



Commonfund
Study of
Independent
Schools

CSIS

2021

2021
Commonfund Benchmarks Study[®]
of Independent Schools



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INSTITUTE

NBOA
National Business Officers Association

Commonfund Institute and the National Business Officers Association (NBOA) annual report on independent schools' investment performance, management and governance practices.

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WELCOME

We are pleased to present the Commonfund Benchmarks Study® of Independent Schools (CSIS) addressing the 2021 fiscal year. This renewal represents the 17th year of collaboration between the National Business Officers Association (NBOA) and Commonfund Institute. Throughout these years, 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 independent schools.

As you will see when you delve into the report, there is cause to be gratified with the central data point contained in this year's Study—the rewarding investment return reported by participating schools. The average return for FY2021 was just short of 26 percent, the highest in the history of the Study. More important than its support of current operations, the exceptional return bolstered long-term returns, which, as we are all well aware, are essential for perpetual institutions to not only survive but thrive.

Of course, as you are equally aware, one year's return does not merit a pat on the back or invite complacency. Schools continue to confront ongoing challenges—and accept them. The current environment, however, has presented its own special hurdles: A pandemic, the likes of which have not been seen for a century, and inflation, the likes of which have not been seen for decades. Yet, as always, challenges remain.

Beyond investment performance, the Study reports shifts in asset allocation, growing commitments to responsible investing, an uptick in gifts and donations, and data regarding endowment and annual fund support of operations. We hope you find all of it useful in your strategic planning and decision-making.

We wish to express our gratitude to all participating independent schools for their invaluable contributions of time and knowledge. Your help makes this report possible. As always, we welcome your comments and look forward to being of service to you in the future.



George Suttles
Executive Director
Commonfund Institute



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

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EXECUTIVE SUMMARY

2021 Commonfund Benchmarks Study® of Independent Schools

Two hundred fifteen independent boarding and day schools from North America—all from the U.S. save one Canadian institution—contributed data for the Commonfund Benchmarks Study® of Independent Schools (CSIS) for the 2021 fiscal year (July 1, 2020 – June 30, 2021), an increase from the 200 schools that participated last year when independent schools were confronting immediate priorities and time constraints brought on by the coronavirus.

This year's Study comprises: 136 day schools, accounting for 63.3 percent of the Study universe; 31 day/boarding schools (14.4%); 30 boarding/day schools (13.9%); and four boarding-only schools (1.9%). Fourteen schools (6.5%) self-selected the "Other" category. Day/boarding schools have less than half boarders while boarding/day schools have more than half boarders.

Participating schools represented \$13.8 billion in combined endowment assets as of June 30, 2021, compared with \$9.8 billion in combined assets that last year's Study represented. Breaking out this data by size:

- Seventy-three schools with assets over \$50 million participated in this year's Study (representing approximately \$10.9 billion, or 79 percent of participants' combined endowment assets).
- Ninety-nine schools with assets between \$10 and \$50 million participated (representing approximately \$2.7 billion, or 19 percent of participants' combined endowment assets).
- Forty-three schools with assets under \$10 million participated (representing approximately \$249.8 million, or 2 percent of participants' combined endowment assets).
- Sixty-four percent of schools in this year's report also participated last year, which is down from 70 percent a year ago but roughly equal to FY2019's 63 percent repeat rate. A high repeat participation rate generally indicates stability and integrity of the data from one Study to the next.
- Eighty-eight percent of participants (189 schools) that provided data for this year's Study self-identified as members of the National Business Officers Association (NBOA).

IMPORTANT NOTE: This report contains data on independent school endowment funds only.



Returns

Among total schools participating in the CSIS for FY2021, the total return (net of fees) averaged 25.8 percent, a significant increase over FY2020's 2.8 percent return. Rounding out the five-year period, schools reported a 5.7 percent return in FY2019, 7.4 percent in FY2018 and 11.8 percent for FY2017. FY2021's return was the highest in the 17-year history of the Study. It also easily surpassed the second-highest return of 17.9 percent in FY2011. When segmented by size, returns exceeded 20 percent across all three categories in FY2021. Schools with assets over \$50 million reported an average return of 29.3 percent (2.7 percent a year ago); those with assets between \$10 and \$50 million reported a return of 25.3 percent (2.4 percent); and those with assets under \$10 million reported a return of 21.2 percent (3.3 percent).

Longer-Term Returns

Schools with assets over \$50 million reported the highest 10-year average annual return, 8.4 percent. Just behind, at 8.2 percent, were schools with assets between \$10 and \$50 million, while schools with assets under \$10 million reported a 10-year return averaging 7.6 percent. For the trailing three- and five-year periods, schools with assets over \$50 million reported returns of 11.9 percent and 11.0 percent, respectively. For schools with assets between \$10 and \$50 million respective returns were 11.0 percent and 10.3 percent. Schools with assets under \$10 million reported an average annual return of 9.9 percent for the three-year period and 9.7 percent for the trailing five years.

Asset Allocation

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

- U.S. equities: 34 percent (31 percent)
- Fixed income: 13 percent (15 percent)
- International equities: 21 percent (19 percent)
- Alternative strategies: 29 percent (30 percent)
- Short-term securities/cash/other: 3 percent (5 percent)

Of the 29 percent allocated to alternative strategies, marketable alternative strategies accounted for the largest single sub-allocation, at 12 percent. This was down year over year, however, from 17 percent in FY2020. (Marketable alternative strategies include hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives.) The second-largest allocation, at 7 percent, was to private equity; this represented a one-percentage-point increase compared with last year. (LBOs, mezzanine, M&A funds and international



private equity). Venture capital accounted for a 3 percent allocation, unchanged year over year. Private credit and energy and natural resources each accounted for 2 percent allocations. Three other categories accounted for 1 percent each: private equity real estate (non-campus); commodities and managed futures; and distressed debt.

Spending

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

Spending in Response to the Pandemic

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

Gifts

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

Operating Budget Support

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



In terms of annual giving in support of operating budgets in FY2021 participating institutions funded an average of 7.2 percent of their budget from this source, level with the year-ago figure. The largest participating institutions funded 8.1 percent of their operating budget through annual giving compared with 7.3 percent and 5.3 percent for the other two cohorts (in descending order by size of endowment).

Responsible Investing

Recognizing time and personnel pressures related to COVID-19, the Study limited questions about this category in FY2020. With a full suite of questions in this year's Study, data showed continued, steady increases in the rate at which various responsible investing practices are being adopted. Ten percent of respondents seek to include investments ranking high on ESG (environmental/social/governance) criteria, up from four percent last year. Eight percent seek to screen out investments not consistent with the institution's mission compared with six percent in the earlier study. Four percent said they allocate a portion of their endowment to investments that further the institution's mission, up from two percent; and seven percent seek to include investments with diverse managers, up from three percent. Double-digit increases were reported in the number of schools whose investment committees are actively discussing ESG, SRI (socially responsible investing), impact investing or diverse managers; the same was true for institutions that are considering adding responsible investing to their investment policy statement within the next 12 months.

Resources

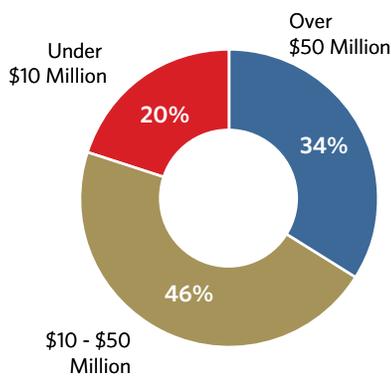
Participating schools reported having an average of 6.9 voting members on their investment committees in FY2021, all but unchanged from 7.0 a year ago. Schools with assets over \$50 million had the largest committees, an average of 8.5 voting members; schools with assets between \$10 and \$50 million reported an average of 6.3 while schools with assets under \$10 million averaged 5.5. Participating schools reported that an average of 4.5 committee members were investment professionals and that an average of 3.2 had experience with alternative strategies.



Chapter 1

The Commonfund Benchmarks Study® of Independent Schools (CSIS)

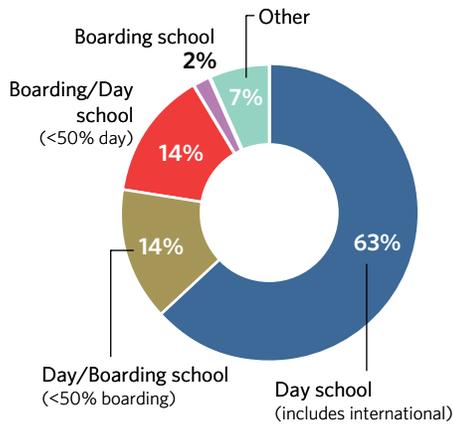
Figure 1.1
SCHOOLS BY SIZE



Two hundred fifteen schools participated in the 2021 Commonfund Benchmarks Study® of Independent Schools. These schools reported an average investable asset pool of \$64.2 million as of June 30, 2021, and median investable assets of \$31.3 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.

Figure 1.2
SCHOOLS BY TYPE



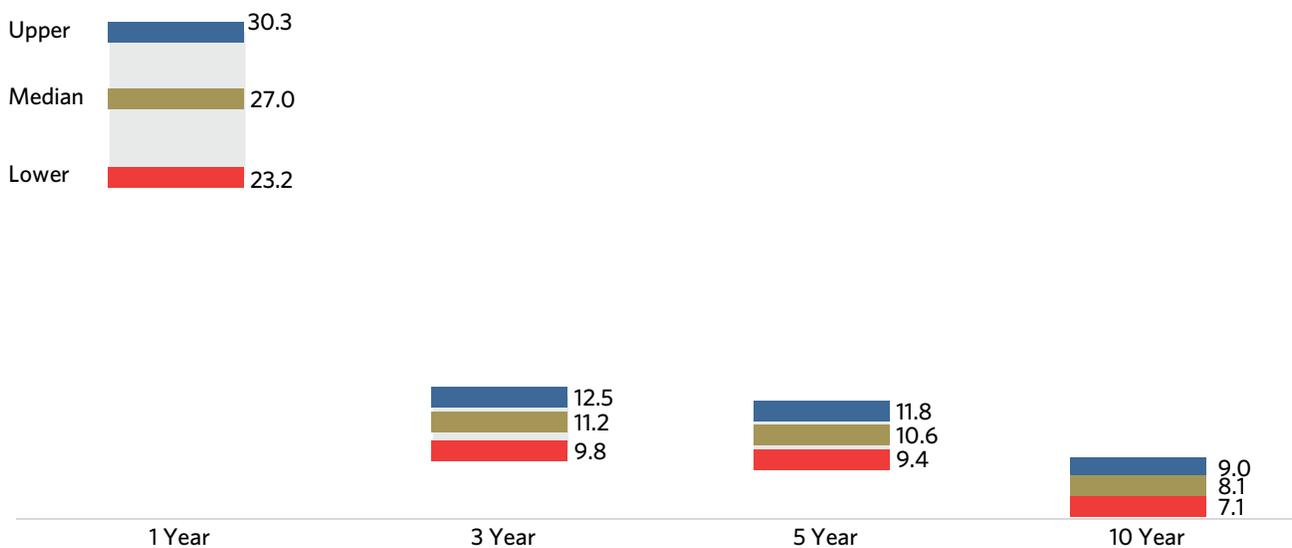
Participating Schools' Return Data

The following chart summarizes participating schools' return data ranked by quartile for one-, three-, five- and 10-year periods. This allows independent schools to compare themselves with others. As mentioned in Appendix I: How to Read this Report, we summarize participating schools' return data ranked by decile and quartile for one-, three-, five- and 10-year periods.

215
schools
representing
\$64.2
million in assets
on average

Figure 1.3

ONE-, THREE-, FIVE- AND 10-YEAR QUARTILE RETURNS FOR TOTAL SCHOOLS



Chapter 2

Investment Returns

Despite COVID,
the S&P 500
returned
40.8%

Global Investment Environment

Despite a global pandemic and caution signs from many corners—political, social, and economic—financial markets powered their way to a fiscal year of exceptional returns in the period from July 1, 2020, to June 30, 2021.

FY2021 was one that can be described by the adage “everything worked.” A broad range of asset classes and strategies delivered returns well into the double digits. The notable exception was fixed income, where returns were flat to moderately negative.

The widely followed S&P 500 Index set the tone for the fiscal year with a return of 40.8 percent, with the broad market Russell 3000 delivering an even stronger return, 44.1 percent. The die was cast as FY2020 ended. After a nearly 21 percent quarterly decline when COVID-19 first exploded onto the world scene, the S&P 500 reversed course and gained almost 22 percent for the final quarter of FY2020. From that point on, the index logged four successive quarterly returns in FY2021, any one of which would have constituted a good year.

The turnaround began with a shift in public sentiment toward a belief that the economic damage owing to the pandemic would not be as severe as once feared. This view was bolstered with hard dollars in the form of government stimulus programs; record low interest rates and strong private sector job growth all contributing to the rebound. The pandemic was replaced in the headlines by the presidential election in the second fiscal quarter. Despite the uncertainty surrounding the event—both before and after votes were cast—the S&P 500 rose at election time, buoyed by strong corporate earnings and GDP growing at an annualized rate of 33.4 percent in the previous quarter, the fastest pace on record. Moreover, news about the first doses of the Pfizer/BioNTech vaccine shipping to healthcare providers and Congress approving a massive financial rescue package helped maintain the momentum.

The third fiscal quarter saw the continuation of a trend that began in the latter stages of calendar 2020—a shift from richly-valued growth stocks to value-oriented cyclical stocks. The move was captured by the quarter’s disparity

in return between two indices: the 1.2 percent return of the broad-market Russell 3000 Growth Index and the 11.9 percent return posted by the Russell 3000 Value Index. Continued job growth, good corporate earnings, extended unemployment benefits and near zero interest rates characterized the final quarter of FY2021 and combined to solidify the fiscal year's strong returns.

As with any period, FY2021 was not without concerns and occasional bumps in the domestic equity market's otherwise smooth road. Cases of COVID-19, for instance, soared in the fall and winter, not only in the U.S. but around the world. Consumer prices surged in spring 2021, driving the rate of inflation to a 13-year high. Investors began to believe that higher prices would force the Federal Reserve to raise short-term interest rates sooner than its stated 2023 target date. Supply chain bottlenecks owing to unexpected jumps in demand caused shortages in products ranging from soap to semiconductors. Social unrest following the killing of George Floyd in late May 2020 continued throughout the summer, and protests in Wisconsin, Georgia, North Carolina and elsewhere unsettled the national discourse on issues related to social justice.

Fixed Income Flat in FY2021

Among the benchmarks in the accompanying table, fixed income produced the lowest return in FY2021, as the Bloomberg Barclays U.S. Aggregate Bond Index returned -0.3 percent. This was a reversal from last fiscal year when the index generated the highest return at 8.7 percent.

