* for Actual Practices for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Followed spending policy	87	92	86	84
Made exceptions or suspending spending policy	9	6	10	9
Changed spending policy	10	11	9	9

*multiple responses allowed

Lower Gifts to Endowment: Return to Normal or Worrisome Trend?

As noted in the narrative, CSIS participants reported average gifts to endowment of $1.5 million in FY2019 compared to an average of $1.8 million in FY2018 and $2.1 million in FY2017. This represents a decline of nearly 30 percent over the two-year span and may bear watching in the future. The declines are not what one would expect as they come at a time when the economy and financial markets have been steady. It is possible that year-end giving in calendar 2018 (second fiscal quarter of FY2019) was negatively impacted by the sharp sell-off in the equity market. It is also possible that the Tax Cuts and Jobs Act of 2017—which effectively doubled the standard deduction, and in so doing eliminated the charitable deduction for millions of taxpayers who no longer itemize their tax returns—is having a negative effect on charitable giving. Looking back, giving was lower in the first half of the past decade, a development that can be traced to the lingering effects of the 2007-2009 market collapse and Great Recession. In FY2014 and FY2015, new gifts to endowment averaged $1.4 million before rising to $1.6 million in FY2016 and $2.1 million in FY2017. It is possible that those two years were outliers and that average new gifts like FY2019's $1.5 million merely represent a return to normal .

tions or suspending their policy. Ten percent reported changing their spending policy (multiple answers were allowed). By size cohort, 92 percent of the larger schools reported following their spending policy compared with 86 percent for schools in the mid-sized cohort and 84 percent for schools with assets under $10 million.

CALCULATION PERIOD FOR MOVING AVERAGE OF SPENDING POLICY IN FY2019

Among schools using the moving average method of calculating annual spending, 47 percent said they use 12 quarters as the calculation period followed by 31 percent that said they use three years. All other calculation periods were below 10 percent in rate of usage. When data are viewed by size, schools in all three cohorts most frequently used 12 quarters as the calculation period.

GIFTS TO ENDOWMENT

Among the Total Schools group, new gifts to endowment averaged $1.5 million in FY2019, while the median gift was $0.6 million. The average gift was lower than last year's $1.8 million while the median gift was unchanged. Both gift levels were lower in comparison to FY2017, when, respectively, they were $2.1 million and $0.9 million.

Among schools with more than $50 million in assets, the average total of new gifts was $3.5 million and the median was $1.8 million. Once again, both are lower than last year respective figures of $4.3 million and $2.5 million.

For schools in the mid-sized cohort, new gifts rose, reaching an average of $1.1 million from last year's $0.9 million and a median of $0.5 million compared with $0.4 million in FY2018.

Schools with assets under $10 million reported average new gifts averaging $0.2 million, down from the prior year's $0.3 million, and median gifts of $0.1 million, unchanged year over year.

Figure 4.4 **Calculation Period for Moving Average of Spending Policy for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
Responding schools	161	47	84	30
3 years	31	21	35	37
12 quarters	47	51	45	46
5 years	3	0	6	0
20 quarters	8	13	7	3
16 quarters	2	0	1	7
Other	9	15	6	7
Non answer/uncertain	0	0	0	0

Figure 4.5 **New Gifts to Endowment for Fiscal Year 2019**

dollars in millions ($)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Average gifts	1.5	3.5	1.1	0.2
Median gifts	0.6	1.8	0.5	0.1

Figure 4.6 **Percentage of Operating Budget Supported by Annual Giving for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Average percentage of operating budget supported by annual giving	7.6	10.0	6.7	6.9
Median percentage of operating budget supported by annual giving	6.1	8.0	6.0	4.9

Figure 4.7 **Percentage of Operating Budget Funded from Endowment for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Average percentage of operating budget funded from endowment	6.3	14.0	4.9	1.4
Median percentage of operating budget funded from endowment	4.0	11.3	3.8	1.0

Operating Budget Support

Participating schools reported that an average of 6.3 percent of their operating budget was funded by the endowment in FY2019, a decline from FY2018's 6.8 percent. Data viewed by size cohort varied widely. Schools with assets over $50 million funded 14 percent of their operating budget from the endowment, while at the opposite end of the spectrum schools with assets under $10 million relied on the endowment to fund just 1.4 percent of their operating budget. Schools with assets between $10 and $50 million funded an average of 4.9 percent of their operating budget from their endowment.

Data also showed that an average of 7.6 percent of the operating budgets of participating schools was funded by annual giving in FY2019, down slightly from last year's 7.8 percent. Once again, the largest schools reported the highest rate of budget support from annual giving, 10.0 percent. The other two size cohorts were similar: 6.9 percent for smaller schools and 6.7 percent for mid-sized schools.

Chapter 5
Management and Governance

Among the Total Schools group, the average number of voting members on investment committees during FY2019 was 7.0, a decrease compared with 7.3 last year and 7.1 reported for FY2017.

Schools with assets over $50 million had the same number of voting members this year as last, an average of 8.5. The other two size cohorts reported smaller investment committees: an average of 6.9 voting members for schools with assets between $10 and $50 million, down from 7.2 a year ago, and an average of 5.8 voting members for schools with assets under $10 million, down from 6.3 last year.

Participating schools reported that on average 4.5 members of their investment committee were investment professionals, a modest decrease compared to last year's average of 4.7. Schools reported that an average of 3.2 committee members had experience with alternative investments, again a modest decrease from 3.4 a year ago. The average number of non-trustee voting members on investment committees also declined, averaging 1.7 versus 2.0 in FY2018.

Schools with assets over $50 million had the greatest number of committee members who were investment professionals, an average of 6.8.

