Secondary Schools Face Budget Pressures Despite Strong Returns, NBOA-Commonfund Study Finds

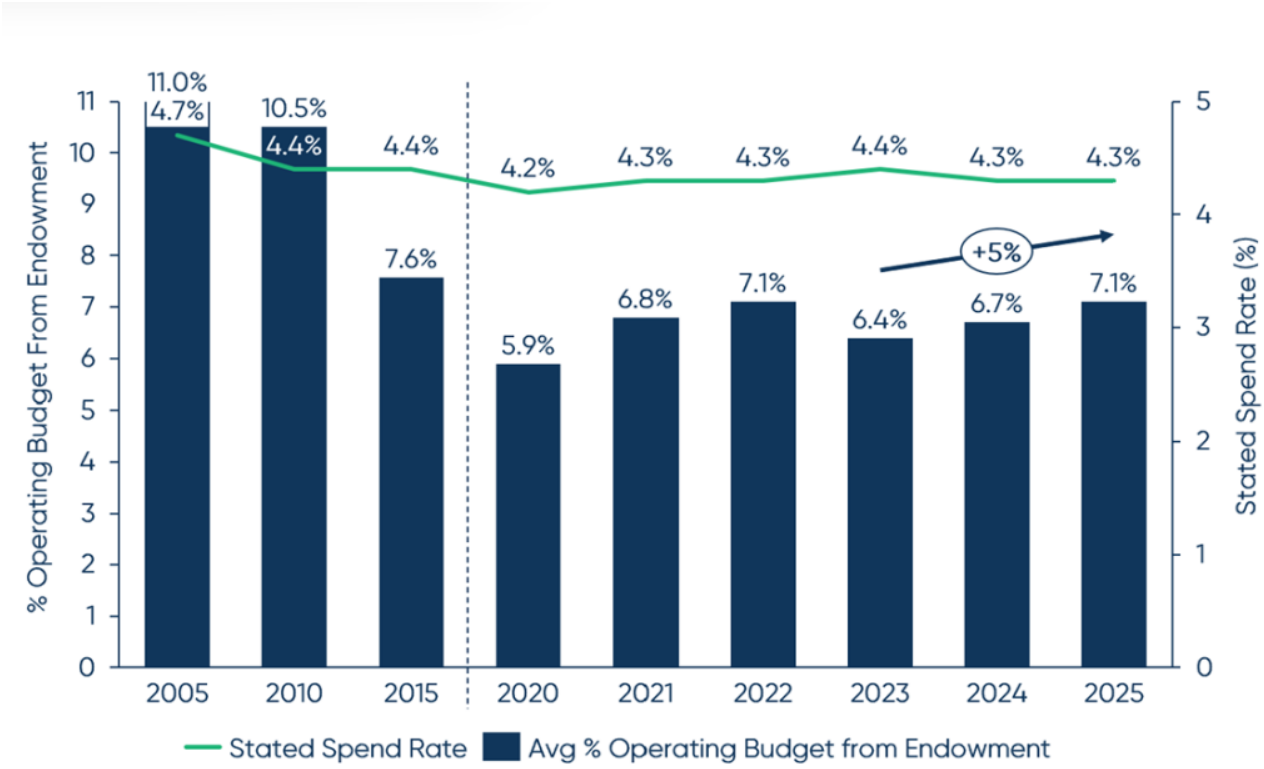
In FY25, the NBOA-Commonfund Benchmarks Study of Independent Schools reported annual returns of **11.5% across the peer set**, bringing **10-year average returns to 7.7%**. Independent schools remain concerned about **budget headwinds from both inflation and enrollment pressure**, despite strong market performance helping to increase operating budget support from the endowment and a moderate increase in annual gift budget support. Donor trends appear to be shifting, with major gifts becoming increasingly concentrated among a smaller group of donors. **OCIO usage continues to increase**, in part as a solution to budgetary pressures and increasing portfolio complexity.

Key themes from the report include:

- **Strong Investment Performance:** Investment performance remained strong in FY25, with an average annual return of 11.5%, modestly below FY24's 12.3% but still well above long-term returns for most institutions (average ten-year return is 7.7%). Size-based performance differences have reversed again, with larger endowments outperforming smaller endowments after smaller endowments outperforming FY23-24. Smaller endowments under $10M returned 10.9% in FY25, trailing the $10M–$50M and $50M+ cohorts at 11.6%. Over a three-year horizon, the smallest cohort outperformed, returning 12.7% versus 11.2% and 11.1% for the $10M–$50M and $50M cohorts, respectively. These performance shifts predominately reflect allocations of public vs. private equity, with larger endowments typically having larger allocations to private assets.
- **Operating Budget Support from Endowments Increased while Spending Rates Remained Steady**: Institutions are increasingly relying on endowments to support operating budgets (total average 7.1% in FY25 vs. 6.4% in FY23), even as total average stated spending rates have remained steady at 4.3%. This implies that the growth in operating budget support from the endowment is driven by strong investment performance rather than increased spending. This trend is most pronounced among the $50M+ cohort, where operating support from endowments rose from 7.8% in FY23 to 8.5% in FY25. While the short-term trends have increased,

they remain below the 2000s when both spend rates and operating budget support from the endowment were higher.

NBOA Stated Spend Rate and % Operating Budget from Endowment (FY05-FY25)



- **Increase in Annual Giving Budget Support**: Operating support from annual giving has also moderately increased over the past three years (6.8% in FY25 vs. 6.5% in FY23), particularly in schools with the largest endowments. Similar to endowment support, the increase in annual giving likely reflects strong market performance, as donors tend to give more during periods of investment gains.
- **Donor Trends Shifted:** While overall gifts (annual giving or endowment) vary from year to year, there is a clear trend that a majority of gifts are coming from fewer donors. Historically, 80% of donations came from 20% of donors, whereas now roughly 90% of donations come from just 10% of donors. Institutions are also seeing a continued shift toward restricted gifts, as donors are more focused on the impact of their gift. Despite the increase in dollars, median gifts per student have remained relatively stable. Fundraising remains a top concern for schools.
- **Increased OCIO Involvement:** Use of OCIO providers by secondary schools continues to expand, regardless of endowment size. As independent schools face operating budget pressures and constrained resources, the investment landscape becomes increasingly complex with the operational needs of alternatives, regulatory changes, and increased market volatility. OCIO providers can provide access to constrained investment opportunities and diligent risk management, freeing up time

for investment committees and business offices.

- **Inflation and Enrollment Headwinds Persisted:** Enrollment continues to be the top concern facing secondary schools, especially those with endowment assets under $10M. Demographic shifts are contributing to student population declines. However, enrollment declines disproportionately affect New England, New York, and New Jersey while the rest of the country experiences enrollment increases. Additionally, inflation remains a challenge, increasing operating costs and placing additional strain on budgets already more reliant on endowment and gift support.

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