Throughout the fiscal year fixed income markets were subject to changing expectations for the economy and interest rates. Over the first two fiscal quarters the yield on 10-year U.S. Treasury note rose a modest 26 basis points to 0.92 percent. The damage was inflicted in the third fiscal quarter along with investor concerns over mounting prospects for higher inflation and rising interest rates. The 10-year U.S. Treasury note yield increased to 1.74 percent and the Bloomberg Barclays U.S. Aggregate Bond Index returned -3.37 percent (-4.25 percent for the Bloomberg Barclays U.S. Treasury Index). At quarter's end, futures were pricing in the continuation of the Fed's current interest rate policy through late 2022, with the first tightening occurring at the December 2022 FOMC meeting and two to three additional fed funds rate increases in 2023. In the final quarter of the fiscal year the 10-year U.S. Treasury note yield eased to 1.47 percent and the Bloomberg Barclays U.S. Aggregate Bond Index rebounded with a return of 1.83 percent. Investors gained confidence from rising numbers of vaccinations and an economy that was continuing to generate strong growth (+6.6 percent GDP in the final fiscal quarter).

Over the fiscal year, spread sectors such as investment grade and high yield corporates, commercial mortgage-backed securities, and asset-backed securities generally outperformed duration-matched U.S. Treasuries. Credit markets saw a surge in new issuance in the first half of FY2021 as corporations took advantage of the increased liquidity in the capital markets.

International Equity Returns Mixed

International equities marginally underperformed U.S. market returns: the MSCI ACWI Index returned 39.3 percent, 150 basis points behind the S&P 500 Index. But region-specific returns, e.g., Europe and Japan, clearly lagged the U.S. market in the range of 1,000 basis points plus. Emerging markets, however, produced a very different return, as the MSCI Emerging Markets Free (Net) Index returned 40.9 percent.

Generally, strong momentum throughout the fiscal year carried international markets. The MSCI ACWI Index gained 8.1 percent and 14.7 percent in the first two fiscal quarters. As it did in the U.S., late calendar year news about the development and distribution of COVID-19 vaccines lifted equity markets abroad. Europe and Japan were particularly strong in the second fiscal quarter, generating 15 percent-plus returns. The European Central Bank (ECB) stepped up pandemic emergency stimulus by another €500 billion to counter a double-dip recession. Except for Japan's lackluster fourth fiscal quarter, developed market equities closed the year with a strong second half, lifting the MSCI ACWI to its 39.3 percent fiscal year return. Later in the fiscal year, the ECB said it would continue emergency bond purchases and to combat a potential slowdown China's central bank cut reserve requirements to their lowest since the onset of the pandemic.

Emerging markets, as measured by the MSCI Emerging Markets Free (Net) Index, produced a -3.4 percent return for FY2020. FY2021 proved to be dramatically different. Emerging markets posted consistently strong returns, capped by a 19.7 percent advance in the second fiscal quarter, en route to a 40.9 percent fiscal year return.

Alternative Strategies Led by Private Equity and Venture Capital

For marketable alternative strategies, fiscal year 2021 saw broadly positive hedge fund performance across major strategies in an environment of characteristically risk-on market conditions along with strongly positive returns across equities, credit, and other risk assets. Strategy-level performance generally aligned with degree of long-biased market exposure, though the environment that followed the initial onset of COVID-19 brought with it a mix of strategy-specific drivers. For instance, equity hedge returned 36.5 percent on the year, while its lower-beta counterpart equity market neutral returned a more modest 7.8 percent, with both strategies seeing positive attribution from growth- and technology-oriented positions and simultaneously an unusually challenging environment for single-stock short-selling.

Credit focused strategies also benefited from generally favorable liquidity conditions created by policy initiatives—particularly those associated with less liquid holdings, such as distressed debt—while corporate activity, including pent-up activity following the slowdown of pandemic lows, benefited special situations and merger-related strategies.

Finally, macro index-level results were positive overall, with widely divergent returns across managers. Key performance drivers included opportunistic positioning in commodities and other inflation-related positions, as managers assessed regional after-effects of stimulus across global markets.

Turning to private capital, the Burgiss Private IQ - VC and PE index posted an internal rate of return (IRR) of 53.0 percent for the fiscal year. Private equity and venture capital were beneficiaries of some of the trends that emerged in the pandemic and produced attractive returns as a result. Work-from-home related products and services, telehealth, food delivery, the energy transition movement, and private companies in many industries in need of capital for growth supported the good returns. Overall, venture capital was least impacted by COVID-19 while natural resources, travel, retail, and hospitality were the most impacted, especially in the first half of the fiscal year.

Low interest rates and good returns drove record demand for initial public offerings (IPOs) in the fiscal year, with the final fiscal quarter seeing the greatest demand for U.S. IPOs in over two decades, as 115 companies raised proceeds of \$40.7 billion. IPOs were generally greeted with enthusiasm from public market investors seeking growth. The market was also characterized by the rise of direct listings, Special Purpose Acquisition Companies (SPACs) and capital market reform in China. Fund-raising for venture firms reached all-time highs, but the number of funds raised fell quite dramatically compared with 2018 and 2019.

As the fiscal year progressed, SPACs were hit by investors' sensitivity over pricing. (SPACs go public with the intent of buying a private company, effectively making the purchased company a publicly-traded entity without having to go through the IPO process). Only 63 SPACs went public in calendar 2Q21, raising about \$12.2 billion, down from the 298 raising \$87 billion in 1Q21.

Areas of concern for investors were higher prices (rising purchase price multiples in some sectors), the overall direction of industry fees and terms, and the growth of fund sizes from one fund to the next.

ONE-, THREE-, FIVE- AND 10-YEAR RETURNS FOR PERIODS ENDING JUNE 30, 2021

numbers in percent (%)

Index	1-Year	3-Year	5-Year	10-Year
S&P 500	40.8	18.6	17.6	14.8
Russell 3000	44.1	18.7	17.9	14.7
MSCI ACWI	39.3	14.5	14.6	9.9
MSCI World ex-U.S.	33.6	8.6	10.4	5.7
MSCI Europe*	27.9	8.1	8.9	7.7
MSCI Emerging Markets Free Net	40.9	11.3	13.0	4.3
Burgiss Private IQ†	53.0	23.3	20.6	15.0
Bloomberg Barclays US Aggregate Bond	-0.3	5.3	3.0	3.4
HFRI Distressed Debt	32.3	8.0	8.9	5.5
HFRI Funds of Funds Composite	27.5	8.7	7.9	5.1
NCREIF	7.4	5.5	6.1	8.8
Wilshire Real Estate Securities	39.9	8.1	5.1	8.7
Bloomberg Commodity	45.6	3.9	2.4	-4.4
3-Month Treasury Bill (Average Yield)	0.1	1.3	1.2	0.6

*local currency

†Venture Capital and Private Equity Point to Point Group Median IRRs as of December 31, 2020. Benchmark returns calculated through Burgiss Private IQ.
Sources: Bloomberg, Burgiss

CSIS Investment Returns

The 215 independent schools participating in CSIS for FY2021 reported an average return (net of fees) on their endowments of 25.8 percent, an unprecedented gain on both a relative and absolute basis. The return was more than nine times that of the previous fiscal year's 2.8 percent. It was also the highest in the 17 years that Commonfund Institute and NBOA have collaborated to produce this report, the next closest being 17.9 percent in FY2011.

Of greater significance than the one-year return, the strong FY2021 result lifted returns for all longer time periods (three, five and 10 years).

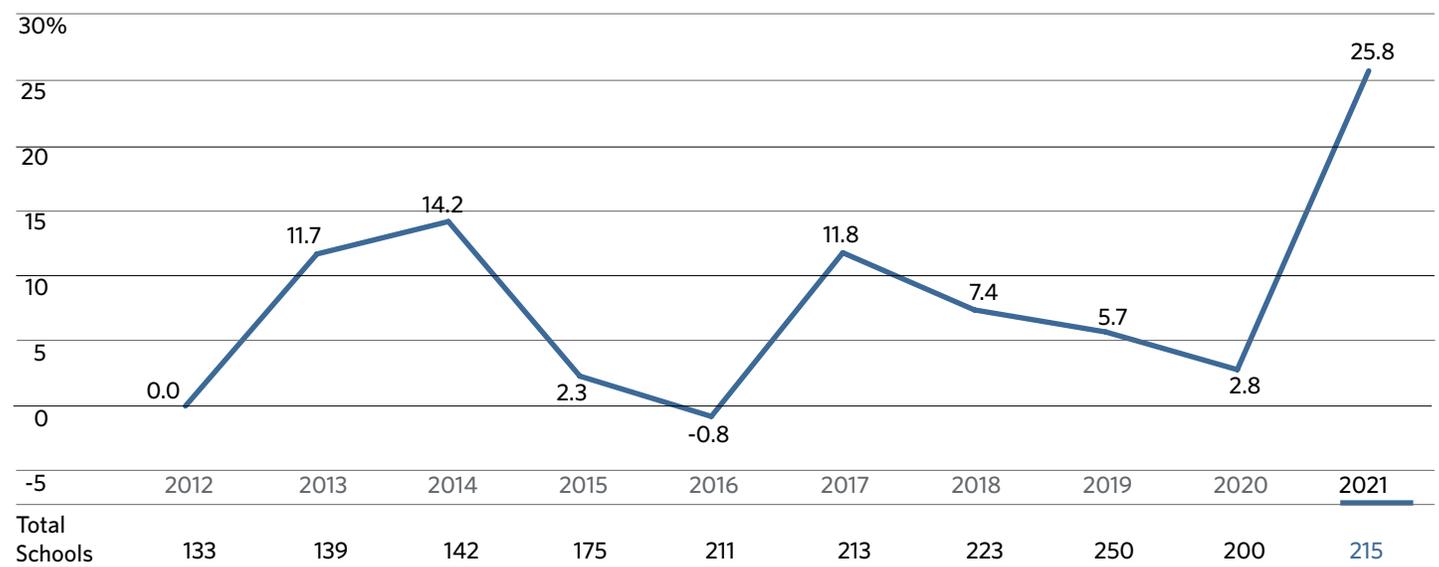
Segmenting returns for FY2021, results correlated with endowment size—the larger the endowment, the higher the return. Schools with assets over \$50 million reported an average return of 29.3 percent (2.7 percent a year ago); those with assets between \$10 and \$50 million reported a return of 25.3 percent (2.4 percent); and those with assets under \$10 million reported a 21.2 percent return (3.3 percent).

Average 2021
returns

25.8%
total schools

Figure 2.1

AVERAGE ANNUAL TOTAL NET RETURNS FOR TOTAL SCHOOLS FOR YEARS 2012-2021



Independent schools of all size categories reported returns in excess of 20 percent in FY2021

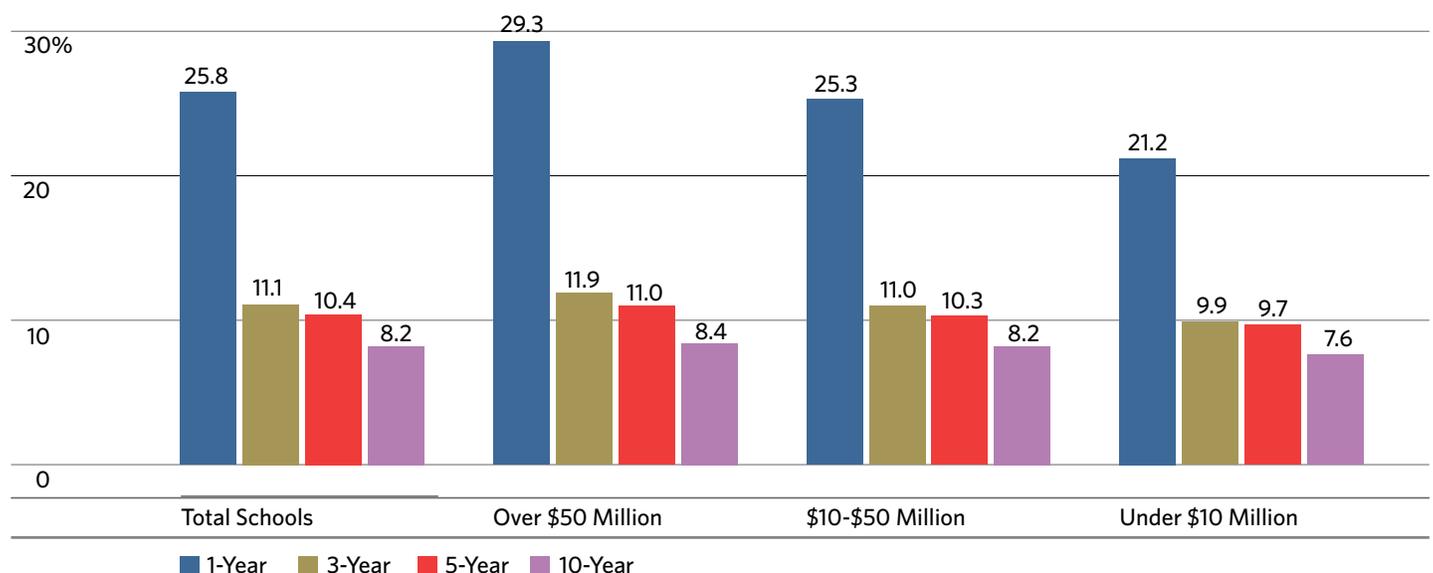
The same size correlation held when looking at longer-term results. Independent schools with assets over \$50 million reported the highest 10-year average annual return, 8.4 percent. Just behind, at 8.2 percent, were schools with assets between \$10 and \$50 million, while schools with assets under \$10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

Return spreads between size categories often narrow as the reporting period lengthens and that was the case in FY2021. For example, the spread in FY2021 between schools with assets over \$50 million and those with assets under \$10 million was 810 basis points (8.1 percentage points). For the trailing 10-year period it narrowed to 80 basis points (0.8 percentage points). For three- and five-year periods, the gap was, respectively, 200 basis points (two percentage points) and 130 basis points (1.3 percentage points).

While investment returns correlated with size in FY2021, that has not always been the case. In last year's report for FY2020, for example, we reported that schools with assets under \$10 million generated not only the best one-year return, but the best as well for three- and five-year periods. Further, in FY2020 their 10-year average return lagged that of schools with assets over \$50 million by just 10 basis points.

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

Figure 2.2

AVERAGE ONE-, THREE-, FIVE- AND 10-YEAR NET RETURNS

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

VIEWPOINT I

The Short and Long of It

There's a lot to consider in each annual Commonfund Study of Independent Schools, e.g., asset allocation, spending, gifts and donations, responsible investing and more. This year is no exception, but one figure dominates all others: It's that 25.8 percent return for fiscal year 2021—the highest in the Study's 17-year history.