Figure 5.1 **Voting Members on Investment Committee for Fiscal Year 2019**

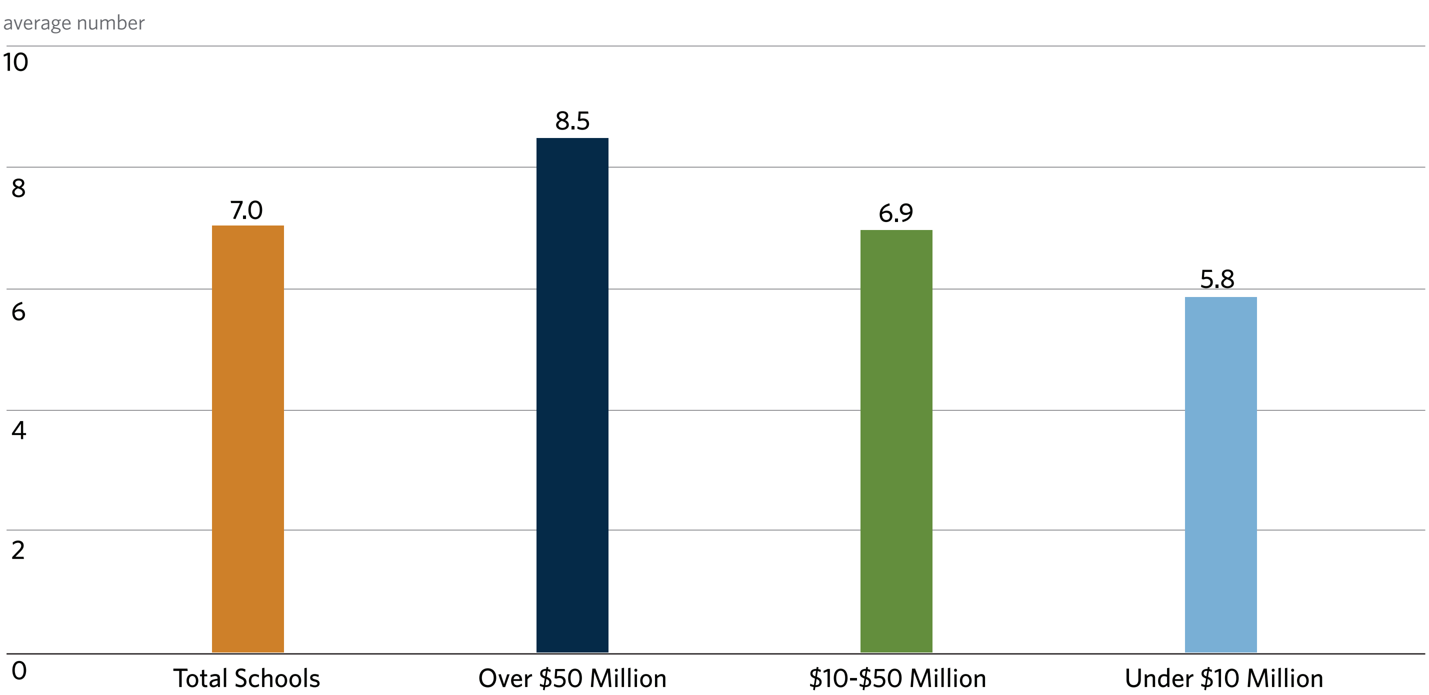
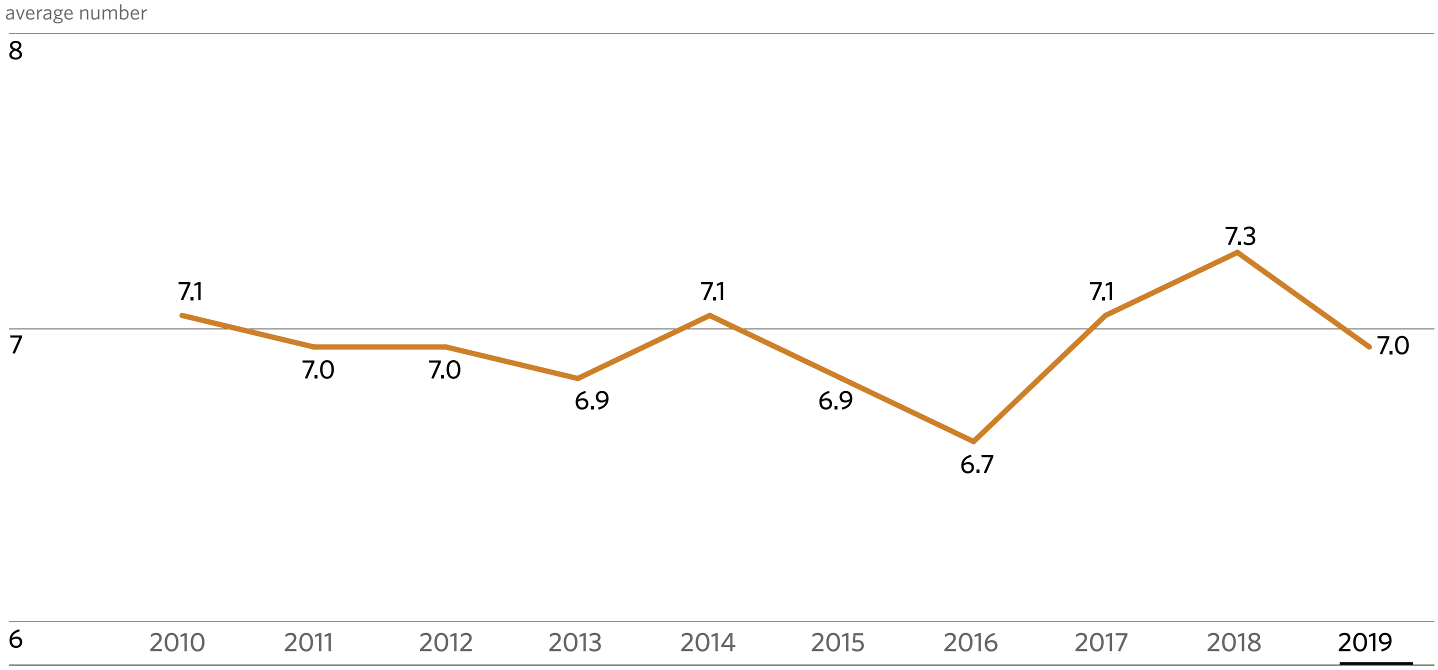


Figure 5.2 **Voting Members on Investment Committee for Fiscal Years 2010-2019**



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Schools	118	122	133	139	142	175	211	213	223	250

Figure 5.3 **Investment Committee Credentials for Fiscal Year 2019**

average number	Total Schools	Over $50 Million	$10-$50 Million	Under $10 Million
	250	64	118	68
Investment committee members that are investment professionals	4.5	6.8	4.4	2.7
Investment committee members with alternatives experience	3.2	5.0	3.0	1.9
Non-trustee voting members	1.7	2.1	1.8	1.3

APPENDICES

Appendix I

About Commonfund, Commonfund Institute and the National Business Officers Association

COMMONFUND

Commonfund was founded in 1971 as an independent asset management firm with a grant from the Ford Foundation. Together with or through its affiliates, Commonfund today manages customized investment programs for endowments, foundations and public pension funds. Among the pioneers in applying the endowment model of investing to institutional portfolios, we provide extensive investment flexibility using independent investment sub-advisers for discretionary and non-discretionary outsourcing engagements. Investment programs incorporate active and passive strategies in equities and fixed income, hedge funds, real assets and private capital. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

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. 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.

NATIONAL BUSINESS OFFICERS ASSOCIATION

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 1,400 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.

Appendix II
Supplemental Tables

The selected tables below are showing equal-weighted data, meaning each response has an equal impact on the average, regardless of the size of the respondent.

Figure 1.5EW **Asset Allocation* for Top Decile and Top Quartile Performers**

numbers in percent (%)	Total Schools	Top Decile	Top Quartile
	250	26	63
U.S. equities	29	52	44
Fixed income	14	15	17
Non-U.S. equities	21	12	15
Alternative strategies	32	15	19
Short-term securities/cash/other	4	6	5

* dollar-weighted

Figure 2.3 **Fiscal Year 2019 One-Year Returns by Decile and Quartile**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
Deciles				
90th percentile	9.0	8.4	9.0	9.6
80th percentile	7.9	6.8	7.6	8.3
70th percentile	6.6	5.6	6.3	7.8
60th percentile	6.0	5.0	5.9	7.1
50th percentile (median)	5.2	4.8	5.2	6.4
40th percentile	4.7	4.3	4.7	5.2
30th percentile	4.2	3.8	4.3	4.6
20th percentile	3.6	3.5	3.7	3.7
10th percentile	2.8	2.9	2.9	2.5
Quartiles				
75th percentile	7.1	6.1	6.8	8.0
50th percentile (median)	5.2	4.8	5.2	6.4
25th percentile	3.9	3.6	4.0	4.2

Figure 3.1EW Asset Allocations* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
U.S. equities	38	30	41	42
Fixed income	23	14	24	29
Non-U.S. equities	18	21	19	15
Alternative strategies	15	31	11	6
Short-term securities/cash/other	6	4	5	8

*equal-weighted

Figure 3.2A Alternative Strategies Asset Mix* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	177	61	88	28
Type of investment strategy				
Private equity (LBOs, mezzanine, M&A funds and international private equity)	18	18	21	18
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	51	51	50	47
Venture capital	8	9	5	2
Private equity real estate (non-campus)	8	7	9	26
Energy and natural resources	7	7	9	1
Commodities and managed futures	4	4	5	2
Distressed debt	4	4	1	4