The all too familiar disclaimer in the investment industry is some variation on the statement that past results do not guarantee future performance. We would invoke that here: there is no predictive power in FY2021's outsized gain. At this writing, the first half of FY2022 has generated good returns. But lest one forgets how quickly reversals can occur, we need only go back to FY2020. The first half ended with a 10.9 percent gain for the S&P 500 Index and 6.8 percent for the MSCI ex-U.S. Index. Both were negative in the second half and by the end of the fiscal year the domestic index was ahead 7.4 percent and the international index was down 5.4 percent—and was not alone in negative territory as a number of additional benchmarks joined it.

The Short Story

More to the point of the markets' vagaries (albeit a case of going from poor returns to good), the two consecutive years with the lowest returns in the history of this Study were FY2008 when the return was -3.0 percent and FY2009 when the return was -18.0 percent. These two years were immediately followed by the best two consecutive years: FY2010 and its 11.4 percent gain and FY2011 when the return was 17.9 percent. Those two years touched off the best five-year period in the Study's history. The average annual gain from FY2010 through FY2014 was just over 11.0 percent—in spite of a zero return (0.0 percent) in FY2012. The second-best five-year period was the one that ended this fiscal year, when returns averaged 10.7 percent (FY2017 - FY2021).

The five-year period with the lowest return was the one beginning with negative returns for FY2008 and FY2009. Although 2010 and 2011 produced double-digit returns, FY2012 was zero. For that five-year period the average return was 1.7 percent. The five-year period with the second-lowest return was that of FY2016 through FY2020 when the average return was 5.4 percent.

As an aside, outside of fiscal years 2008 and 2009, the only other negative return was -0.8 percent for FY2016. And aside from FY2021's 25.8 percent, the best one-year return was the previously mentioned 17.9 percent for FY2011.



The Longer Perspective

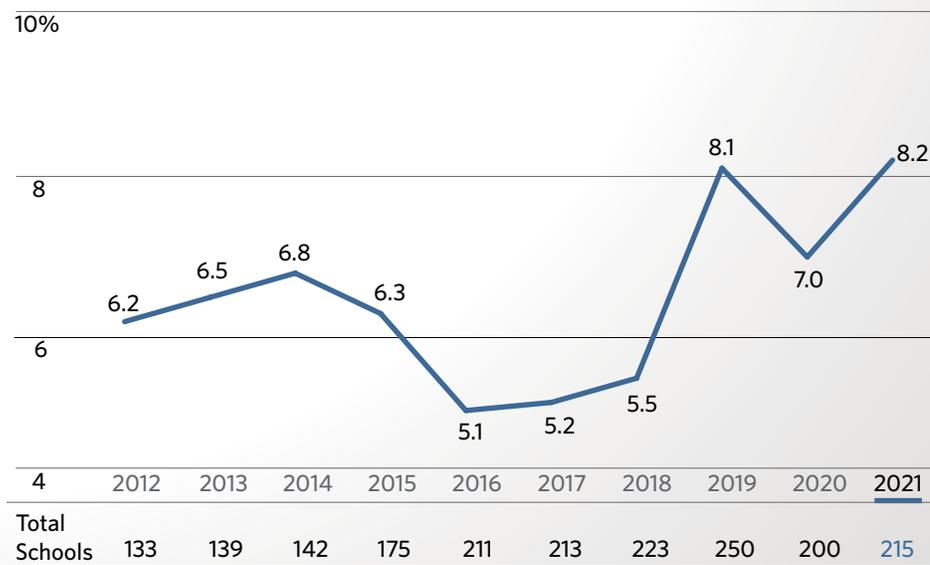
Every annual return ultimately feeds into a larger picture. This Study reports on three- and five-year returns, as do many if not most financial reports. But the one that counts the most for institutions with a long-term—even perpetual—investment horizon is the 10-year return. The graph below charts 10-year returns as reported in this Study since FY2012.

The trend line depicts what everyone wants to see: an upward slope. In fact, the most recent fiscal years of 2019, 2020 and 2021 show the best 10-year average annual gains of the 10 years shown. But one cannot ignore the obvious dips, for example, fiscal years 2016 to 2018 when 10-year returns averaged 5.1 percent, 5.2 percent and 5.5 percent, respectively. Had the trend continued it would have spelled real trouble, as those rates of return are well short of what is needed to cover spending, inflation and investment management costs.

The steadiest period was the five fiscal years 2011 – 2015, when sequential 10-year trailing returns were 5.4 percent, 6.2 percent, 6.5 percent, 6.8 percent and 6.3 percent. The average 10-year return for the period was 6.2 percent. The spread from the lowest to the highest average 10-year return for the period was just 140 basis points. So, yes, returns were steady but hardly robust and may have been enough to cover spending because inflation was very low and Study participants' reported effective annual spending rates were lowered throughout the period, declining from 4.2 percent in FY2011 to 3.6 percent in FY2015.

Although the three most recent years are the best for 10-year returns, the good news is not completely unalloyed: the main reason for the 8.1 percent 10-year return in FY2019 is that FY2009's -18.0 percent return dropped off the 10-year calculation. At the same time, it must be said that this fiscal year's 10-year return would have been even greater than 8.2 percent had FY2011's 17.9 percent advance not dropped out of the calculation. (The trailing 11-year return, when FY2011 is included, would have been 10.7 percent.)

10-YEAR AVERAGE TOTAL NET RETURNS FOR TOTAL SCHOOLS FY2012 - FY2021



Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Schools	133	139	142	175	211	213	223	250	200	215



Conclusion

The many macro factors that impact portfolio returns are beyond the control of investment committees, leading to the sage advice about seeking to control only those things over which one is able to exercise control. This leads to the studies that have consistently shown that asset allocation explains more than 90 percent of the variability in portfolio returns, with only 10 percent of the variability explained by security selection or market timing. This makes determining the allocation appropriate for a particular school a decision of overriding importance. This underscores the primacy of the endowment model, whose central tenets are diversification with an equity bias, a long-term perspective and being rewarded for accepting illiquidity (the illiquidity premium).

Over the years, schools participating in this Study have maintained diversified portfolios that reflect a clear equity bias. In the Study for FY2009, equities accounted for 75 percent of participants' asset allocations; in the current Study that figure had risen to 84 percent (this is directional as, obviously, there are year-to-year fluctuations). The greatest difference among schools is in allocations to fixed income and alternative strategies. This year, schools with assets over \$50 million allocated 10 percent of their endowments to fixed income and 35 percent to less liquid alternative strategies. Schools with assets under \$10 million allocated 30 percent to fixed income and 4 percent to alternative strategies. The one-year return difference was more than 800 basis points in favor of schools with assets over \$50 million. Last fiscal year, one that generated only low single-digit returns, schools with assets under \$10 million delivered the higher return by 60 basis points. And this year's data show that schools in these two size categories are not very far apart on the return of much greater significance: the 10 year. The equity bias is playing out in schools' favor.

As to the low illiquid allocation among schools with assets between \$10 and \$50 million and, especially, those with assets under \$10 million, we recognize that they may lack the staff and resources to build out an alternatives program. (As well, the data show actual allocation; it may be that some of these schools have a larger policy allocation but are in the early stages of implementing it.) Some of these same schools often have sophisticated investment committee members who are comfortable with commitments to illiquid investments. As long as they meet accredited investors status, schools with assets between \$10 and \$50 million and under \$10 million may want to consider moderate increases in their alternatives allocation—and round out that third leg of the investment model.



Chapter 3

Asset Allocation

In descending size, FY2021 average asset allocations among all participating schools stood at: 34 percent, U.S. equities (31 percent in FY2020); 29 percent, alternative strategies (30 percent); 21 percent, non-U.S. equities (19 percent); 13 percent, fixed income (15 percent); and 3 percent short-term securities/cash/other (5 percent).

Although year-over-year changes in asset allocation appear minor, they were larger compared to those of other recent years. The U.S. equity allocation increased in size by three percentage points; last year, U.S. equities replaced alternative strategies as the largest single allocation and they held that position this year, even increasing it from a one-percentage-point difference to five percentage points. International equities, fixed income, and short-term securities/cash/other all showed two-percentage-point moves. Alternative strategies also changed, declining by one percentage point.

For all but the largest independent schools, **U.S. equities was the largest allocation in 2021**

Investments by Asset Class

U.S. Equities

The U.S. equities allocation was smallest among institutions with assets over \$50 million, at 30 percent (28 percent last year). It was the largest, at 47 percent, among schools with assets under \$10 million (43 percent a year ago) and stood at 45 percent for schools with assets between \$10 and \$50 million (up from 39 percent).

Alternative Strategies

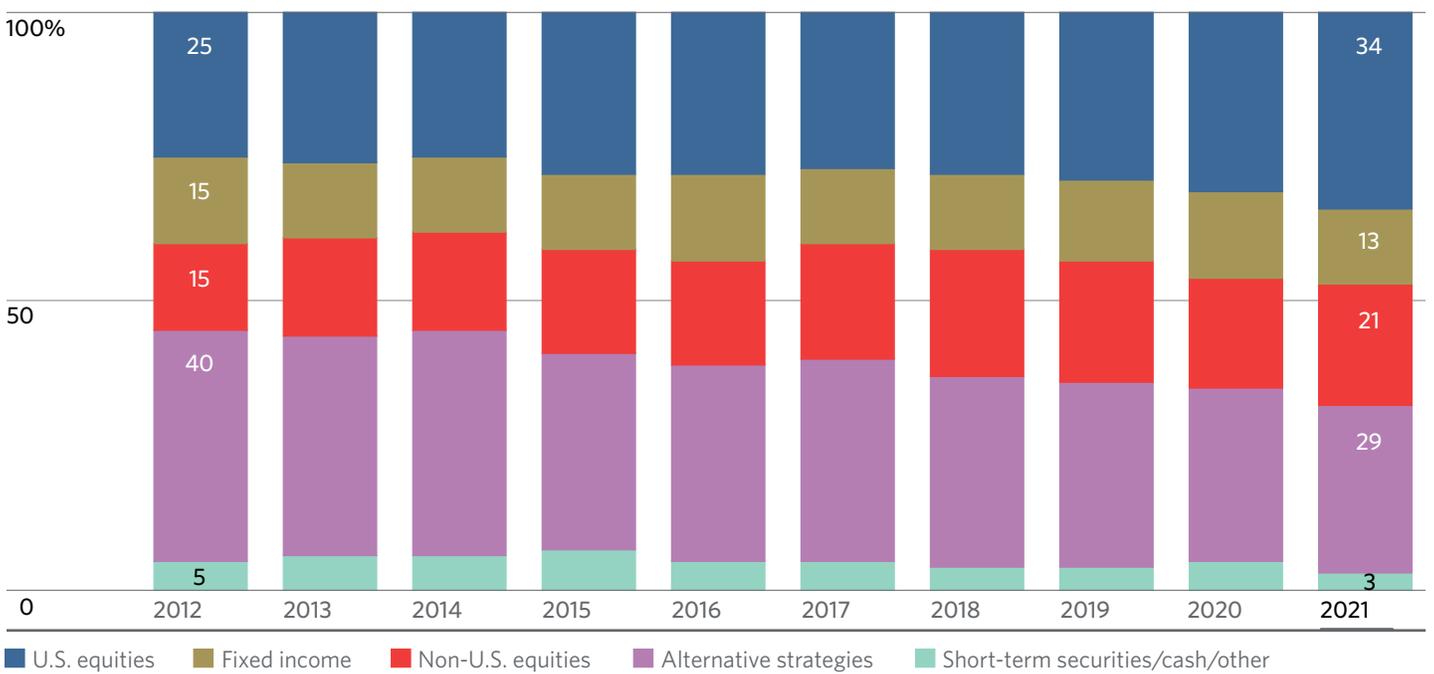
Institutions with assets over \$50 million had by far the largest allocation to alternative strategies—35 percent versus 4 percent for schools with assets under \$10 million, with schools having assets between \$10 and \$50 million positioned in the middle at 10 percent. The one-percentage-point overall decline in this allocation was accounted for by an allocation that was two percentage points lower on the part of schools with assets over \$50 million and those with assets between \$10 and \$50 million. Schools with assets under \$10 million increased this allocation by one percentage point

International Equities

Allocations to international equities were more level, the largest difference being six percentage points—21 percent for schools with assets over \$50 million and 15 percent for schools with assets under \$10 million. Schools with assets between \$10 and \$50 million reported a 19 percent allocation. Year-over-year changes were mixed—a two-percentage point increase by schools with assets over \$50 million and a three-percentage point reduction by schools with assets under \$10 million. Schools with assets between \$10 and \$50 million reported no change.

Figure 3.1

ASSET ALLOCATION* TRENDS FOR TOTAL SCHOOLS 2012-2021



*dollar-weighted

Fixed Income

Overall, the fixed income allocation fell to 13 percent from 15 percent in FY2020, with all three size cohorts reporting a one-percentage-point reduction. Schools with assets under \$10 million reported a fixed income allocation of 30 percent, three times greater than that of schools with assets over \$50 million. Schools with assets between \$10 and \$50 million allocated 24 percent to the asset class.

Cash/Short-term Securities/Other

Schools in all three size categories reduced this allocation leading to an overall decline of two percentage points to three percent year over year. The smallest allocation, two percent, was found among schools with assets between \$10 and \$50 million while schools in the other two size categories were equal at four percent.

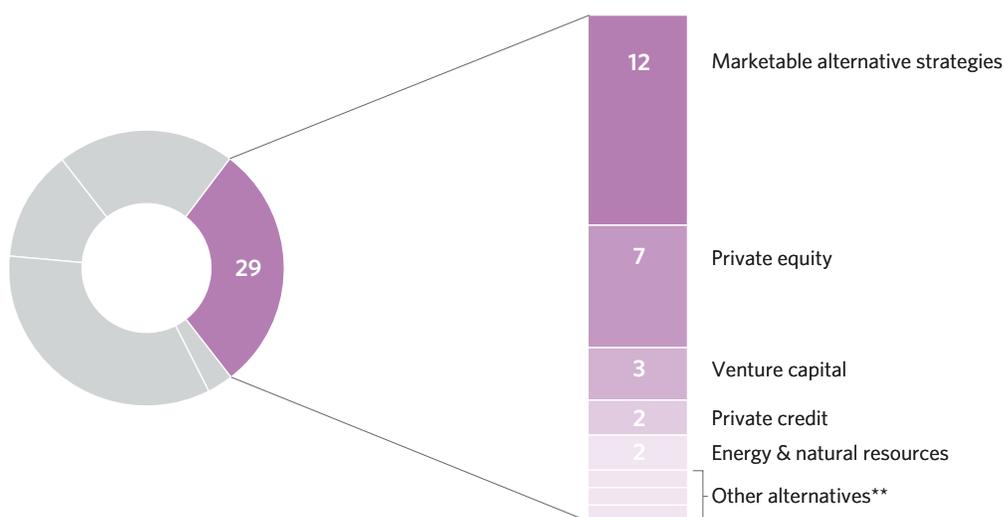
Alternative Strategies Breakout

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

Figure 3.2

DETAILED ALTERNATIVE STRATEGIES MIX* FOR TOTAL SCHOOLS IN FISCAL YEAR 2021

numbers in percent (%)



*dollar-weighted

**other alternatives includes private equity real estate, distressed debt and commodities and managed futures

VIEWPOINT II

The Move in Marketable Alternative Strategies

Independent schools' allocation to marketable alternative strategies has been declining in recent years, raising questions about why and whether it will continue.

This allocation embraces hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives. Tracking this allocation over the past four years² shows the trend:

Fiscal Year	Allocation (%)
FY2018	18
FY2019	17
FY2020	17
FY2021	12

As the allocation is reported on a dollar-weighted basis, major moves by schools with assets over \$50 million have the greatest impact. Among this size cohort, the allocation has shrunk from 22 percent in FY2018 to 14 percent in FY2021. But schools in other size categories have also reduced their allocation; this fiscal year alone, schools with assets between \$10 and \$50 million lowered their allocation to 3 percent from 7 percent.

Whether this trend continues is a question that can only be answered by future Studies. Discerning why is more problematic. Traditional U.S. equity returns have been exceptionally strong over the past three years; that could well attract additional assets and, if not rebalanced, would swell U.S. equities' share of schools' portfolios.

There is a benefit associated with a lower allocation to marketable alternative strategies: better diversifying the allocation to alternative strategies in general. We have commented on aspects of this before, noting that independent schools' alternatives allocation was highly concentrated, mostly in marketable alternatives.

Taking schools in the middle range of the three size cohorts as an example, in the following table we have FY2018 versus current allocations for schools with assets between \$10 and \$50 million.

² Data from Studies prior to FY2018 cannot be used because the methodology changed and is thus not comparable.



numbers in percent (%)	FY2018	FY2021
Private equity	2	4
Private credit	-	-
Marketable alternatives	8	3
Venture capital	-	1
Private equity real estate (non-campus)	1	1
Energy and natural resources	2	-
Commodities and managed futures	1	1
Distressed debt	-	-

Takeaways

- Overall, this cohort's allocation to alternatives strategies has decreased by four percentage points, 14 percent to 10 percent. That happens to be the same four-percentage-point reduction in the alternative strategy allocation for all schools in the Study, 33 percent in FY2018 to 29 percent in FY2021.
- Diversification for schools with assets between \$10 and \$50 million has improved: A higher—and more meaningful—allocation to private equity; a much smaller allocation to marketable alternatives, thus leading to a better-balanced allocation; and at least a small allocation to venture capital—one percent versus none in FY2018.
- On the other hand, there was no allocation to energy and natural resources, where previously there was a two percent allocation. The allocations to private equity real estate (non-campus) and commodities and managed futures were unchanged at one percent. Private credit was not included in the FY2018 Study and distressed debt remained at zero.

Conclusion

Independent schools' portfolios are tipped toward U.S. equities; this fiscal year's 34 percent allocation was a significant move compared with 28 percent in FY2018. While the allocation to alternative strategies in general has decreased, it remains at a meaningful 29 percent, making it the second-largest allocation overall.

That, however, continues to be accounted for by schools with assets over \$50 million, whose dollar-weighted alternatives allocation was 35 percent in the current Study. On an equal-weighted basis, these schools' allocation fell to 27 percent. And for all schools in the Study the dollar-weighted 29 percent overall alternatives allocation decreased to just 14 percent equal-weighted.

Schools with assets over \$50 million continue to have a proportional allocation to alternative strategies. Schools in the other two size cohorts may want to consider more meaningful allocations (being mindful that schools with assets under \$5 million may not qualify as accredited investors). Regardless of the size of their alternatives allocation overall, schools in all three size categories may want to work toward greater diversification within the allocation.



Chapter 4

Responsible Investing

36%
of participating
schools'
committees
discussed
investments
ranking high on
ESG criteria

+13%
over last year

CSIS began incorporating data and analysis of independent schools' responsible investing policies and practices with the Study for FY2019. As the interest in responsible investing appears to be increasing among independent schools this year we added two new questions to deepen schools' understanding of developments in this area.

A core question probing the current level of responsible investing at independent schools is one focused on currently required or permitted responsible investing practices. This year's data show that:

- Ten percent of all schools reported seeking to include investments ranking high on (environmental/social/governmental) ESG criteria, more than double last year's 4 percent. Seventy-four percent said they did not, down from 77 percent.
- Eight percent sought to exclude or screen out investments inconsistent with the institution's mission (socially responsible investing, or SRI), up from last year's 6 percent. Seventy-four percent said they did not, unchanged year over year.
- Four percent allocated a portion of the endowment to investments that further the institution's mission (impact investing) compared with last year's 2 percent. Seventy-eight percent said they did not, also unchanged.
- Seven percent actively sought to invest with diverse investment management firms, more than twice last year's 3 percent. Seventy-four percent said they did not, down from 77 percent a year ago.

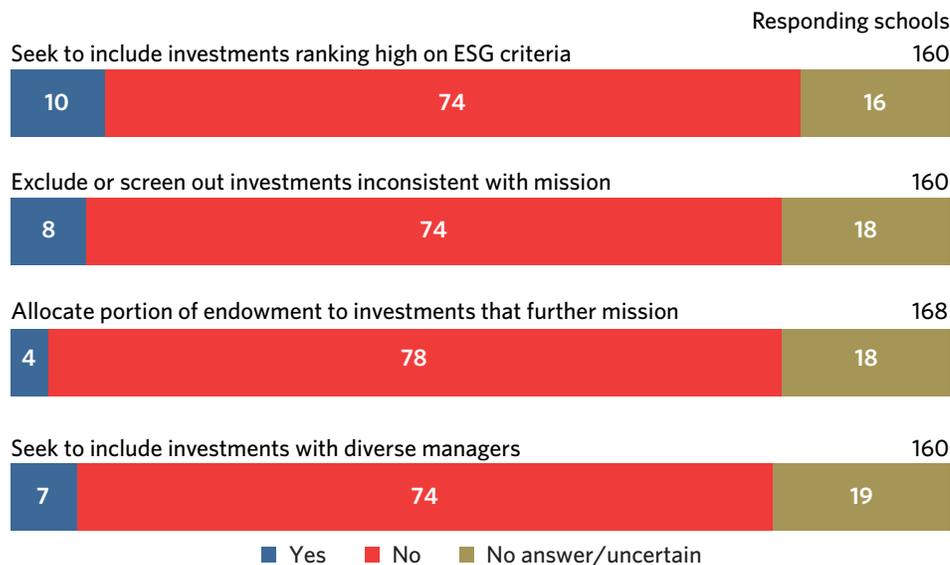
When the data are viewed by size of institution, by a wide margin those with assets over \$50 million consistently led in the rates at which they have adopted these practices (16 percent, 12 percent, 8 percent and 15 percent in the same order as the preceding bulleted points). Of the remaining two size cohorts, schools with assets between \$10 and \$50 million most frequently sought to include investments ranking high on ESG criteria (7 percent doing so) and

excluding or screening out investments inconsistent with their mission (6 percent). Schools with assets under \$10 million sought to include investments high on ESG criteria, exclude or screen out investments inconsistent with mission and allocated to investments that further the institution’s mission at a rate of 5 percent each.

Figure 4.1

CURRENTLY REQUIRED/PERMITTED RESPONSIBLE INVESTING PRACTICES

numbers in percent (%)



While rates of adoption have increased, many more independent schools’ investment committees engaged in active discussions of these responsible investing practices. Thirty-six percent of participating institutions discussed investments ranking high on ESG criteria, up from 23 percent last year. Twenty-nine percent of schools discussed investments ranking high on SRI criteria, up from 24 percent. Seventeen percent discussed impact investing, 13 percent last year, while diverse managers was discussed by 18 percent, unchanged year over year. Once again, schools with the largest endowments indicated these topics were under discussion by their investment committees at the highest rates, but the differential separating them from the other two size cohorts was not nearly so great as those that have already taken action—thus pointing to the likelihood of higher rates of adoption in coming years.

Independent schools also indicated upward movement in the rates at which they have considered action to add responsible investing practices to their investment policy statements in the next 12 months. Most of the movement was in the categories of ESG and SRI; 21 percent of all schools said they considered adding

ESG language to the IPS (11 percent in FY2020) while 15 percent considered SRI (7 percent last year). More modest increases were reported for impact investing and diverse managers. Looking at data across size cohorts, as was the case with investment committee discussions of responsible investing, responses indicating rates at which action was taken was fairly level across the three categories.

Figure 4.2

DISCUSSIONS OF ESG, SRI, IMPACT INVESTING OR DIVERSE MANAGERS IN FISCAL YEAR 2021

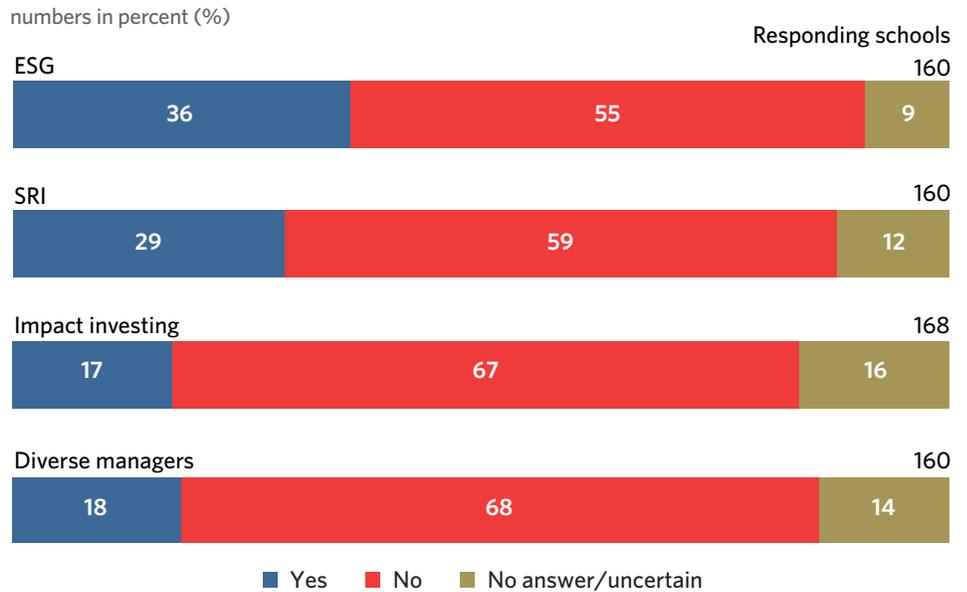
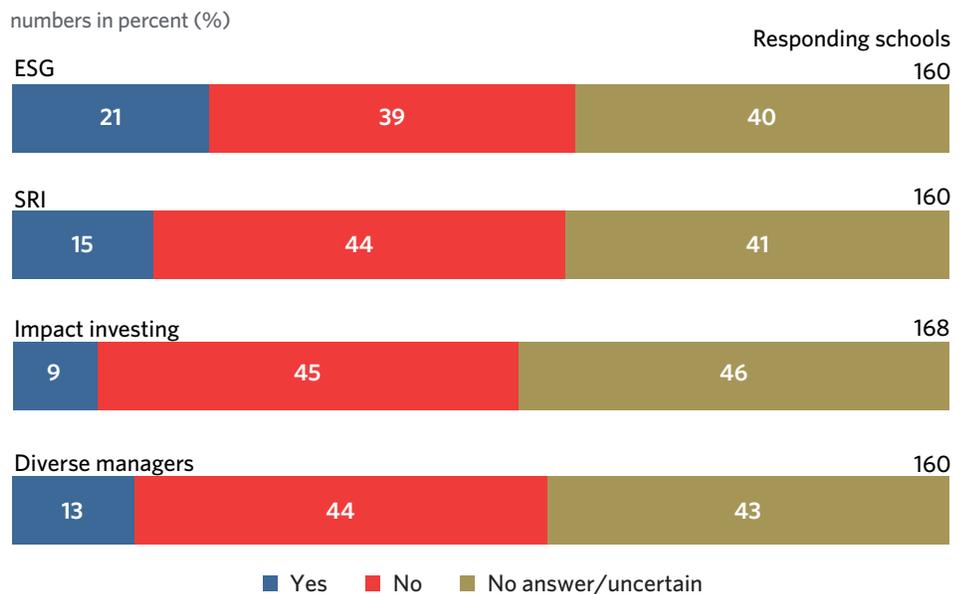


Figure 4.3

CONSIDERING ADDING ESG, SRI, IMPACT INVESTING AND/OR DIVERSE MANAGERS TO IPS IN THE NEXT 12 MONTHS

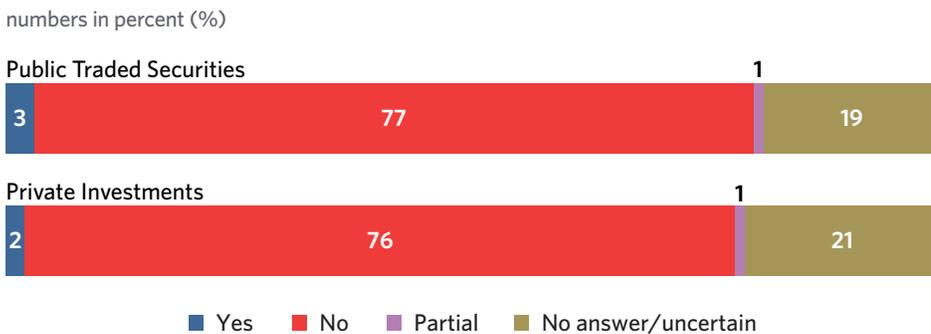


As indicated, the suite of responsible investing questions was expanded for this year’s report, but we are reporting total responses only as the sample size was too small to break down by size. Asked how diverse managers were categorized, 86 percent of all respondents said they categorized women and 71 percent said minority (multiple responses were allowed). Asked about defining ownership for diverse managers, 71 percent indicated the criterion is majority ownership by women/minority or other diverse manager categories. Seven percent said they used some other criteria, and none said it defined ownership in terms of staff being women or minorities.