*dollar-weighted

Figure 3.2AEW **Alternative Strategies Asset Mix* for Fiscal Year 2018**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	177	61	88	28
Type of investment strategy				
Private equity (LBOs, mezzanine, M&A funds and international private equity)	19	20	20	15
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	48	48	48	50
Venture capital	4	6	2	2
Private equity real estate (non-campus)	14	13	13	22
Energy and natural resources	7	5	10	0
Commodities and managed futures	5	3	6	7
Distressed debt	3	5	1	4

*equal-weighted

Figure 3.3 **U.S. Equity Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	247	63	118	66
Type of investment strategy				
Active	57	60	50	56
Indexed (passive/enhanced)	43	40	50	44

*dollar-weighted

Figure 3.4 **Fixed Income Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	239	58	116	65
Type of investment strategy				
U.S. investment grade (active)	58	63	50	61
U.S. investment grade (passive)	27	21	36	26
U.S. non-investment grade (active or passive)	7	7	7	6
Non-U.S. investment grade (active or passive)	4	4	4	6
Emerging markets (active or passive)	4	5	3	1

*dollar-weighted

Figure 3.5 **Non-U.S. Equity Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
Responding schools	229	62	109	58
Type of investment strategy				
Active MSCI EAFE	59	64	44	32
Passive/index MSCI EAFE	21	17	34	49
Emerging markets	20	19	22	19

*dollar-weighted

Figure 3.6 **Detailed Asset Allocations* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
U.S. equities	29	25	40	44
Fixed income	14	11	23	29
Non-U.S. equities	21	21	19	16
Alternative strategies	32	39	13	6
Private equity (LBOs, mezzanine, M&A funds and international private equity)	6	7	3	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and deriva-tives)	17	20	6	3
Venture capital	3	3	1	0
Private equity real estate (non-campus)	2	3	1	2
Energy and natural resources	2	3	1	0
Commodities and managed futures	1	1	1	0
Distressed debt	1	2	0	0
Short-term securities/cash/other	4	4	5	5
Short-term securities/cash	4	4	3	4
Other	0	0	2	1

*dollar-weighted

Figure 3.6EW **Detailed Asset Allocations* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $50 Million	$10–$50 Million	Under $10 Million
	250	64	118	68
U.S. equities	38	30	41	42
Fixed income	23	14	24	29
Non-U.S. equities	18	21	19	15
Alternative strategies	15	31	11	6
Private equity (LBOs, mezzanine, M&A funds and international private equity)	3	6	2	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	8	16	6	3
Venture capital	1	2	0	0
Private equity real estate (non-campus)	2	3	1	2
Energy and natural resources	1	2	1	0
Commodities and managed futures	0	1	1	0
Distressed debt	0	1	0	0
Short-term securities/cash/other	6	4	5	8
Short-term securities/cash	5	4	3	7
Other	1	0	2	1

*equal-weighted

Appendix III
Expanded Size Cohort Tables

CSIS is once again publishing a set of tables expanding the size cohorts from three to five for a closer look at endowment management practices and policies among like-sized schools. Here, we are accompanying each table with a very brief summation of meaningful data points highlighted by the expanded size cohorts.

Figure 2.2EC **Average One-, Three-, Five- and 10-Year Net Returns**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
FY2019 net annual total return	5.7	5.5	4.7	5.1	6.1	6.2
3-year net return	8.4	8.8	7.9	8.2	8.7	8.1
5-year net return	5.6	5.1	5.6	4.8	6.2	5.6
10-year net return	8.1	8.2	7.7	7.7	8.7	7.8

Note: One hundred percent of the 250 participating independent schools provided return data for the 2019 fiscal year. For the trailing three-year period, 89 percent (223 schools) provided return data; for the trailing five-year period, 82 percent (205 schools) provided return data; and for the trailing 10-year period, 64 percent (161 schools) provided return data

As reported in Chapter 2, smaller schools reported the highest average return in FY2019 and in this expanded cohort table the two smaller size cohorts again report the highest return—60 and 70 basis points above that of the next-highest cohort, schools with assets over $100 million. Over the trailing 10 years, schools with assets between $10 and $25 million reported the highest return—50 basis points a year ahead of schools with assets over $100 million.

Figure 3.1EC **Asset Allocations* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
U.S. equities	29	23	32	38	42	44
Fixed income	14	9	17	22	26	29
Non-U.S. equities	21	21	21	21	18	16
Alternative strategies	32	43	26	15	9	6
Short-term securities/cash/other	4	4	4	4	5	5

*dollar-weighted

Allocations to the traditional asset classes of U.S. equities and fixed income consistently increase as endowment size decreases while the reverse is true for allocations to alternative strategies.

Figure 3.2EC Alternative Strategies Asset Mix* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
Responding schools	177	29	32	39	49	28
Type of investment strategy						
Private equity (LBOs, mezzanine, M&A funds and international private equity)	18	17	24	22	18	18
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	51	51	50	46	61	47
Venture capital	8	9	4	8	0	2
Private equity real estate (non-campus)	8	7	10	8	11	26
Energy and natural resources	7	8	3	10	6	1
Commodities and managed futures	4	4	3	5	4	2
Distressed debt	4	4	6	1	0	4

*dollar-weighted

Among schools responding that they have allocations to alternative strategies, the heavy concentration in marketable alternatives is even more apparent. Schools with assets under $10 million have by far the largest allocation to private equity real estate (non-campus).

Figure 3.3EC U.S. Equity Asset Mix* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
Responding schools	247	31	32	45	73	66
Type of investment strategy						
Active	57	60	61	46	55	56
Indexed (passive/enhanced)	43	40	39	54	45	44

*dollar-weighted

Schools with larger endowments use active management at a much higher rate than those with small long-term asset pools.

Figure 3.4EC **Fixed Income Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
Responding schools	239	26	32	44	72	65
Type of investment strategy						
U.S. investment grade (active)	58	64	63	48	52	61
U.S. investment grade (passive)	27	21	21	39	32	26
U.S. non-investment grade (active or passive)	7	7	7	6	8	6
Non-U.S. investment grade (active or passive)	4	1	8	4	5	6
Emerging markets (active or passive)	4	7	1	3	3	1

*dollar-weighted

Schools in the two largest and the one smallest asset size category actively manage their U.S. investment grade allocation at the highest rate, all at 60 percent or more. Passive management is lowest among the two largest size cohorts.

Figure 3.5EC **Non-U.S. Equity Asset Mix* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
Responding schools	229	30	32	44	65	58
Type of investment strategy						
Active MSCI EAFE	59	68	51	45	43	32
Passive/index MSCI EAFE	21	14	29	32	36	49
Emerging markets	20	18	20	23	21	19

*dollar-weighted

A sharper distinction among the cohorts compared with U.S. equities and fixed income: Schools with the largest endowments are more than twice as likely to actively manage their non-U.S. equity allocation than are those with the smallest. Once again, an inverse correlation with size.

Figure 3.6EC **Detailed Asset Allocations* for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
U.S. equities	29	23	32	38	42	44
Fixed income	14	9	17	22	26	29
Non-U.S. equities	21	21	21	21	18	16
Alternative strategies	32	43	26	15	9	6
Private equity (LBOs, mezzanine, M&A funds and international private equity)	6	7	6	3	2	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	17	22	13	7	6	3
Venture capital	3	4	1	1	0	0
Private equity real estate (non-campus)	2	3	3	1	1	2
Energy and natural resources	2	3	1	2	0	0
Commodities and managed futures	1	2	1	1	0	0
Distressed debt	1	2	1	0	0	0
Short-term securities/cash/other	4	4	4	4	5	5
Short-term securities/cash	4	4	3	3	4	4
Other	0	0	1	1	1	1

*dollar-weighted

Schools with assets over $100 million shape the overall asset allocation in this dollar-weighted table, especially for smaller allocations outside of marketable alternatives and private equity. Beyond marketable alternatives, the two smaller size cohorts essentially make no diversifying allocations among alternative strategies.