Returning to a previously asked question, the Study inquired about fossil fuel divestment, another action that some institutions have considered and, in certain cases, adopted. Actions on this front were minimal, however, as just 3 percent of all respondents reported divesting publicly traded securities and 2 percent had divested of private investments in the fossil fuel industry. In both cases, one percent of respondents reported making partial divestments.

Figure 4.6

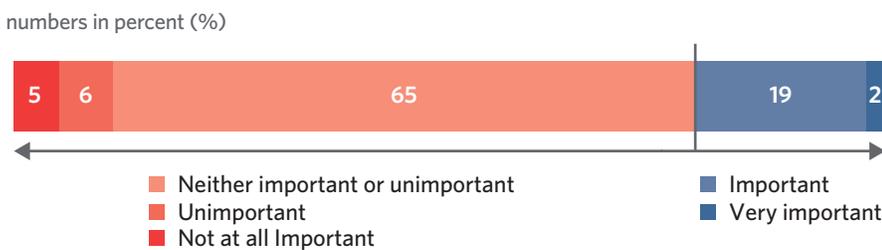
DIVESTING IN CERTAIN FOSSIL FUEL EXPOSURES FROM ENDOWMENT



On the subject of new investment managers’ commitments to integrating ESG into their investment process, 65 percent of participating schools replied that it was neither important nor unimportant, up from 56 percent in FY2020. A combined 21 percent said it was important/very important, up from 12 percent a year ago, while a combined 11 percent said it was not at all important or unimportant, a slight increase over 10 percent a year ago.

Figure 4.7

IMPORTANCE OF NEW MANAGERS’ COMMITMENT TO ESG INTEGRATION INTO THEIR INVESTMENT PROCESS



DEFINITIONS OF RESPONSIBLE INVESTING PRACTICES

Diverse managers: We define diverse managers as investment firms owned by U.S. citizens with 33 percent or more diverse ownership at the time of initial investment. Diverse managers include Black/African American, LatinX, Asian, people of indigenous descent, veterans, and/or people with disabilities.

Divestment of fossil fuel: Divestment of fossil fuels is undertaken to actively rid an investment portfolio of holdings in fossil fuel companies. Divestment of these companies is a type of exclusionary screening strategy through which investors exclude companies involved in fossil fuels from their portfolio.

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.

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.

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.

Chapter 5

Fund Flows

On average,
participating
schools spent

\$2.3
million
from their
endowment

Participating schools reported an average stated policy spending rate of 4.3 percent for FY2021. The highest rate, 4.4 percent, was reported by schools with assets over \$50 million. Those with assets between \$10 and \$50 million reported an average policy rate of 4.3 percent and for those with assets under \$10 million it was 3.9 percent.

Together, 95 percent of all participating schools said they have a spending policy. This ranged from 96 percent of schools in the two larger size cohorts to 91 percent of schools with assets under \$10 million.

On average, participating schools spent \$2.3 million from their endowment in FY2021, while the median spend was \$1.1 million. Spending in dollars varied widely by size. The largest schools reported spending an average of \$5.1 million and a median spend of \$3.2 million. Schools with assets between \$10 and \$50 million spent \$0.9 million on average with \$0.8 million being the median spend. Schools with assets under \$10 million drew the same average and median from endowment, at \$0.2 million.

Spending Policy

As has been true in the past, in FY2021 the most frequently used spending methodology among participating schools was to spend a percentage of a moving average of endowment value. Sixty-nine percent of Study respondents reported using this method, with the average spending rate being 4.3 percent. The proportion using this method declined from 72 percent, but the spending rate showed a moderate increase from FY2020's 4.2 percent.

Viewing data by size, schools in all three size cohorts followed this policy at a lower rate compared with FY2020, with a clear decline among the two larger size groups. Seventy-four percent of schools with assets over \$50 million used this methodology, down from last year's 79 percent. Seventy-three percent of schools with assets between \$10 and \$50 million used it, down from 81 percent a year ago. This was followed by 53 percent of institutions with assets under \$10 million, a more modest decline from 55 percent in FY2020.

Two spending policies showed three percentage point increases year over year. Twelve percent of schools reported deciding on an appropriate rate each year while 9 percent employed the weighted average/hybrid method (referred to as the Yale/Stanford rule). Four percent of all Study participants said they spend a pre-specified percentage of beginning market value, reaching a high of 7 percent among institutions with assets under \$10 million.

Spending Policy Actual Practices

The vast majority of independent schools reported following their spending policy in FY2021, although the proportion was down moderately compared to the previous fiscal year. Eighty-one percent reported doing so versus 86 percent in FY2020. The largest drops came among schools with assets over \$50 million (91 percent declining to 81 percent) and those with assets under \$10 million (83 percent to 74 percent). Fourteen percent of Study participants reported making special appropriations in FY2021.

Calculation Period for Moving Average of Spending Policy in FY2021

Among schools using the moving average method of calculating annual spending, 49 percent said they use 12 quarters as the calculation period followed by 31 percent that said they use three years. All other calculations periods were below 11 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.

New Gifts to Endowment

Among all schools in the Study, new gifts to endowment reversed their downward trend of recent years. In FY2021 new gifts averaged \$1.5 million compared with \$1.2 million in FY2020. This represented a return to the \$1.5 million level of FY2019 but continued to lag \$1.8 million in FY2018 and \$2.1 million in FY2017. The median gift level also rose in FY2021, reaching \$0.5 million compared with \$0.4 million in FY2020. By comparison, the median gift was \$0.6 million in fiscal years 2019 and 2018 while for FY2017 it was \$0.9 million.

Although the average gift was up for all schools in the Study, it only rose for the largest institutions—reaching \$2.8 million versus last year's \$2.5 million. It was unchanged for the other two size cohorts at \$1.0 million and \$0.2 million. Median gifts rose for schools in two size categories and remained the same for schools with assets between \$10 and \$50 million.

Figure 5.1

AVERAGE STATED POLICY SPEND RATE



**Average
policy spend
rate in 2021**

4.3%

Operating Budget Support

Annual giving supported an average 7.2 percent of the operating budget for participating schools in FY2021, unchanged from the previous year. The median percentage supported rose, however, reaching 6.5 percent of the operating budget from 5.7 percent.

Schools with assets between \$10 and \$50 million relied more on annual giving this year, as it supported 7.3 percent of the budget compared with the year-ago figure of 5.9 percent. For schools with endowments over \$50 million reliance on annual giving declined, as it supported 8.1 percent of operations versus 10.1 percent in FY2020. Schools with assets under \$10 million also called less on annual giving, drawing on it for 5.3 percent of their budget versus 6.4 percent the previous year.

Turning to the percentage of the operating budget funded from the endowment, schools relied more on their asset pool in FY2021 as they funded 6.8 percent of their budget from it compared with 5.9 percent a year ago. The median share of the operating budget funded by the endowment was 4.6 percent versus last year's 4.0 percent.

Chapter 6

Management and Governance

Among all Study participants, the average number of voting members on investment committees during FY2021 was 6.9, a slight decrease compared with FY2020's 7.0.

Institutions with assets over \$50 million showed little year-over-year change in voting members this fiscal year, 8.5 versus 8.4 a year ago. There was a small reduction, to an average of 5.5 from 5.7, in voting members of the investment committees of schools with assets under \$10 million. The greatest change came among schools with assets between \$10 and \$50 million, where the average declined to 6.3 from 7.2 a year ago.

Participating schools reported that on average 4.5 members of their investment committee were investment professionals, once again all but unchanged compared to last year's average of 4.6. Schools reported that an average of 3.2 committee members had experience with alternative investments, unchanged for the third consecutive year.

Schools with assets over \$50 million had the greatest number of committee members who were investment professionals and the greatest number with alternatives experience. Averages in both categories decreased along with endowment size among the other two size cohorts. All reported having non-trustee voting members.

On average,

6.9

investment
committee
members vote
while

4.5

members are
investment
professionals

APPENDICES

Appendix I

How to Read this Report

The 2021 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 North America. 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 Study's format is built on data gathered from the 215 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 in a digital booklet format which can be viewed on desktop, tablet or mobile devices. The Table of Contents appears in the default view for easy navigation but can be minimized for maximum viewing. You have the option to both download or print the file using the icons in the bottom right of the screen. The file will download 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 pages iii. 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

IMPORTANT NOTE: Beginning with this Study, charts were used to display total schools data throughout the chapters while the most of the data tables now appear in Appendix III ("Figures by Chapter and Supplemental Tables"). This change streamlines the design of the study and, in so doing, enhances ease of readership.

Supplemental data are also found in Appendix III, where additional figures provide readers with another data set for further analysis. For example, while asset allocation data in the main body of the report is presented on a dollar-weighted basis, Appendix III includes asset allocation data calculated on an equal-weighted basis. Appendix III presents many of the tables from the main report, but broken into smaller size cohorts, per the following:

Over \$100 million

Between \$51 million and \$100 million

Between \$26 million and \$50 million

Between \$10 million and \$26 million

Under \$10 million

Research Process and Methodology

Data gathering took place in the fourth quarter of calendar 2021 using Qualtrics, an online survey instrument.

The respondents were the individuals most knowledgeable about investment and financial 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 215 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, 63 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 and last year's Study 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?

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

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 215 Study participants. Responding Schools indicates that the responses come from a subset of participants. For example, Appendix III’s Figure 3.3, which depicts participating schools’ allocations to U.S. equities, carries the Responding Schools label because only 211 of the 215 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.

Appendix II

About Commonfund Institute and the National Business Officers Association

commonfund
INSTITUTE

Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides long-term, nonprofit institutional investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and governance; proprietary and third-party research such as the Commonfund Benchmark Studies®; publications including the Commonfund Higher Education Price Index® (HEPI); and events such as the annual Commonfund Forum and Investment Stewardship Academy. In early 2022, Commonfund Institute launched a learning management system—Commonfund Institute Online—to deliver educational courses on investment and governance to fiduciaries of nonprofit organizations.



National Business Officers Association

Founded in 1998, NBOA is a nonprofit membership association dedicated to advancing business excellence in independent schools. NBOA's success stems from its active and growing network of members who openly and collaboratively promote best practices and standards of excellence across all business operations within independent schools, including finance, accounting, human resources, information technology, risk management, tax compliance and facilities. NBOA membership includes independent schools from every region in the U.S. as well as schools in Canada, Mexico and 19 other countries. The combined enrollment of member schools exceeds 770,000 students; combined budgets total more than \$17 billion.

Appendix III

Figures by Chapter and Supplemental Tables

Chapter 1: The Commonfund Benchmarks Study® of Independent Schools

Figure 1.1

SCHOOLS BY SIZE

Large	Total assets over \$50 million	73
Mid-size	Total assets between \$10-\$50 million	99
Small	Total assets under \$10 million	43
Total Schools		215

Figure 1.2

SCHOOLS BY TYPE

Day School (includes international boarding)	136
Day/Boarding school (less than 50% boarding)	31
Boarding/Day school (less than 50% day)	30
Boarding school	4
Other	14
Total Schools	215

Figure 1.3

RETURNS BY DECILE TOTAL SCHOOLS

numbers in percent (%)

Deciles	1-Year	3-Year	5-Year	10-Year
90th percentile	33.3	13.6	12.7	9.9
80th percentile	31.2	12.7	12.0	9.3
70th percentile	29.6	12.2	11.4	8.9
60th percentile	28.0	11.6	11.0	8.5
50th percentile (median)	27.0	11.2	10.6	8.1
40th percentile	25.5	10.8	10.1	7.6
30th percentile	23.7	10.1	9.7	7.2
20th percentile	21.9	9.5	9.2	6.9
10th percentile	18.1	8.4	8.6	6.3
Quartiles				
75th percentile	30.3	12.5	11.8	9.0
50th percentile (median)	27.0	11.2	10.6	8.1
25th percentile	23.2	9.8	9.4	7.1

Chapter 2: Investment Returns

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
	215	73	99	43
FY2021 net annual total return	25.8	29.3	25.3	21.2
3-year net annualized return	11.1	11.9	11.0	9.9
5-year net annualized return	10.4	11.0	10.3	9.7
10-year net annualized return	8.2	8.4	8.2	7.6

Chapter 3: Asset Allocation

In this section, CSIS expands the data set with a deeper look at participating schools' asset mix and details of asset allocation.

Figure 3.1

ASSET ALLOCATIONS* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
U.S. equities	34	30	45	47
Fixed Income	13	10	24	30
Non-U.S. equities	21	21	19	15
Alternative strategies	29	35	10	4
Short-term securities/cash/other	3	4	2	4

*dollar-weighted

Figure 3.2S

ALTERNATIVE STRATEGIES ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	135	67	59	9
Type of investment strategy				
<i>Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)</i>	25	24	35	28
<i>Private credit</i>	5	5	4	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	41	41	34	43
<i>Venture capital</i>	11	11	5	10
<i>Private real estate</i>	4	4	9	16
<i>Energy and natural resources</i>	7	8	4	3
<i>Commodities and managed futures</i>	2	2	7	0
<i>Distressed debt</i>	5	5	2	0

*dollar-weighted

Independent schools reported that by far their largest alternative strategies allocations are to marketable alternatives and private equity. Venture capital was the third-largest allocation, but much smaller than the other two. There were differences among schools with assets over \$50 million and those with assets between \$10 and \$50 million insofar as the smaller allocations are concerned. Schools in the latter size category reported a 9 percent allocation to private equity real estate (non-campus) versus 4 percent for schools with assets over \$50 million as well as a 7 percent allocation to commodities and managed futures versus 2 percent for schools with the largest endowments. Schools in this category reported an 8 percent allocation to energy and natural resources, twice that of schools with assets between \$10 and \$50 million. The largest schools also had the larger allocation to distressed debt.

Figure 3.2EW

ALTERNATIVE STRATEGIES ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	135	67	59	9
Type of investment strategy				
<i>Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)</i>	26	27	25	20
<i>Private credit</i>	7	7	6	11
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	34	39	29	33
<i>Venture capital</i>	6	6	5	8
<i>Private real estate</i>	11	6	15	22
<i>Energy and natural resources</i>	6	7	5	6
<i>Commodities and managed futures</i>	6	3	12	0
<i>Distressed debt</i>	4	5	3	0

*equal-weighted

When viewed on an equal-weighted basis, the 41 percent dollar-weighted allocation to marketable alternatives declined to 34 percent but private equity rose to 26 percent from 25 percent. On an equal-weighted basis, private equity real estate (non-campus) increased to 11 percent from 4 percent dollar-weighted.

Figure 3.3

U.S. EQUITY ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	211	72	99	40
Type of investment strategy				
<i>Active</i>	55	57	48	41
<i>Indexed (passive/enhanced)</i>	45	43	52	59

*dollar-weighted

Data showed a shift toward passive management of participating institutions' U.S. equity allocation. A year ago, the allocation was 63/37 favoring active management; this year it was 55/45 in favor of active management. As was true last year, institutions with the largest endowments employed active management for their traditional U.S. equity allocation at a higher rate than the other two size cohorts, both of which managed the majority of their allocation passively.

Figure 3.4

FIXED INCOME ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	204	66	96	42
Type of investment strategy				
<i>U.S. Investment grade (active)</i>	50	53	45	56
<i>U.S. Investment grade (passive)</i>	36	33	42	35
<i>U.S. Non-Investment grade (active or passive)</i>	6	5	5	6
<i>Non-U.S. Investment grade (active or passive)</i>	6	7	5	2
<i>Emerging Markets (active or passive)</i>	2	2	3	1

*dollar-weighted

Among all Study participants, 92 percent of the fixed income allocation was in U.S. fixed income—investment-grade securities, both actively and passively managed, and non-investment grade securities (active or passive). This was modestly below last year’s 94 percent, the two-percentage-point difference accounted for by equal increases in the allocations to non-U.S. investment-grade and emerging markets fixed income. As was true with U.S. equities, the largest schools were most likely to manage their investment-grade allocation actively.

Figure 3.5

NON-U.S. EQUITY ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	192	72	88	32
Type of investment strategy				
<i>Non-U.S. developed (active)</i>	59	64	40	32
<i>Non-U.S. developed (passive)</i>	18	14	35	41
<i>Emerging markets (active)</i>	17	17	14	12
<i>Emerging markets (passive)</i>	6	5	11	15

*dollar-weighted

Schools in the two larger size cohorts managed their MSCI EAFE allocation actively, while those with assets under \$10 million manage more of their allocation passively. Allocations to emerging markets (active and passive) were the highest among schools with assets under \$10 million and lowest among those with assets over \$50 million.

Figure 3.6

DETAILED ASSET ALLOCATIONS* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
U.S. equities	34	30	45	47
Fixed income	13	10	24	30
Non-U.S. equities	21	21	19	15
Alternative strategies	29	35	10	4
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	7	8	4	1
<i>Private credit</i>	2	2	0	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	12	14	3	2
<i>Venture capital</i>	3	4	1	0
<i>Private equity real estate (non-campus)</i>	1	1	1	1
<i>Energy and natural resources</i>	2	3	0	0
<i>Commodities and managed futures</i>	1	1	1	0
<i>Distressed debt</i>	1	2	0	0
Short-term securities/cash/other	3	4	2	4
<i>Short-term securities/cash</i>	3	4	2	4
<i>Other</i>	0	0	0	0

*dollar-weighted

When the allocation to alternative strategies is segmented, data show that schools with assets over \$50 million have the largest allocations to all sub-strategies except private equity real estate (non-campus) and commodities and managed futures, where allocations are equal across two or all three size cohorts. The largest allocation for schools with assets over \$50 million and those with assets under \$10 million is to marketable alternatives; among schools with assets between \$10 and \$50 million the largest allocation is to private equity, but that is just one percentage point larger than the allocation to marketable alternatives.

Figure 3.6EW

DETAILED ASSET ALLOCATIONS* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
U.S. equities	42	35	45	46
Fixed income	22	14	25	30
Non-U.S. equities	18	21	19	14
Alternative strategies	14	27	9	3
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	4	8	3	1
<i>Private credit</i>	1	2	0	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	5	11	3	1
<i>Venture capital</i>	1	2	1	0
<i>Private equity real estate (non-campus)</i>	1	1	1	1
<i>Energy and natural resources</i>	1	1	0	0
<i>Commodities and managed futures</i>	1	1	1	0
<i>Distressed debt</i>	0	1	0	0
Short-term securities/cash/other	4	3	2	7
<i>Short-term securities/cash</i>	4	3	2	7
<i>Other</i>	0	0	0	0

*equal-weighted

The equal-weighted asset allocation diverges from the dollar-weighted asset allocation shown in the preceding figure (Figure 3.6). On a dollar-weighted basis, the allocation to alternative strategies was 29 percent; this decreased to 14 percent on an equal-weighted basis, reflecting the larger allocation to these strategies by schools with assets over \$50 million. On the other hand, the 34 percent dollar-weighted allocation to U.S. equity rose to 42 percent on an equal-weighted basis and the 13 percent dollar-weighted allocation to fixed income increased to 22 percent on an equal-weighted basis. Among alternative strategies, the dollar-weighted 12 percent allocation to marketable alternatives declined to 5 percent equal-weighted, while the 7 percent private equity allocation decreased to 4 percent.

Chapter 4: Responsible Investing

Figure 4.1

CURRENTLY REQUIRED/PERMITTED RESPONSIBLE INVESTING PRACTICES*

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Seek to include investments ranking high on ESG criteria				
Yes	10	16	7	5
No	74	73	81	63
No answer/uncertain	16	11	12	32
Exclude or screen out investments inconsistent with institution's mission				
Yes	8	12	6	5
No	74	74	81	60
No answer/uncertain	18	14	13	35
Allocation portion of endowment to investments that further institution's mission				
Yes	4	8	0	5
No	78	78	86	60
No answer/uncertain	18	14	14	35
Seek to include investments with diverse managers				
Yes	7	15	2	2
No	74	67	83	67
No answer/uncertain	19	18	15	31

*multiple responses allowed

Figure 4.2

INVESTMENT COMMITTEE DISCUSSION OF ESG, SRI, IMPACT INVESTING OR DIVERSE MANAGERS IN 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	160	53	80	27
ESG				
Yes	36	42	39	15
No	55	47	50	85
No answer/uncertain	9	11	11	0
Responding schools	160	54	80	26
SRI				
Yes	29	33	31	12
No	59	56	54	85
No answer/uncertain	12	11	15	3
Responding schools	168	57	85	26
Impact investing				
Yes	17	23	15	12
No	67	61	66	85
No answer/uncertain	16	16	19	3
Responding schools	160	49	82	29
Diverse managers				
Yes	18	22	18	10
No	68	65	65	83
No answer/uncertain	14	13	17	7

Figure 4.3

CONSIDERING ADDING ESG, SRI, IMPACT INVESTING OR DIVERSE MANAGERS IN THE NEXT 12 MONTHS

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	160	53	80	27
ESG				
Yes	21	26	23	4
No	39	38	39	41
No answer/uncertain	40	36	38	55
Responding schools	160	54	80	26
SRI				
Yes	15	17	16	8
No	44	44	45	38
No answer/uncertain	41	39	39	54
Responding schools	168	57	85	26
Impact investing				
Yes	9	11	11	0
No	45	47	45	42
No answer/uncertain	46	42	44	58
Responding schools	160	49	82	29
Diverse managers				
Yes	13	16	15	0
No	44	49	43	38
No answer/uncertain	43	35	42	62

Figure 4.4

HOW ARE DIVERSE MANAGERS CATEGORIZED*

numbers in percent (%)	Total Schools
Responding schools	14
Women	86
Minority	71
Other	14

*multiple responses allowed

Figure 4.5

HOW IS OWNERSHIP DEFINED FOR A DIVERSE MANAGER

numbers in percent (%)	Total Schools
Responding schools	14
Majority % ownership by women/minority/other diverse segment	71
Majority % of staff is women/minority/other diverse segment	0
Other	7
No answer	22

Figure 4.6

DIVESTING CERTAIN FOSSIL FUEL EXPOSURES FROM ENDOWMENT

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Public-Traded Securities				
Yes	3	4	3	0
No	77	79	82	63
Partial	1	1	0	2
No answer/uncertain	19	16	15	35
Private Investments				
Yes	2	3	2	2
No	76	78	81	63
Partial	1	3	1	0
No answer/uncertain	21	16	16	35

Figure 4.7

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
	215	73	99	43
Not At All Important	5	5	4	7
Unimportant	6	10	4	5
Neither important or unimportant	65	59	67	72
Important	19	23	20	9
Very Important	2	1	2	5
No answer	3	2	3	2

Chapter 5: Responsible Investing

Figure 5.1

AVERAGE STATED POLICY SPEND RATE FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Have spending policy	95	96	96	91
Do not have spending policy	4	3	3	9
No answer/Uncertain	1	1	1	0
FY2021 stated policy spend rate	4.3	4.4	4.3	3.9

Figure 5.2

DOLLARS SPENT FROM ENDOWMENT

dollars in millions (\$)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Average	2.3	5.1	0.9	0.2
Median	1.1	3.2	0.8	0.2

Figure 5.3

SPENDING POLICY* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Spend all current income	1	0	1	5
Percentage of a moving average	69	74	73	53
<i>Average percentage</i>	4.3	4.4	4.4	3.5
Decide on an appropriate rate each year	12	7	12	19
Grow distribution at predetermined inflation rate	1	1	1	0
Spend a pre-specified percentage of beginning market value	4	1	4	7
<i>Average pre-specified percentage spent</i>	**	**	**	**
Last year's spending plus inflation with upper and lower bands	2	4	0	2
Weighted average or hybrid method (Yale/Stanford rule)	9	14	4	12
Other	13	8	12	23

*multiple responses allowed

**sample size too small to analyze

Figure 5.4

SPENDING POLICY FOR ACTUAL PRACTICES FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Followed spending policy	81	81	84	74
Made special appropriations	14	15	17	7
Received a gift	2	1	2	2
Other	7	7	5	14

*multiple responses allowed

Figure 5.5

CALCULATION PERIOD FOR MOVING AVERAGE OF SPENDING POLICY FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
Responding schools	148	54	71	23
3 years	31	24	35	35
12 quarters	49	50	47	52
5 years	3	2	6	0
20 quarters	5	9	4	0
16 quarters	1	0	1	4
Other	10	15	7	4
Uncertain	1	0	0	5

Figure 5.6

NEW GIFTS TO ENDOWMENT FOR FISCAL YEAR 2021

dollars in millions (\$)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Average	1.5	2.8	1.0	0.2
Median	0.5	1.8	0.4	0.1

Figure 5.7

PERCENTAGE OF OPERATING BUDGET SUPPORTED BY ANNUAL GIVING FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Average	7.2	8.1	7.3	5.3
Median	6.5	7.6	6.2	4.9

Figure 5.8

PERCENTAGE OF OPERATING BUDGET FUNDED FROM ENDOWMENT FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Average	6.8	12.5	4.7	1.7
Median	4.6	9.9	4.0	0.5

Figure COVID.1

COVID-RELATED SPENDING CHANGES FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Decreased spending	16	11	21	14
Kept spending the same	64	67	59	72
Increased spending	17	19	20	5
Uncertain/no answer	3	3	0	9

Nearly two-thirds of all institutions participating in this year's Study made no change in their spending in response to COVID-19 (64 percent). Nearly equal proportions of institutions increased and decreased spending—17 percent increasing it, 16 percent decreasing it. When data are viewed by size, 72 percent of institutions with assets under \$10 million made no change while 14 percent of this cohort decreased spending and 5 percent increased it. Sixty-seven percent of schools with assets over \$50 million reported no change, but 19 percent of this cohort increased spending versus 11 percent that decreased it. The share of schools making no change fell to 59 percent among schools with assets between \$10 and \$50 million, but here a total of 41 percent reported a change, with 20 percent increasing spending while 21 percent decreased it.

Chapter 6: Management and Governance

Figure 6.1

VOTING MEMBERS ON INVESTMENT COMMITTEE FOR FISCAL YEAR 2021

average number	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Voting investment committee members	6.9	8.5	6.3	5.5

Figure 6.2

INVESTMENT COMMITTEE CREDENTIALS FOR FISCAL YEAR 2021

average number	Total Schools	Over \$50 Million	\$10-\$50 Million	Under \$10 Million
	215	73	99	43
Investment committee members that are investment professionals	4.5	6.3	4.1	2.3
Investment committee members with alternatives experience	3.2	4.5	2.9	1.4
Non-trustee voting members	1.8	2.1	1.9	1.0

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. Each table is accompanied by 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-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
FY2021 net annual total return	25.8	29.9	28.7	26.0	24.6	21.2
3-year net annualized return	11.1	11.9	11.8	11.5	10.6	9.9
5-year net annualized return	10.4	11.0	10.9	10.6	10.0	9.7
10-year net annualized return	8.2	9.1	7.8	8.1	8.3	7.6

Note: One hundred percent of the 215 participating independent schools provided return data for the 2021 fiscal year. For the trailing three-year period, 91 percent (195 schools) provided return data; for the trailing five-year period, 84 percent (181 schools) provided return data; and for the trailing 10-year period, 69 percent (149 schools) provided return data.

As was true when data were reported for total and in the three main size cohorts, returns correlated by size when data are reported for total and sorted by the five size segments: The larger the endowment, the higher the return in FY2021. The same held true for three- and five-year periods as well. For the 10-year period it did not hold, as schools in two size categories generated higher returns than schools in the next-largest size grouping. Schools with assets over \$100 million delivered the highest return for all periods.

Figure 3.1EC

ASSET ALLOCATIONS* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
U.S. equities	34	28	38	45	46	47
Fixed Income	13	6	18	22	27	30
Non-U.S. equities	21	21	22	19	18	15
Alternative strategies	29	41	19	12	6	4
Short-term securities/cash/other	3	4	3	2	3	4

*dollar-weighted

Schools with assets over \$100 million allocated 41 percent of their endowment to alternative strategies in FY2021, more than twice that of the next-closest size cohort. Their fixed income allocation, 6 percent, was just one-fifth that of schools with assets under \$10 million. Aside from short-term/securities/cash/other, international equities remains the asset class with the most equal allocation across the size cohorts.

Figure 3.2EC

ALTERNATIVE STRATEGIES ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
Responding schools	135	31	36	35	24	9
Type of investment strategy						
<i>Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)</i>	25	23	34	38	21	28
<i>Private credit</i>	5	4	9	3	8	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	41	43	31	34	34	43
<i>Venture capital</i>	11	13	3	5	4	10
<i>Private real estate</i>	4	2	11	7	15	16
<i>Energy and natural resources</i>	7	8	5	6	0	3
<i>Commodities and managed futures</i>	2	1	4	5	13	0
<i>Distressed debt</i>	5	6	3	2	5	0

*dollar-weighted

Marketable alternatives, private equity and venture capital account for 77 percent of all participants' asset allocations, but that is below last year's 84 percent. Most of the change is accounted for by the introduction of a new category this year, private credit, which accounted for a 5 percent allocation overall. Private equity real estate (non-campus) and commodities and managed futures generally accounted for larger allocations as endowment size decreased.