Figure 4.1EC **Average Annual Effective Spending Rates for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
FY 2019 effective spending rate	3.7	3.9	4.1	4.2	3.6	3.2

Spending patterns in this expanded size cohort table follow that of the Figure 4.1 in the main body of the Report. Schools with assets over $100 million fall below the 4.0 percent threshold at 3.9 percent.

Figure 4.2EC Spending Policy* for Fiscal Year 2019

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
Spend all current income	1	0	0	0	1	1
Percentage of a moving average	64	68	79	89	62	43
Average percentage	4.3	4.6	4.4	4.3	4.3	4.2
Decide on an appropriate rate each year	16	13	3	4	18	28
Grow distribution at predetermined inflation rate	0	3	0	0	0	0
Spend a pre-specified percentage of beginning market value	4	3	0	0	4	9
Average pre-specified percentage spent	4.8	†	N/A	N/A	†	†
Last year's spending plus inflation with upper and lower bands	2	3	0	2	3	0
Weighted average or hybrid method (Yale/Stanford rule)	10	10	18	9	8	7
Other	12	16	6	9	18	7

*multiple responses allowed
†sample size too small to analyze

Schools in the two smaller size cohorts are much more likely to decide on an appropriate spending rate each year; schools in the two larger size cohorts most frequently use the Yale/Stanford rule, led by 18 percent of schools with assets between $51 and $100 million.

Figure 4.3EC New Gifts to Endowment for Fiscal Year 2019

dollars in millions ($)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
Average gifts	1.5	5.5	1.5	1.6	0.8	0.2
Median gifts	0.6	4.0	1.4	0.7	0.5	0.1

There is a wide disparity in gift levels, both average and median, across the size cohorts and even between the two largest cohorts.

Figure 4.6EC **Percent of Operating Budget Supported by Annual Giving for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
Average percentage of operating budget supported by annual giving	7.6	9.4	10.6	6.5	6.7	6.9
Median percentage of operating budget supported by annual giving	6.1	9.0	7.1	6.4	5.7	4.9

Annual giving supports a meaningful share of the operating budget for schools in all five size cohorts; pattern fits with the table in the main body of the Report.

Figure 4.7EC **Percent of Operating Budget Funded from Endowment for Fiscal Year 2019**

numbers in percent (%)	Total Schools	Over $100 Million	$51–$100 Million	$26–$50 Million	$10–$25 Million	Under $10 Million
	250	31	33	45	73	68
Average percentage of operating budget funded from endowment	6.3	19.5	9.0	6.5	3.9	1.4
Median percentage of operating budget funded from endowment	4.0	18.0	9.1	5.5	3.0	1.0

Data fit a pattern seen in studies of higher education in which schools with larger endowments are much more reliant on their endowment to fund operations. A wide gap exists even between schools with assets over $100 million and second-largest size cohort.

Appendix IV
Participating Independent Schools

A

Academy of Notre Dame de Namur, PA
Academy of Our Lady of Peace, CA
All Souls School, NY
The Altamont School, AL
Armand Hammer United World College, NM
The Asheville School, NC
Athens Academy, GA
Austin Preparatory School, MA
The Awty International School, TX

B

The Baldwin School, PA
Baylor School, TM
Beacon Hill Nursery School, MA
Montgomery Bell Academy, TN
Berkeley Hall School, CA
Berkshire School, MA
Berwick Academy, ME
Blair Academy, NJ
The Boys' Latin School of Maryland, MD
Bridgton Academy, ME
The Brook Hill School, TX
Brooks School, MA
The Brownell-Talbot school, NE
The Buckley School, CA
The Buckley School, NY
Buckingham Browne & Nichols School, MA
Katherine Delmar Burke School, CA
John Burroughs School, MO

C

Calvert School, MD
The Cambridge School, CA
Cape Henry Collegiate School, VA
Capitol Hill Day School, DC
Carrollton School of the Sacred Heart, FL
Cary Academy, NC
Casady School, OK
Castilleja School, CA
Cathedral High School, MA
The Cathedral School of Saint John The Divine, NY
Chadwick School, CA
The Loomis Chaffee School, CT
Chaminade College Preparatory, CA
Chapel Hill-Chauncy Hall School, MA
Charleston Day School, SC
Charlotte Latin School, NC
Cheshire Academy, CT
Choate Rosemary Hall Foundation, CT
Christchurch School, VA
Christian Brothers High School, Sacramento, CA
Christian Brothers La Salle High School, TN
The Churchill School and Center, NY
The Cobb School Montessori, CT
Collegiate School, NY
The Collegiate School, VA
Colorado Academy, CO
Columbus School for Girls, OH
Convent of the Sacred Heart, NY
Cranbrook Educational Community, MI

D

De La Salle High School, NY
Dedham Country Day School, MA
Deerfield Academy, MA
Delbarton School, NJ
Dexter Southfield, MA
The Dunham School, LA
Dunn School, CA
Durham Academy, NC

E

Eagle Hill Foundation, CT
Eaglebrook School, MA
Eastside College Preparatory School, CA
The Ensworth School, TN
The Epiphany School, MA
Epiphany School, WA
The Episcopal Academy, PA
Episcopal Day School of Christ Church Parish, FL
Episcopal High School, VA
The Episcopal School of Dallas, TX
Ethical Culture Fieldston School, NY
The Evergreen School, WA

F

Falmouth Academy, MA
The Fenn School, MA
Fort Worth Country Day School, TX
Fountain Valley School, CO
Foxcroft School, VA
Friends Academy, MA
Friends Academy , NY
Friends School of Minnesota, MN

G

Gann Academy, MA
Garrison Forest School, MD
Georgetown Day School, DC
Georgetown Visitation Preparatory School, DC
Germantown Friends School, PA
Gilman School, MD
The Girls' Middle School, CA
Good Shepherd Episcopal School, TX
The Gregory School, AZ
Grace Church School, NY
Greater Atlanta Christian Schools Fdn., GA
Greenwich Academy, CT
Gulf Stream School, FL

H

Hackley School, NY
Miss Hall's School, MA
Harvard-Westlake School, CA
Hawaii Baptist Academy, HI
Hawken School, OH
The Hewitt School, NY
High Mountain Institute, CO
The Hill School, PA
Holton-Arms School, MD
Holy Ghost Preparatory School, PA
Holy Trinity Episcopal Day School, MD
The Hotchkiss School, CT
Houston Christian High School, TX
The Hun School of Princeton, NJ

I

Idyllwild Arts Foundation, CA
Incarnate Word Academy, TX
Interlochen Center for the Arts, MI

K

Kent Place School, NJ
Kent School, CT
Kents Hill School, ME
The Key School, MD
The Kinkaid School, TX
Kimball Union Academy, NH

L

La Pietra - Hawaii School for Girls, HI
La Salle College High School, PA
Lake Forest Academy, IL

Lakeside School, WA
Lamplighter School, TX
The Langley School, VA
Lawrence Academy, MA
The Leffell School, NY

M

Maret School, DC
Marin Country Day School, CA
Marist School, GA
Mary Institute and Saint Louis Country Day School, NY
Marymount High School, CA
Maryvale Preparatory School, MD
McCallie School, TN
McDonogh School, MD
Meadowbrook Waldorf School, RI
Mercersburg Academy, PA
Milton Academy, MA
Fuchs Mizrachi School, OH
Mount Tamalpais School, CA

N

Nashoba Brooks School of Concord, MA
National Cathedral School, DC
Navy Hale Keiki School, HI
New Canaan Country School, CT
New Roads School, CA
The Nightingale-Bamford School, NY
Norfolk Academy, VA

O

Oakwood School, VA
Ojai Valley School, CA
Oldfields School, MD
The Orchard School, IN
Oregon Episcopal School, OR
Our Lady of the Elms School, OH
The Out-of-Door Academy, FL

P

Palmer Trinity Private School, FL
Parish Episcopal School, TX
Francis Parker School, CA
The Peck School, NJ
The Peddie School, NJ
The Pegasus School, CA
The Pennington School, NJ
Doctor Franklin Perkins School, MA
The Philadelphia School, PA
Phillips Academy, MA
Pine Point School, CT
Pingree School, MA
The Pingry School, NJ
Pomfret School, CT
Porter-Gaud School Foundation, SC
Portsmouth Abbey School, RI
The Potomac School, VA
The Prairie School, WI
Princeton Day School, NJ
Prospect Sierra School, CA

R

Ransom Everglades School, FL
Rashi School, MA
River Oaks Baptist School, TX
Riverview School, MA
The Roeper School, MI
Roland Park Country School, MD
Rye Country Day School, NY

S

Sacred Heart Schools, KY
Saint Ann's School, NY
Saint David's School, NY
Saint Edward's School, FL
Saint George's School, WA
Saint John's Preparatory School, MN
Saint Joseph's Preparatory School, PA
Saint Martin's Episcopal School, GA
Saint Mary's School, NC
Saint Stephen's Episcopal School, FL

San Francisco Waldorf School, CA
The Schenck School, GA
Seattle Academy of Arts and Sciences, WA
Sidwell Friends School, DC
Singapore American School, SG
Solebury School, PA
Sonoma Country Day School, CA
Southfield Christian School, MI
Springside Chestnut Hill Academy, PA
St. Andrew's Episcopal School, MD
St. Andrew's School, RI
St. Hilda's & St. Hugh's School, NY
St. John's Preparatory School, MA
St. Louis University High School, MO
St. Luke's School, CT
St. Mark's School of Texas, TX
St. Mary's Episcopal Day School, FL
St. Mary's Episcopal School, TN
St. Patrick's Episcopal Day School, DC
St. Paul Academy and Summit School, MN
St. Sebastian's School, MA
St. Stephen's Episcopal School, TX
Stevenson School, CA
Strake Jesuit College Preparatory, TX
Stuart Country Day School, NJ

T

The Taft School, CT
Tandem Friends School, VA
Tarbut V'Torah Community Day School, CA
Tatnall School, DE
Tenacre Country Day School, MA
The Thacher School, CA
Thayer Academy, MA
Tilton School, NH
Town School for Boys, CA
Trevor Day School, NY

U

University Liggett School, MI
University Prep, WA
University School, OH
University School of Milwaukee Endowment Fund, WI
University School of Nashville, TN
The Ursuline Academy of Dallas, TX

V

Vail Mountain School, CO
Village Community School, NY

W

The Walker School, GA
Walnut Hill School for the Arts, MA
Waring School, MA
Waterford School, UT
The Webb School, TN
The Webb Schools, CA
The West Nottingham Academy, MD
Western Reserve Academy, OH
The Williston Northampton School, MA
The Willows Community School, CA
Wilmington Friends School, DE
Woodberry Forest School, VA

X

Xaver High School, NY

Z

Bernard Zell Anshe Emet Day School, IL

Appendix V
Glossary of Terms

501(c)(3) Section of the Internal Revenue Code that designates an organization as charitable and tax-exempt. Organizations qualifying under this section include religious, educational, charitable, amateur athletic, scientific or literary groups, organizations testing for public safety and organizations involved in prevention of cruelty to children or animals. Most organizations seeking foundation or corporate contributions secure a Section 501(c)(3) classification from the Internal Revenue Service (IRS).

absolute return Strategies intended to be market neutral (i.e., not dependent on the overall direction of the markets) which include such underlying strategies as: distressed debt, merger arbitrage, fixed income arbitrage, convertible bond arbitrage and equity market neutral (i.e., offsetting long and short positions).

active management (see passive investing; passive management) The management of a portfolio whose investments may be traded at any time.

active MSCI ex-U.S. (developed) The MSCI World ex-U.S. Index is a capitalization-weighted index of equities in the entire developed world other than the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita. There are 22 countries within this index. Active (long) equity investment strategies in listed stocks of exchanges in developed economies excluding the U.S. Such international investments typically use the Morgan Stanley Capital International World ex-U.S. Index (MSCI World ex-U.S.) or a comparable index as a benchmark.

alternative strategies A broad classification of investments that includes any investment that is considered less traditional or non-traditional (traditional assets include stock instruments and debt instruments, such as direct investments or mutual fund investments in equities, bonds, and money market instruments). Specific examples of alternative strategies include private equity, venture capital, hedge funds, distressed (or private) debt, and "real assets" (such as real estate, oil and natural gas, timber and commodity funds). Alternative investments often have a low or negative correlation to traditional assets, can contribute to lower portfolio risk (as measured by volatility), and can contribute to a higher expected return.

arbitrage A financial transaction or strategy that seeks to profit from a perceived price differential with respect to related instruments and typically involves the simultaneous purchase and sale of those instruments.

asset allocation Allocating investments among different asset classes (e.g., stocks, bonds, and real estate) to find the optimal risk/reward mix. Tactical asset allocation implies a relatively short-term, and strategic asset allocation a longer-term, approach.

asset mix The proportions of a portfolio invested in various types of investments, such as common stock, bonds, guaranteed investment contracts, real estate and cash equivalents.

asset-backed security A fixed income instrument comprising collateralized assets that pay interest, such as consumer credit cards and automobile loans.

banded inflation A spending rule pursuant to which the annual dollar amount of spending grows by a designated rate of inflation, subject to upper and lower limits to the total spending rate expressed in percentage terms. For example, the rule may call for last year's spending to be increased by HEPI each year but to be not below 3 percent nor above 6 percent of assets in any given year.

Barclays Aggregate Bond Index An index that covers the U.S. investment grade, fixed-rate bond market with index components for government, corporate, mortgage pass-through and asset-backed securities.

basis point One one-hundredth of a percentage point.

benchmark risk (see risk relative to benchmark)

bequest A type of donation or gift, typically via a decedent's will or estate. Bequests and gifts are awards with few or no conditions specified. Gifts may be provided to establish an endowment or to provide direct support for existing programs. Frequently, gifts are used to support developing programs for which other funding is not available. The unique flexibility, or lack of restrictions, makes gifts attractive sources of support.

bond Evidence of a debt on which the issuing company usually promises to pay holders a specified amount of interest for a specified length of time and to repay the principal on the maturity date. A bond represents debt and its holder is a creditor of the corporation and not a part owner as is a shareholder. Utility bonds are usually secured by mortgages.

capital gain Profit on the sale of an investment, which may include common stock, corporate and government bonds, real estate and other real assets. There are long- and short-term capital gains, as defined in the Internal Revenue Code. Capital losses may also occur.

capital markets Markets in which capital funds (debt and equity) are issued and traded. Included are private placement sources of debt and equity, as well as organized markets and exchanges.

cash and cash equivalents Assets with maturities of less than one year (e.g., Treasury bills, commercial paper, certificates of deposit and nonconvertible bonds) which are highly liquid and comparatively risk-free.

cash management Bank services designed to help a company manage its cash more efficiently. These services include payable-through drafts, zero-balance accounts, remote disbursement accounts, account reconciliation, lockboxes, depository transfer checks, freight payment plans, wire transfers, concentration accounts, information reporting and cash management consulting.