Figure 3.3EC

U.S. EQUITY ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
Responding schools	211	32	40	49	50	40
Type of investment strategy						
<i>Active</i>	55	67	38	48	49	41
<i>Indexed (passive/enhanced)</i>	45	33	62	52	51	59

*dollar-weighted

The share of assets managed actively and passively divided 55/45 among all participating schools, the gap was wider among three size cohorts, but as close as 49/51 and 48/52 among schools in two size categories.

Figure 3.4EC

FIXED INCOME ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
Responding schools	204	26	40	47	49	42
Type of investment strategy						
<i>U.S. Investment grade (active)</i>	50	48	56	39	55	56
<i>U.S. Investment grade (passive)</i>	36	34	31	49	30	35
<i>U.S. Non-Investment grade (active or passive)</i>	6	4	7	6	4	6
<i>Non-U.S. Investment grade (active or passive)</i>	6	11	4	3	8	2
<i>Emerging Markets (active or passive)</i>	2	3	2	3	3	1

*dollar-weighted

Actively managed U.S. investment-grade securities represented the largest allocation for four of the five size groups, schools with asset between \$26 and \$50 million being the exception.

Figure 3.5EC

NON-U.S. EQUITY ASSET MIX* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
Responding schools	192	32	40	46	42	32
Type of investment strategy						
<i>Non-U.S. developed (active)</i>	59	70	47	42	35	32
<i>Non-U.S. developed (passive)</i>	18	9	29	34	37	41
<i>Emerging markets (active)</i>	17	17	16	15	11	12
<i>Emerging markets (passive)</i>	6	4	8	9	17	15

*dollar-weighted

Active MSCI EAFE was the largest allocation for four of the five size cohorts, with schools having assets under \$10 million allocating more to the passive option of the same allocation. The combined emerging markets allocation—active and passive together—was largest among schools with assets between \$10 and \$25 million and those with assets under \$10 million.

Figure 3.6EC

DETAILED ASSET ALLOCATIONS* FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
U.S. equities	34	28	38	45	46	47
Fixed income	13	6	18	22	27	30
Non-U.S. equities	21	21	22	19	18	15
Alternative strategies	29	41	19	12	6	4
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	7	9	6	5	1	1
<i>Private credit</i>	2	2	2	0	1	0
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	12	18	6	4	2	2
<i>Venture capital</i>	3	5	1	0	0	0
<i>Private equity real estate (non-campus)</i>	1	1	2	1	1	1
<i>Energy and natural resources</i>	2	3	1	1	0	0
<i>Commodities and managed futures</i>	1	1	1	1	1	0
<i>Distressed debt</i>	1	2	0	0	0	0
Short-term securities/cash/other	3	4	3	2	3	4
<i>Short-term securities/cash</i>	3	4	2	2	2	4
<i>Other</i>	0	0	1	0	1	0

*dollar-weighted

Marketable alternatives and private equity were the two largest or tied for the two largest allocations across all five size cohorts. Schools in the two larger size categories tended to have varying degrees of exposure to all of the alternative strategies. Schools in the other three categories often had zero exposure or token 1 percent allocations.

Figure 5.1EC

AVERAGE STATED POLICY SPEND RATE FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
Have spending policy	95	94	97	98	94	91
Do not have spending policy	4	3	3	2	4	9
No answer/Uncertain	1	3	0	0	2	0
FY2021 stated policy spend rate	4.3	4.5	4.4	4.5	4.2	3.9

Schools in four of the five size categories reported stated policy rates above 4.0 percent (ranging from 4.2 percent to 4.5 percent). Schools with assets under \$10 million reported a policy rate of 3.9 percent.

Figure 5.3EC

SPENDING POLICY FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
Spend all current income	1	0	0	0	2	5
Percentage of a moving average	69	64	83	76	70	53
<i>Average percentage</i>	4.3	4.5	4.3	4.4	4.4	3.5
Decide on an appropriate rate each year	12	12	3	8	16	19
Grow distribution at predetermined inflation rate	1	3	0	0	2	0
Spend a pre-specified percentage of beginning market value	4	3	0	4	4	7
<i>Average pre-specified percentage spent</i>	**	**	**	**	**	**
Last year's spending plus inflation with upper and lower bands	2	6	3	0	0	2
Weighted average or hybrid method (Yale/Stanford rule)	9	18	10	8	0	12
Other	13	12	5	8	16	23

*multiple responses allowed

**sample size too small to analyze

Participating schools indicated that the percentage of a moving average policy was used less frequently in FY2021 compared to FY2020, with moderate decreases evident across all size cohorts. Deciding on an appropriate rate each year increased, however, in FY2021 from the previous year, across all size cohorts, with the most significant increase being in the \$10-\$26 million size cohort, moving from 9 to 16.

Figure 5.6EC

NEW GIFTS TO ENDOWMENT FOR FISCAL YEAR 2021

dollars in millions (\$)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
Average	1.5	3.8	2.0	1.3	0.7	0.2
Median	0.5	2.2	1.4	0.5	0.3	0.1

As can be expected, the largest schools raised the most amount of money for their endowments in FY2021, and funds raised correlated with endowment size across the five cohorts.

Figure 5.7EC

PERCENTAGE OF OPERATING BUDGET SUPPORTED BY ANNUAL GIVING FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
Average	7.2	9.1	7.3	7.6	7.1	5.3
Median	6.5	8.6	7.0	7.0	5.6	4.9

Annual giving in support of the operating budget can be segmented into three groups. Schools with endowment assets in excess of \$100 million relied on annual giving for 9.1 percent of their budget, high for the Study. After that, schools in three size categories relied on annual giving in the 7.0 percent range (7.1 percent to 7.6 percent). Finally, schools with assets under \$10 million relied on annual giving for 5.3 percent of their operating budget.

Figure 5.8EC

PERCENTAGE OF OPERATING BUDGET FUNDED FROM ENDOWMENT FOR FISCAL YEAR 2021

numbers in percent (%)	Total Schools	Over \$100 Million	\$51-\$100 Million	\$26-\$50 Million	\$10-\$26 Million	Under \$10 Million
	215	33	40	49	50	43
Average	6.8	18.1	8.0	5.6	3.9	1.7
Median	4.6	15.8	7.5	4.5	3.2	0.5

Historically, schools with larger endowments have been the most reliant on their endowment for operating budget support and that was the case again in FY2021, as schools in the two largest size categories relied on it for 18.1 percent and 8.0 percent of their budget, respectively. This declined to 5.6 percent among schools in the middle of the five size categories and continued to 3.9 percent and 1.7 percent among schools in the remaining two size cohorts.

Appendix IV

Participating Schools

A

The Academy of Notre Dame De Namur, PA
Academy of Our Lady of Peace, CA
The Academy of the Holy Cross, MD
Albuquerque Academy, NM
American Community School Beirut, NY
Arbor Montessori School, GA
The Asheville School, NC
Aspen Academy, CO
Aspen Country Day School, CO
Austin Preparatory School, MA
The Awty International School, TX

B

Baker Demonstration School, IL
The Baldwin School, PA
Baylor School, TN
Beacon Hill Nursery School, MA
Belmont Day School, MA
Berkeley Hall School, CA
Berkshire School, MA
Berwick Academy, ME
The Bishop's School, CA
The Boys' Latin School of Maryland, MD
The Branson School, CA
Brentwood Christian School, TX
Brewster Academy, NH
Brooks School, MA
Brownell-Talbot School, NE

Buckingham Browne & Nichols School, MA
The Buckley School, CA
The Buckley School, NY
Burgundy Farm Country Day School, VA
The Bush School, WA

C

Calvert School, MD
Cambridge School, CA
Canterbury School, CT
Cape Henry Collegiate School, VA
Cary Academy, NC
Casady School, OK
Chadwick School, CA
Chapel Hill-Chauncy Hall School, MA
Charleston Day School, SC
Charlotte Latin School, NC
Chatham Hall, VA
Cheshire Academy, CT
Choate Rosemary Hall Foundation, CT
Clarke School for Hearing and Speech, MA
The College of St. Francis Xavier, NY
The Collegiate School, VA
Colorado Academy, CO
Columbus School for Girls, OH
Convent of the Sacred Heart, NY
Cranbrook Educational Community, MI
Cristo Rey Jesuit High School, IL

D

Dedham Country Day School, MA
Deerfield Academy, MA
Dexter Southfield, MA
Durham Academy, NC

E

Eagle Hill Foundation, CT
Eaglebrook School, MA
The Elisabeth Morrow School, NJ
Ensworth, TN
The Episcopal Academy, PA
Episcopal Day School of Christ Church Parish, FL
Episcopal High School, VA
The Ethel Walker School, CT
The Evergreen School, WA

F

The Fenn School, MA
Forman School, CT
Fort Worth Country Day School, TX
Fountain Valley School, CO
Foxcroft School, VA
Francis W. Parker School, IL
Friends Academy of New York, NY

G

Gann Academy, MA
Garrison Forest School, MD
Georgetown Day School, DC
Good Shepherd Episcopal School, TX
Grace Church School, NY
Greenwich Academy, CT
Gulf Stream School, FL

H

Hackley School, NY
The Harpeth Hall School, TN
Harrisburg Academy, PA
Harvard-Westlake School, CA
Hawken School, OH
High Mountain Institute, CO
The Hockaday School, TX
Holton-Arms School, MD
Holy Ghost Preparatory School, PA
The Hotchkiss School, CT
Houston Christian High School, TX
The Hun School of Princeton, NJ

I

Incarinate Word Academy, TX
Indian Mountain School, INC, CT

K

Katherine Delmar Burke School, CA
Kent Place School, NJ
Kent School Corporation, CT
Kents Hill School, ME
Kimball Union Academy, NH
King School, CT

L

La Salle College High School, PA
Lake Forest Academy, IL
Lakeside School, WA
Lamplighter School, TX
Lancaster Country Day School, PA
The Langley School, VA
Lawrence Academy, MA
Lexington School, KY

M

Marin Country Day School, CA
 Marist School, GA
 Marshall School, MN
 Mary Institute and Saint Louis Country Day School,
 Marymount High School, CA
 Maryvale Preparatory School, MO
 The McCallie School, TN
 McDonogh School, MD
 Milton Academy, MA
 Montgomery Bell Academy of the
 University of Nashville, TN
 Mount Tamalpais School, CA

N

National Cathedral School, DC
 Navy Hale Keiki School, HI
 The Nightingale-Bamford School, NY
 Northfield Mount Hermon School, MA
 Notre Dame High School of West Haven, CT
 The Nueva School, CA

O

Oak Grove Lutheran School, ND
 Ojai Valley School, CA
 Oldfields School, MD
 The Orchard School, IN
 The Order of St. Benedict of New Jersey
 d/b/a Delbarton School, NJ
 Oregon Episcopal School, OR
 The Out-of-Door Academy, FL

P

Palmer Trinity Private School, FL
 Parish Episcopal School Endowment Fund Inc, TX
 The Peck School, NJ
 The Peddie School, NJ
 The Pegasus School, CA
 The Pennington School, NJ

The Philadelphia School, PA
 Pine Crest School, FL
 The Pingry School, NJ
 Pine Point School, CT
 Pingree School, MA
 Portsmouth Abbey School, RI
 The Potomac School, VA
 The Prairie School, WI
 Presbyterian School, TX
 Princeton Day School, NJ
 Prospect Sierra School, CA

R

Ransom Everglades School, FL
 Rio Grande School, NM
 River Oaks Baptist School, TX
 The Rivers School, MA
 Riverview School, MA
 The Roeper School, MI

S

Sacred Heart Schools, Louisville, KY
 Saint David's School, NY
 Saint Francis High School, CA
 Saint George's School, WA
 Saint John's Preparatory School, MN
 Saint Martin's Episcopal School, GA
 Saint Mary's School, NC
 Saint Stephen's Episcopal School, FL
 Salpointe Catholic High School, AZ
 School Year Abroad, MA
 Scranton Preparatory School, PA
 Seattle Academy of Arts and Sciences, WA
 Sidwell Friends School, DC
 Singapore American School,
 Skutt Catholic High School, NE
 Solebury School, PA
 Sonoma Academy, CA
 Springside Chestnut Hill Academy, PA

St. Andrew's Episcopal School, MD
St. Andrew's School, RI
St. Christopher's School, VA
St. George's School, RI
St. Hilda's and St Hugh's School, NY
St. Johnsbury Academy, VT
St. Joseph's Preparatory School, PA
St. Louis University High School, MO
St. Mark's School of Texas, TX
St. Mary's Episcopal School, TN
St. Paul Academy and Summit School, MN
St. Stephen's Episcopal School, TX
St. Thomas's Day School, CT
St. Xavier High School, OH
Stanstead College, QC, Canada
Stevenson School, CA
Strake Jesuit College Preparatory, TX
Stuart Country Day School, NJ

T

The Taft School, CT
Tallulah Falls School, GA
Tarbut V'Torah Community Day School, CA
Tenacre Country Day School, MA
The Thacher School, CA
Tower Hill School Association, DE
Town School for Boys, CA
Trevor Day School, NY
Trinity Episcopal School, NC

U

University Liggett School, MI
University Preparatory Academy, WA
University School of Nashville, TN
University School, Ohio, OH
The Ursuline Academy of Dallas, TX

V

Vail Mountain School, CO
Village Community School, NY
Virginia Episcopal School, VA

W

Walnut Hill School, MA
Waterford School, UT
The Webb Schools, CA
Westtown School, PA
The Williston Northampton School, MA
Wilmington Friends School, DE
Woodberry Forest School, VA

Y

The York School, CA

Appendix V

Glossary

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.

balanced fund manager (balanced manager) A mutual fund manager whose investment policy is to balance the fund’s portfolio by investing in more than one asset class—typically stocks, bonds, and cash—to obtain a good return, while minimizing risk.

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.

block grant A type of mandatory grant where the recipients (normally, states) have substantial authority over the type of activities to support, with minimal federal administrative restrictions. The basic premise is that states should be free to target resources and design administrative mechanisms to provide services to meet the needs of their citizens.