collateralized mortgage obligation (CMO) A structured mortgage bond, backed by a pool of mortgages that serves as collateral for the bond, that pays interest and principal in maturity succession. The bond is repaid in series from the mortgage proceeds (i.e., principal payments go against the Series A bond {lowest interest and maturity} until it is paid off, at which time all payments go against the next series bond {Series B}). This procedure acts as call protection against a series bond with a higher interest rate and a longer maturity, since it cannot be called until the prior series is paid off.

common stock Securities that represent an ownership interest in a corporation. A common stockholder is not a creditor of the corporation, so he or she assumes greater risk than does a creditor but shares in earnings and growth through dividends and price appreciation.

compliance risk The possibility that existing procedures do not adequately ensure that a fund and its managers adhere to the regulations and requirements of governmental and regulatory bodies and industry standards of practice or that the record-keeping of compliance documentation is not sufficient to show that the fund and its managers have been in compliance with those standards.

convertible bond A bond or preferred stock that can be turned into common stock at a predetermined conversion rate, frequently at predetermined times. Conversion is often forced by the issuer by calling the bond or preferred stock prior to its maturity.

core portfolio A portfolio, closely resembling the structure and risk of the total market, that can be actively or passively managed.

corporate bond A fixed income security issued by a corporation to evidence borrowing, usually with a term in excess of five years.

deferred payment gift annuity A charitable gift annuity in which payments to the donor are deferred until such time as they can be made at a higher rate (shorter life expectancy) and may be taxable at a lower rate.

derivative A financial instrument whose value depends upon the value of another instrument or asset (typically an index, bond, equity, currency or commodity). Examples are futures, forwards and options.

distressed debt (see event driven strategy) Publicly held and traded debt and equity securities, as well as bank loans, of companies and governments that are in financial "distress." Financial distress is indicated by having filed or being near to filing for protection under Chapter 11 of the U.S. Bankruptcy Code. Distressed public debt and related bank loans trade at risk premiums generally in excess of 10 percentage points to U.S. Treasury securities of comparable duration.

dollar-weighted return Also called the internal rate of return (IRR); the interest rate that makes the present value of the cash flows from all the subperiods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

donation Transfer of equipment, money, goods, services, and property with or without specifications as to its use. Sometimes donation is used to designate contributions that are made with more specific intent than is usually the case with a gift, but the two terms are often used interchangeably.

EAFE The Europe, Australia, and Far East Index from Morgan Stanley Capital International. An unmanaged, market-value weighted index designed to measure the overall condition of overseas markets.

emerging growth fund (see emerging growth stock; emerging markets fund) A fund that consists of the stocks of emerging growth companies, typically higher risk stocks in defined market segments such as high tech and medical technology.

emerging growth stock (see emerging growth fund) The stock of a relatively small company that is growing very rapidly but is not large enough or has not been in business long enough to be of investment quality.

emerging markets fund (see emerging growth fund) A fund that consists of investments in markets of emerging countries, such as some of those in Southeast Asia and Central and South America.

endowment (see quasi-endowment, term endowment, true endowment) The permanent funds of a nonprofit institution, consisting of cash, securities or property. Income from endowment is used to help finance the ongoing operations of the institution. "True" endowment is that portion of the funds that are commonly restricted as to use of principal and/or income. Not all endowments are true endowments, as some may be funds functioning as endowment by vote of the governing board.

environmental, social and governance (ESG) investing An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

equity, equities (stock) 1) The total ownership interest in a company of all common and preferred stockholders. 2) Ownership interests in companies, often producing current income paid in the form of quarterly dividends, that can be traded in public equity markets. As an asset class, may include convertible bonds (if held as an opportunistic means of eventually acquiring a company's stock) and warrants, rights, options and futures (if the underlying assets are equities).

equity derivative Any financial instrument, such as options or futures, priced off of individual stocks or groups of stocks.

equity portfolio A portfolio of equity-oriented securities such as common stock or equity real estate.

equity real estate The ownership interest possessed by shareholders in a real estate investment.

event driven strategy Seeks to take advantage of anticipated corporate events and to capture price movement generated by these events. Two of the better known event driven strategies are merger arbitrage and distressed debt.

fiduciary A person, committee or institution that holds assets in trust for another. The property may be used or invested for the benefit of the owner, depending on the agreement.

fiduciary risk The potential exposure of fiduciaries to legal and regulatory actions precipitated by a breakdown in controls, or the failure to execute due diligence on behalf of the beneficiaries.

financial risk (see credit/counterparty risk) The possibility that a bond issuer will default, i.e., fail to repay principal and interest in a timely manner. Also called default risk.

fiscal year (FY) Accounting period covering 12 consecutive months, 52 consecutive weeks, 13 four-week periods, or 365 consecutive days at the end of which the books are closed and profit and loss are determined. An institution's fiscal year is often, but not necessarily the same as the calendar year.

fixed income arbitrage A strategy to capture the disparities of pricing across the global fixed income markets and related derivatives. Some of the more common fixed income arbitrage strategies find opportunity in yield curve anomalies, volatility differences and bond futures versus the underlying bonds. Leverage is often used to enhance returns.

fixed income portfolio A portfolio of fixed income securities, such as marketable bonds, private placements, real estate mortgages and guaranteed investment contracts.

Form 990/Form 990-PF The IRS forms filed annually by public charities and private foundations, respectively. The letters PF stand for private foundation. The IRS uses this form to assess compliance with the Internal Revenue Code. Both forms list organization assets, receipts, expenditures and compensation of officers. Form 990-PF includes a list of grants made during the year by the private foundation.

fund of funds An approach to investing in which a manager invests in various funds formed by other investment managers. The benefits of this approach include diversification, the expertise of the fund-of-funds manager, access to hedge fund managers who may be otherwise unavailable and a less intense commitment of staff resources by the investor.

gift Gifts and bequests are awards given with few or no conditions specified. Gifts may be provided to establish an endowment or to provide direct support for existing programs. Frequently, gifts are used to support developing programs for which other funding is not available. The unique flexibility, or lack of restrictions, makes gifts attractive sources of support.

global macro A global, top-down approach to investing in which managers will take long or short positions in fixed income, equity, currency and commodity markets.

global portfolio (see international portfolio) An investment portfolio (of equities or bonds) that can invest in U.S. and non-U.S. markets. government bond A security issued by a federal, state, or city government to evidence borrowing, with a term usually in excess of 10 years.

government bond A security issued by a federal, state, or city government to evidence borrowing, with a term usually in excess of 10 years.

growth stock Stock in a company that has shown better-than-average growth in earnings and is expected to continue to do so. It can pay little or no dividends but is expected to have growth potential over an extended period of time.

hedge fund (see marketable alternative strategies [hedge funds])

HEPI® The Commonfund Higher Education Price IndexTM (HEPI), which reports price information for the goods and services purchased by colleges and universities for their current operations. Colleges and universities use these measures to analyze the impact of inflation on their operations as a starting point for securing additional revenues to meet expected higher costs, so as to preserve their purchasing power.

high yield bond (junk bond) A lower-quality rated bond, rated BB or lower by Standard & Poor's and Ba or lower by Moody's, is called high yield because the interest rate is higher than average to compensate investors for taking higher-than-average risk.

impact investing Investing in projects, companies, funds or organizations with the express goal of generating and measuring mission-related social or environmental change alongside financial return.

income stabilization reserve A percentage of the total withdrawal set aside in a separate fund to be used to augment spending in a down year. Employed as a smoothing device to lessen any decrease in the transfer to operating budget in a given year.

index fund (see international index fund) A portfolio of stocks structured to replicate the performance of a commonly used index, such as the S&P 500.

indexing (see passive investing; passive management) A passive investment strategy in which a portfolio is designed to mirror the performance of a stock index, such as the S&P 500. Also, tying taxes, wages or other measures to an index.

in-kind contribution (see third-party in-kind contribution) Contributions or assistance in a form other than money. Real property, equipment, materials, or services of recognized value that are offered in lieu of cash. international index fund (see index fund) A portfolio of stocks structured to replicate an index of international securities such as the MSCI World ex-U.S. Index or MSCI EAFE Index.

international index fund (see index fund) A portfolio of stocks structured to replicate an index of international securities such as the MSCI World ex-U.S. Index or MSCI EAFE Index.

international portfolio (see global portfolio) An investment portfolio (of equities or bonds) that can invest only in non-U.S. markets.

investment return The total amount that an investor or an investment fund earns from its investments, including both realized and unrealized capital gains (appreciation/depreciation) and income (dividends and interest).

junk bond (see high yield bond)

large cap fund A fund that invests in stocks with larger market capitalizations, generally $5 billion or more.

liquidity risk Covers the failure to maintain sufficient funds (cash and marketable securities) to meet short-term obligations. Also, market liquidity risk is the difficulty in liquidating certain investments due to the lack of active markets in these securities.

long/short equity Long/short equity funds take long and short positions in listed equities—generally with a net long position. Managers seek to find (buy) stocks which are "undervalued" by the market and short stocks whose prices are "overvalued" by the market.

macro Macro managers use long and short strategies based on their view of the overall market direction as influenced by major global economic trends and events. Investments can include stocks, bonds, currencies, and commodities in the form of cash or derivatives instruments of both developed and emerging economies. Macro strategies often use moderate amounts of leverage.

manager, investment manager A firm, committee or individual, inside or outside an institution responsible for making decisions to buy, hold or sell assets. May also be called a money manager or investment adviser.

market risk The possibility of loss due to large movements in market prices (e.g., due to changes in interest rates, foreign exchange rates, volatility, correlation between markets, capital flows).

marketable alternative strategies (hedge funds) A fund, usually a limited partnership, used by wealthy individuals and institutions. Hedge funds are allowed to use aggressive strategies including selling short, leverage, program trading, swaps, arbitrage and derivatives. Since most are restricted by law to less than 100 investors, the minimum investment is typically $1 million. The general partner usually receives performance-based compensation and invests significantly in the partnership.

marketable securities Publicly traded securities, such as stocks, bonds or notes, which, as such, are easily bought and sold in the marketplace and readily convertible to cash.

merger arbitrage (see event driven strategy) Long and short positions are held in both companies that are involved in a merger or acquisition. Merger arbitrageurs are typically long the stock of the company being acquired and short the stock of the acquirer. The principal risk of this strategy is deal risk.

mid-cap fund A fund that specializes in stocks with market capitalizations generally in the range of $2 billion to $10 billion.

money market fund (MMF) A fund managed by an investment banking firm, investment manager, or insurance company, in which short-term funds of individuals, institutions, and corporations may be invested. These funds are invested in money market instruments.

money market instrument A short-term debt security, including Treasury bills, bank CDs, commercial paper, Eurodollar CDs, and Yankee CDs, among others. Money market instruments have maturities of a year or less.

mortgage-backed security A security for which investors receive payments out of the interest and principal on the underlying mortgage.

multi-strategy fund A fund providing exposure, in a single investment, to several investment styles and strategies in addition to a disciplined asset allocation process and ongoing rebalancing. A multi-strategy fund seeks to add alpha over a full market cycle, while providing significant risk reduction through diversification of manager and investment styles.

mutual fund An investment company or trust in which a number of investors pool their funds and receive units in the fund that are priced daily. There are many types of mutual funds: stock funds, bond funds, money market funds, and closed- and open-end investment funds. Participants in these funds also cover a wide range of investors (e.g., individuals, pension funds, and trust funds).

operational risk The potential for discontinuity due to the possibility of a breakdown in operational procedures particularly as they relate to a process breakdown; this is distinct from the design, implementation, and maintenance of computerized information systems, e.g., errors resulting from a lack of reviewer function to catch errors, from incorrect data and/or lack of adequate staffing/backup.

passive account An account of stocks and/or bonds that is not actively managed.

passive/index MSCI ex-U.S. (developed) Equity investment strategies in the Morgan Stanley Capital International World ex-U.S. Index (MSCI World ex-U.S.) or a comparable index. The MSCI World ex-U.S. Index is a capitalization-weighted index of equities in the entire developed world other than the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita. There are 22 countries within this index.

passive investing (see active management; indexing; passive management) A process that creates a portfolio of stock or bonds, not actively traded, that will replicate as closely as possible the performance of standard market indices such as the S&P 500 for stock or the Barclays Aggregate Index for bonds.

passive management (see active management; indexing; passive investing) Assets that are not traded actively but set up and held in an index fund.

performance measurement Various techniques for measuring the total rate of return (income received plus or minus changes in market value between two dates) of a pension or profit-sharing plan and of investment managers, generally in comparison with other plans and managers having similar investment objectives.

philanthropy Philanthropy is defined in different ways. The origin of the word philanthropy is Greek and means love for mankind. Today, philanthropy includes the concept of voluntary giving by an individual or group to promote the common good. Philanthropy also commonly refers to grants of money given by foundations to nonprofit organizations. Philanthropy addresses the contribution of an individual or group to other organizations that in turn work for the causes of poverty or social problems—improving the quality of life for all citizens. Philanthropic giving supports a variety of activities, including research, health, education, arts and culture, as well as alleviating poverty.

policy portfolio A portfolio of investment assets designed to achieve the financial and investment objectives of an institution over the long term. Policy portfolios are typically established by an investment committee which sets target percentages for each asset class and strategy selected for inclusion.

portable alpha The inclusion of a non-correlated strategy (i.e., one whose returns are independent of market performance) within an existing portfolio in order to improve risk-adjusted returns. The word "portable" is used because the strategy can be applied without affecting the style under which a particular portfolio is being managed.

portfolio Combined holdings of multiple stocks, bonds, commodities, real estate investments, cash equivalents or other assets by an individual or institutional investor. The purpose of a portfolio is to reduce risk by diversification.

private equity Equity capital invested in a private company.

program-related investment (PRI) A loan or other investment (as distinguished from a grant) made by a foundation to another organization for a project related to the foundation's philanthropic purposes and interests.

quantitative portfolio A portfolio management approach using computer-based models or other quantitative methods to select securities and/or structure a portfolio.

quasi-endowment (see endowment, term endowment, true endowment) Endowment that is composed of unrestricted funds functioning as endowment by the vote of the Board of Trustees. These funds are distinct from the operating cash and reserves of the institutions, which has the effect of sheltering them from ad hoc spending. Nevertheless, these funds can be spent, by vote of the Board, for any purpose.

religious organization Both operating and grant-making nonprofits that are either directly affiliated with a church or religious order, or are strongly influenced by one.

request for proposal (RFP) The practice of institutional funds that seek to allocate funds to a specific investment style by requesting competing investment management firms and trust and custody banks to submit proposals detailing capabilities, prices and the like.

restricted funds Designated by a donor or board of trustees for a specific purpose, and cannot be used for any other purpose.

return (average, annual, total) Total return measures the annual return on an investment including the appreciation and dividends or interest. Total returns are calculated by taking the change in investment value, assuming the reinvestment of all income and capital gains distributions (plus any other miscellaneous distributions) during the period, and dividing by the initial investment value. These returns are not adjusted for sales charges, but they are adjusted for management, administrative and other costs that are automatically deducted from fund assets.

risk management The procedures necessary to manage exposure to various types of risk associated with transacting business or investments.

risk relative to benchmark (benchmark risk) The potential for losses due to unintended bets or a breakdown in due diligence; the impact of investment initiatives that were not fully understood at the outset and had the potential of unintended consequences; or the monetary impact (to the portfolio and the fund) of managers who violate guidelines, engage in unauthorized transactions, develop excessive concentrations (high trading error), commit fraud, etc.