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.

challenge grant A grant that provides monies in response to monies from other sources, usually according to a formula. A challenge grant may, for example, offer two dollars for every one that is obtained from a fund drive. The grant usually has a fixed upper limit, and may have a challenge minimum below which no grant will be made. This form of grant is fairly common in the arts, humanities, and some other fields, but it is less common in the sciences. A challenge grant differs from a matching grant in at least one important aspect. The amount of money that the recipient organization realizes from a challenge grant may vary widely, depending on how successful that organization is in meeting the challenge. Matching grants usually award a clearly defined amount and require that a specific sum be obtained before any award is made.

charitable gift annuity A contract between the donor and a charity in which the donor transfers assets to the charity. The charity agrees to pay a specified sum of money each year to the donor, for a fixed period (usually life). The assets exceed the present value of the expected payments to the donor, and the charity receives the surplus (mortality tables are used to make this calculation). The donor can claim as a charitable tax deduction the difference between the present value of the expected payments and the value of the assets.

charitable lead trust (also called charitable income trust) A trust in which the donor transfers income-producing assets to a trustee and instructs the trustee to pay a fixed amount or annual percentage to charity for the term of

the trust. At the end of the trust term, assets remaining in the trust are conveyed to the donor or his/her beneficiary or beneficiaries. The donor can claim as a charitable tax deduction the present value of the expected payments to charity.

charitable remainder annuity trust A trust that pays the donor or the donor's beneficiary an agreed-upon annual income for the life of the donor or for a specific term. The principal remaining from this type of trust eventually passes to a qualified charity.

charitable remainder trust The assets left in a charitable trust, gift annuity, or pooled income fund that eventually pass to a qualified charity. The present value of the charitable remainder is equal to the charitable tax deduction.

charitable remainder unitrust Under Internal Revenue Code Section 664(d)(2) and the regulations thereunder, there are three variations of the unitrust:

"straight" unitrust Donor irrevocably transfers money, securities or property to a separately invested trust having a charitable remainder. The trust makes payments to named beneficiaries at least annually in an amount equal to a fixed percentage (not less than 5 percent) of the net fair market value of the trust assets, determined once each year. The donor may designate himself and/or other beneficiaries to receive these payments for life, so long as the designated beneficiaries are alive at the time the trust is created. Alternatively, the trust instrument may provide for payment to be made for a term of years, not to exceed 20. At the expiration of all income interests the assets are distributed to the charitable organization(s).

"net income" unitrust The same as a "straight" unitrust except the payments to the beneficiary are limited to the actual income earned by the trust up to, but not exceeding, the fixed percentage stated in the trust agreement.

"net plus markup" unitrust Payments limited to ordinary earned income as in the "net income" unitrust, except that payments may exceed the stated percentage up to, but not exceeding, the amount required to make up any accumulated deficiencies from prior years (years in which the trust earned less than the stated percentage).

charity In its traditional legal meaning, the word "charity" encompasses religion, education, assistance to the government, promotion of health, relief of poverty or distress and other purposes that benefit the community. Nonprofit organizations that are organized and operated primarily to further one of these purposes generally will be recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and will be eligible to receive tax-deductible

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.

community foundation A tax-exempt, nonprofit, autonomous, nonsectarian philanthropic institution supported by the public with the long-term goals of:

- Building permanent, component funds established by many separate donors to carry out their charitable interests;
- Supporting the broad-based charitable interests and benefitting the residents of a defined geographic area, typically no larger than a state; and
- Serving in leadership roles on important community issues.

community fund An organized community program which makes annual appeals to the general public for funds that are usually not retained in an endowment but are instead used for the ongoing operational support of local agencies.

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.

consortium grant A grant to one institution in support of a project in which any programmatic activity is carried out through a collaborative arrangement between or among the recipient institution and one or more other

institutions or organizations which are separate legal entities, administratively independent of the recipient. The involvement of the non-recipient (collaborating) institutions is that of actually performing a portion of the programmatic activity.

convertible arbitrage A strategy that seeks to take advantage of the pricing inefficiencies of the embedded option in a convertible bond. It is generally characterized by a long convertible position and corresponding short position in the underlying stock. Convertible arbitrage may also use leverage.

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.

corporate foundation A private foundation (company-sponsored) that derives its grant-making funds primarily from the contributions of a profit-making business. The company-sponsored foundation often maintains close ties with the donor company, but it is a separate legal organization, sometimes with its own endowment, and is subject to the same rules and regulations as other private schools.

corporate giving program A grant-making program (direct giving) established and administered within a profit-making company. Gifts or grants go directly to charitable organizations from the corporation. Corporate schools/giving programs do not have a separate endowment; their expense is planned as part of the company's annual budgeting process and usually is funded with pre-tax income. Annual grant totals generally are directly related to company profits.

counterparty A principal to a foreign exchange, swap, or other derivative instrument, as opposed to an agent such as a broker.

credit/counterparty risk (see financial risk) The potential that the issuer of a security may default or fail to honor their financial obligations to the fund or its client. The risk that a counterparty (or participant in a securities transaction) does not meet its financial obligation, thereby resulting in a financial loss for the transaction.

cultural institution A cultural institution is an operating nonprofit (or a foundation that directly supports such an entity) that supports the arts and other cultural endeavors (e.g., museums, art galleries, symphonies, libraries). These are not grant-making organizations; rather, they are typically recipients of grants from private and public schools.

debt fund (see fixed income portfolio) A portfolio of debt-oriented investments (e.g., real estate mortgages) or fixed income securities (e.g., corporate bonds).

debt service Required interest and principal payments made on debt.

dedicated bond portfolio A portfolio of debt-oriented securities that is structured to meet a specific liability such as the payment of benefits to a group of retirees for the remainder of their life. The portfolio is dedicated to the objective of meeting the identified liability.

default risk (see credit/counterparty risk; financial risk)

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.

distribution committee The committee responsible for making grant decisions. For community schools, the distribution committee is intended to be broadly representative of the community served by the foundation.

diverse investment managers Investment management firms that have a significant ownership stake (often 33 percent or more) by women; people of black or African American, Latino/Hispanic, Asian, Native or Pacific Islander descent; and veterans and/ or people with disabilities.

divestment of fossil fuels A type of exclusionary screening strategy through which investors actively exclude companies involved in fossil fuels from their investment portfolio.

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.

donor-advised fund A fund held by a community foundation or other qualified sponsoring organization where the donor, or a committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation's governing body must be free to accept or reject the recommendations.

donor-designated fund A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. These funds are sometimes established by a transfer of assets by a public charity to a fund designated for its own benefit, in which case they may be known as grantee endowments or agency funds. The community foundation's governing body must have

the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

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.

effective spending rate Amount spent in dollars divided by the initial market value, net of any fees and expenses spent managing the portfolio.

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 The principal amount of gifts and bequests that are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose.

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 market neutral A strategy designed to exploit equity price inefficiencies. It typically involves using balanced long and short positions in equity markets to insulate the portfolio from overall market risk. Equity market portfolios are often designed to be neutral relative to beta, sector, industry, market capitalization, and style, among other factors. Leverage may be applied to enhance returns.

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.

family foundation An independent private foundation whose funds are derived from members of a single family. Family members often serve as officers or board members of family schools and have a significant role in their grant-making decisions.

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.

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 schools, 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.

foundation An entity which exists to support a charitable institution and which is funded by an endowment or donations.

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.

general purpose foundation An independent private foundation that awards grants in many different fields of interest.

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.

grant A type of financial assistance awarded to an organization for the conduct of research or other program as specified in an approved proposal. A grant, as opposed to a cooperative agreement, is used whenever the awarding office anticipates no substantial program involvement with the recipient during the performance of the archives.

grantee financial report A report detailing how grant funds were used by an organization. Many corporate grantmakers require this kind of report from grantees. A financial report generally includes a listing of all expenditures from grant funds as well as an overall organizational financial report covering revenue and expenses, assets and liabilities. Some funders may require an audited financial report.

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 Index™ (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.

independent foundation These private schools are usually founded by one individual, often by bequest. They are occasionally termed "non-operating" because they do not run their own programs. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent schools, such as the Ford Foundation, are no longer governed by members of the original donor's family but are run by boards made up of community, business and academic leaders. Private schools make grants to other tax-exempt organizations to carry out their charitable purposes. Private schools must make charitable expenditures of approximately 5 percent of the market value of their assets each year. Although exempt from federal income tax, private schools must pay a yearly excise tax of 1 or 2 percent of their net investment income.

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.

intergenerational equity The percent probability that the portfolio assets are preserved after accounting for the institution's spending rate and inflation.

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.

matching grant A grant that requires a specified portion of the cost of the supported item of equipment or project be obtained from other sources. The required match may be more or less than the amount of the grant. Some matching grants require that the additional funds be obtained from sources outside the recipient organization. Many matching grants are paid in installments, the payments coinciding with the attainment of pre-specified levels of additional funding. Matching grants are very common in the sciences, especially for equipment. They are the standard practice in some government agencies.

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

modeling risk The potential for loss due to actions taken or to policies implemented based on views of the world, in general, and the investment community, in particular, that are derived from improper models. These views are derived from representation(s) of reality that do not capture all significantly relevant information or are inappropriately applied throughout the investment program.

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).

operating foundation A 501(c)(3) organization classified by the IRS as a private foundation whose primary purpose is to conduct research, social welfare, or other programs determined by its governing body or establishment charter. An operating foundation may make grants, but the amount of grants awarded generally is small relative to the funds used for the foundation's own programs.

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 schools 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.

portfolio diagnostics An analytical performance measurement approach that segregates a manager's investment performance into components such as value added from securities selection and value added from market timing.

portfolio optimization A process whereby an investor's bond portfolio is restructured to match anticipated cash inflow and outflow. Some reinvestment of early cash receipts is allowed.

portfolio restructuring The rebalancing of a large volume of equity in a portfolio at one time by selling baskets of stock and reinvesting the proceeds in other equity, debt, or cash securities.

preferred stock A class of favored stock whose holders have a claim on the company's earnings before payment can be made to common stockholders. Preferred stockholders are usually entitled to dividends at a specified rate, when declared by the board of directors, before payment is made to common stockholders, and they usually have priority if the company is liquidated; however, preferred stockholders generally do not have voting rights.

price/earnings ratio (P/E) The price/earnings ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. The P/E ratio relates the price of the stock to the per-share earnings of the company. High P/E generally indicates that the market is paying more to obtain the stock because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E often indicates that the market has less confidence that the company's earnings will increase rapidly or steadily, and therefore will not pay as much for its stock. In most cases, a fund with a high average P/E ratio has paid a premium for stocks that have a high potential for increased earnings. If the fund's average P/E is low, the manager may believe that the stocks have an overlooked or undervalued potential for appreciation. A P/E ratio calculated using a forecast of future earnings is called a forward P/E.

private equity Equity capital invested in a private company.

private foundation A nongovernmental, nonprofit organization with funds (usually from a single source, such as an individual, family, or corporation) and program

managed by its own trustees or directors. Private schools are established to maintain or aid social, educational, religious, or other charitable activities serving the common welfare, primarily through the making of grants.

private operating foundation A private foundation that uses the bulk of its resources to provide charitable services or run charitable programs of its own. It makes few, if any, grants to outside organizations and, like private independent and private family schools, it generally does not raise funds from the public.

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.

proxy voting disclosure In an effort to improve the transparency of proxy voting by mutual funds and other registered investment vehicles, the SEC now requires registered investment management companies to provide disclosure about how they vote proxies relating to portfolio securities they hold. These amendments require registered investment management companies to disclose the policies and procedures that they use to determine how to vote proxies relating to portfolio securities. The amendments also require registered investment management companies to file with the Commission and to make available to shareholders the specific proxy votes that they cast in shareholder meetings of issuers of portfolio securities. The intent of the rule is to encourage funds to become more engaged in corporate governance of issuers held in their portfolio.

proxy voting policy A proxy statement is a document that provides shareholders with information about issues to be discussed and voted upon at a stockholders' meeting. Shareholders may attend the meeting and register their votes in person or vote by sending in proxy ballots on the various matters scheduled to come before the meeting. As investors and shareholders, nonprofits are frequently confronted with the issue of whether they should vote their shares as recommended by the company's management or analyze each issue in light of the institution's mission. Some nonprofits have adopted policies by which they either (i) vote their own proxies, (ii) assign the responsibility to a third party or (iii) have their investment managers vote the proxies, usually in accord with guidelines provided by the institution.

public charity A nonprofit organization that qualifies for tax-exempt status under section 501(c)(3) of the Internal Revenue Code and that derives its support from broad-based public sources. Public charities are the recipients of most foundation and corporate grants. Some public charities also make grants. Religious, educational and medical institutions are deemed to be public charities.

public foundation Legally classified as “public charities,” public schools are publicly supported nonprofit organizations and are predominantly funded by contributions from individuals, corporations, governmental units and private schools. As distinguished from most public charities, public schools focus more on grant-making than on providing direct charitable services.

public support test There are two public support tests, both of which are designed to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a) (1) or 170(b)(1)(A)(vi) for the sections of the Internal Revenue Code where it is found, is for charities like community schools that mainly rely on gifts, grants, and contributions. To be automatically classed as a public charity under this test, organizations must show that they normally receive at least one-third of their support from the general public (including government agencies and schools). However, an organization that fails the automatic test still may qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics—such as a broad-based board—that make it sufficiently “public.” The second test, sometimes referred to as the section 509(a) (2) test, applies to charities, such as symphony orchestras or theater groups, that get a substantial part of their income from the sale of services that further their mission, such as the sale of tickets to performances. These charities must pass a one-third/one-third test. That is, they must demonstrate that their sales and contributions normally add up to at least one-third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

qualifying distributions Expenditures of a private foundation made to satisfy its annual payout requirement. These can include grants, reasonable administrative expenses, set-asides, loans and program-related investments, and amounts paid to acquire assets used directly in carrying out tax-exempt purposes.

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

real property Land, including land improvements, structures and appurtenances thereto, but excluding movable machinery and equipment.

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.

responsible investing (see socially responsible investing (SRI), environmental, social and governance (ESG) investing, impact investing and divestment of fossil fuels) An investment approach using one or more of SRI, ESG, impact investing, divestment of fossil fuels, and other related strategies.

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.

single life gift annuity A charitable gift annuity based and paid on the life of one person.

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.

social services organization A social services organization is an operating nonprofit (and the category includes schools that directly support them) that provides social programs to the public or that conducts research to benefit humanity (e.g., Boys and Girls Clubs, Blood Center, various research institutes). These are not grant-making organizations (rather they are typically recipients of grants from private and public schools).

socially responsible investing (SRI) 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 dollars The amount of money spent in dollars directly from the endowment.

spending rate The percentage of the portfolio's initial value that will be/has been spent.

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)

sunset policy A policy that specifies a termination date in the life of a nonprofit institution, such as a foundation or operating charity. The bylaws of many nonprofits do not address a termination date and they are therefore assumed to operate in perpetuity. An operating charity or foundation having a sunset policy would cease operations and distribute all its assets by a specified date. A high-visibility example is the Bill and Melinda Gates Foundation, which has specified that all of the foundation's resources will be spent within 50 years of Bill and Melinda Gates' deaths.

survivorship gift annuity A charitable gift annuity arranged during the donor's lifetime. A payment is made to the donor for life, then to the designated survivor for the rest of his/her life.

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.

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.

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.

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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I N S T I T U T E

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