S&P Standard & Poor's Corporation

S&P 500 A popular stock market index composed of 500 stocks selected by Standard & Poor's Corporation to represent the entire market and used by many funds to compare the investment performance of their equity-oriented managers.

small cap fund A fund that specializes in stocks with lower market capitalization; small cap stocks are usually $2 billion or less in market capitalization.

socially responsible investing A practice wherein investors screen or restrict certain investments based on social, environmental or political criteria. Restrictions can vary broadly depending on the investor's philosophy and may include restrictions based on issues of human rights, environmental impact, gambling, firearms, tobacco, etc.

spending policy or rule The guideline established by the board which determines the amount of the annual transfer of monies from the investable assets to the operating budget. Examples include: a) spend all income; b) spend 5 percent of a three-year moving average market value; c) increase spending by inflation each year.

spending rate The amount of spending specified by the board from the investable assets, usually expressed as an annual percentage of the beginning market value of the fund.

stewardship The management of assistance programs to be exercised by federal officials. Grants management officials oversee the process of evaluating and awarding grants and actively participate in the management of grants to ensure that funding is properly and prudently utilized, that all applicable laws and regulations are followed, and that the mission of the sponsor is furthered.

stock (see equity)

sustainability Institutional policies and practices that attempt to meet the material needs of present generations of users, without compromising the ability of future generations to enjoy a similar standard.

systems risk The risk that current system designs or implementations are inappropriate or ineffective to the extent that information obtained from or disseminated through the system environment is incorrect or incorrectly perceived, and the decisions made based on that information are sub-optimal. In addition, this includes the security of information in response to unauthorized access and disaster.

taxing of gifts The process by which all new gifts are assessed their proportionate share of the cost of managing the total endowment pool.

technical analysis Research to identify mispriced securities that focuses on recurrent and predictable stock price patterns and on proxies for buy or sell pressure in the market.

term endowment (see endowment, quasi-endowment, true endowment) Endowment that is restricted for a period of time, after which any remaining unused funds may become unrestricted (or quasi-endowment).

testamentary trust A trust established by the will of its creator for the benefit of survivors. This trust comes into being only after the death of the person whose will creates it. The will must be probated to bring the trust into existence.

third-party in-kind contribution (see in-kind contribution) The value of non-cash contributions directly benefiting a grant-supported project or program that are provided by non-federal third parties to the recipient, the sub-recipient, or a cost-type contractor under the grant or sub-grant without charge. In-kind contributions may be in the form of real property, equipment, supplies and other expendable property, and goods and services directly benefiting and specifically identifiable to the project or program.

true endowment (permanent endowment) (see endowment, quasi-endowment, term endowment) Endowment made up of funds that are restricted (usually by donor mandate) as to the use of principal or income, or both. Funds dedicated to scholarships or faculty support are the most common types of restricted endowments.

trust A legal agreement by which something of value is owned by a person or persons for the benefit of another. In practice, this means that a person transfers assets to a trust, which, for tax purposes, is a separate legal entity (this is not true, however, for revocable trusts).

trustee A foundation board member or officer who helps make decisions about how grant monies are spent. Depending on whether the foundation has paid staff, trustees may take a more or less active role in running its affairs.

UMIFA (see UPMIFA) First promulgated in 1972, the Uniform Management of Institutional Funds Act (UMIFA) has been replaced by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

underwater fund An individual "true" or restricted fund that has a market value that has decreased below its historic dollar value as defined by the Uniform Management of Institutional Funds Act (UMIFA). Historic dollar value is the aggregate fair value in dollars of (i) an endowment fund at the time established, (ii) subsequent contributions to the fund, and (iii) other additions to the fund required by the donor or law.

unit (see unitized accounting) A division of quantity accepted as a standard measurement of exchange. For example, in the commodities markets a unit of wheat is a bushel; the unit of U.S. currency is the dollar.

unitized accounting A method of managing an investment pool whereby the pool is divided into "units" which are assigned an arbitrary value (e.g., $10 per unit) at a particular point in time. Thereafter, each unit fluctuates in value according to the performance of the fund and the aggregate value of all the units is equal to the fund's current market value. Any new additions to or distributions from the fund are made in units and are assigned a value derived by dividing the total market value of the fund by the number of units.

unrestricted funds Monies with no requirements or restrictions as to their use or disposition.

UPMIFA (Uniform Prudent Management of Institutional Funds Act) This new uniform law, which was approved by the National Conference of Commissioners on Uniform State Laws in 2006 and has now been enacted in virtually all of the states, clarifies previously existing standards for the investment and expenditure of all types of charitable endowment funds. UPMIFA was designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which dates from 1972. UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as "endowments" to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for the purposes of any endowment fund held by a charitable institution. UPMIFA continues to follow these principles, while clarifying previously existing standards for the investment and expenditure of all types of charitable endowment funds. UMIFA in its original form excluded all trusts, a gap which led to the passage of the subsequent Uniform Prudent Investor Act and Uniform Principal and Income Act in most states. UPMIFA is intended to eliminate the need for multiple statutes by applying consistent investment and spending standards to all forms of charitable funds, whether held by institutions that are incorporated, unincorporated or organized as charitable trusts (i.e., trusts with a beneficial purpose but no named beneficiaries). It strengthens the concept of prudent investing, refining it further by means of specific guidelines for fiduciaries. It applies the rule of prudence to charitable spending, eliminating outmoded concepts such as historic dollar value while providing an optional section to restrain levels of spending that are deemed imprudently high. Finally, it facilitates the release or modification of restrictions on a fund, consistent with the recognition and protection of donor intent. Taken as a whole, UPMIFA establishes a stronger and more unified basis for charitable fund management.

value stock A stock that is considered to be a good stock at a great price, based on its fundamentals, as opposed to a great stock at a good price. Generally, these stocks are contrasted with growth stocks that trade at high multiples to earnings and cash.

venture capital Funds invested in a high-risk enterprise that is not large or mature enough for its shares to be publicly traded.

Yale/Stanford Rule Two types of hybrid spending rule, used by the respective institutions named. There are two parts to the calculation of the Yale rule. The first part, considered the stabilizing factor, takes the previous year's spending dollars and adjusts that figure for inflation (usually CPI or HEPI, but a school may also, like Yale, calculate its own inflation figure). This amount is given a weighting of 80 percent in the calculation. To this is added 20 percent of the figure that results when a targeted long-term spending rate (in Yale's case, 5.25 percent) is applied to a four-quarter market average of the endowment value. The Stanford rule is also a weighted average that uses the previous year's dollar spending, adjusted for inflation, and a targeted spending rate multiplied by the endowment value. The Stanford rule differs from the Yale rule in that it applies a lower weighting to the previous year's spending levels (60 percent), and a higher weighting to the targeted spending value (40 percent). In addition, Stanford's target spending rate is lower, at 5 percent, versus 5.25 percent for the Yale rule, and uses a single fiscal year-end valuation date.

yield The return on a security or portfolio, in the form of cash payments. Most yield comes from dividends on equities, coupons on bonds, or interest on mortgages. In general, yield is defined in terms of the component of return that is taxable as ordinary income. Consequently, since the capital gain on a Treasury bill or other discount note is viewed for tax purposes as a form of interest, it is also included in the definition of yield. Yield is usually described in percent terms (e.g., 7 percent per annum).

yield spread analysis The comparison of yield differential among varying types of fixed income securities. Professional investors watch for changes in normal yield spreads among many types of issues to identify overpriced situations (where they might sell securities they own) and underpriced securities (where they might buy).

yield-to-maturity The rate of return on a bond until its due date, including both interest payments and price changes. It is greater than the current yield when the bond is selling at a discount and less than the current yield when the bond is selling at a premium.

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