Education Market Update

Industry Consulting Team | Q1 2023

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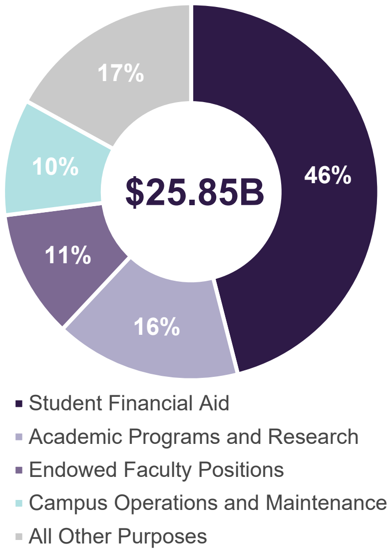
Events:

- **SACUBO Annual Meeting**
  April 23rd-25th
  Tampa, FL
- **NACUBO Annual Meeting**
  July 15th-18th
  Orlando, FL

Overall Endowment Spend

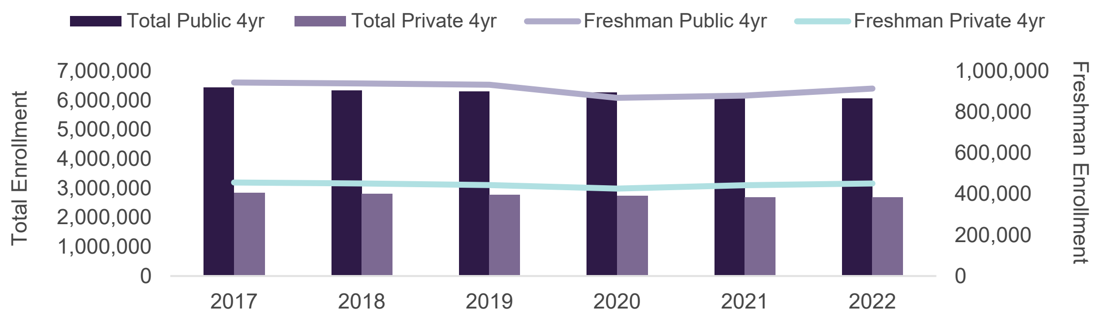


Enrollment pressures, rising costs, and the inability to increase tuition is disproportionately impacting stronger and weaker colleges. However, institutions remain committed to supporting students through increased endowment spend.

Higher Education Trend Highlights

- **Applications surge -** but not across the board. Well known schools received a record-breaking number of applications, up 20% from the 2019-2020 school year.
- **K-12 student pipeline** – according to a report by WICHE.edu, enrollment for grades 1 -12 in U.S. public schools decreased 1.6% from 2019 to 2020 and another 0.7% from 2020 to 2021. Some decline can be attributed to students moving to homeschooling or private school. Public school enrollment was estimated at 43.37 million fall of 2021.
- **Higher Ed freshman enrollment is up** – while overall enrollment is down across public and private 4yr universities.

Public and Private Higher Education Enrollment



Overall Endowment Spending Increased Despite Declining Returns

- Preserving endowments is a top priority for colleges and universities because they provide reliable revenue for students, even in market downturns.
- While institutions saw their endowment's value decrease, schools still boosted their spending to $25.85 billion in FY22, up from $23.89 billion in FY21, according to the NACUBO TIAA study.
- The pool of endowments total market value was down about 4% year over year at a total of $807 billion. Of this total market value, 84% was held by endowments with more than $1 billion in assets.
- The average endowment size was $1.2 billion, and the median endowment was $250 million.
- Schools with larger endowments, over $1 billion, only saw a 3.8% decline in value where on the other end of the spectrum, schools with endowments less than $100 million saw a 9.6% decline. This difference in value is likely driven by different investment allocations. Smaller endowments typically have a lower risk tolerance, fee sensitivity, and liquidity requirements. Smaller endowments usually invest in public fixed income and public equities, and those particular asset classes saw one of their most challenging periods in the second half of FY22.
- Typically, larger endowments have more flexibility which allows them to allocate exposure towards private asset classes such as private equity, venture capital, private real estate and private energy and infrastructure. These asset classes explain their outperformance.
- **Outlook on endowment expense allocation -** schools still reported an increase in spending for FY22 which mostly supported student financial aid. The chart to the left shows the endowment spending breakdown for FY22. Gifting helped provide endowments protection as it remained strong in FY22, up about 22% from the year before. While gifting rose, almost two-thirds of the institutions said that the gifting was specifically tagged for initiatives in diversity, equity and inclusion.

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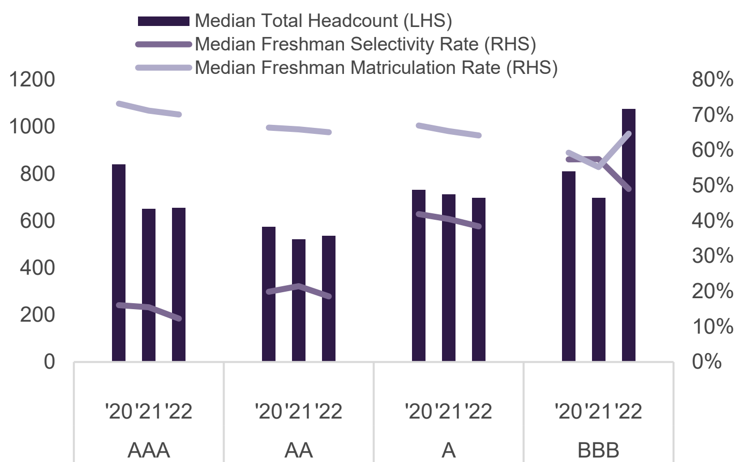
S&P's outlook for Independent Schools remains stable for 2023, but inflation and other economic factors will continue to impact the sector. Charter School outlooks from both Moody's and S&P are stable citing growing demand and a strong funding environment.

Private Independent School Outlook Remains Stable

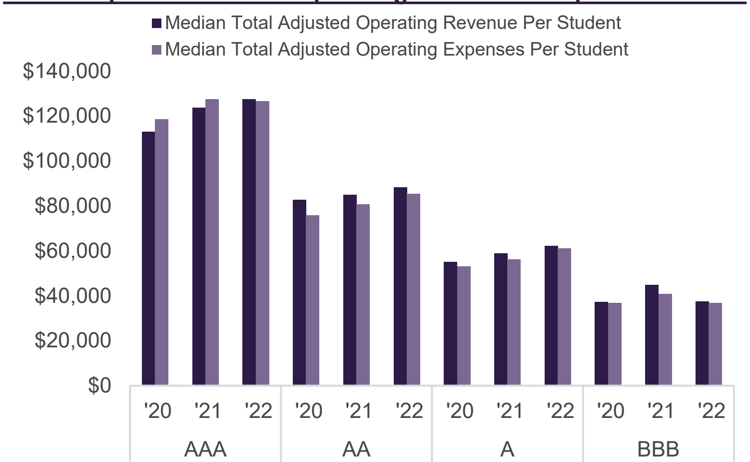
S&P Global Rating's outlook for the Independent School Sector was stable; the report cited "consistent demand despite other macro economic pressures" as the reasoning for the stable outlook. Enrollment continued to grow for many schools during 2022 and demand and selectivity metrics remained strong. S&P states that more than 60% of rated schools saw enrollment increases over the last two years "with over 12% of such schools seeing growth greater than 3%."

Inflationary pressures on labor and wages, tuition and financial aid, as well as rising construction and materials costs will remain a challenge in 2023 and could impact independent schools cash flow and capital spending. Per S&P, schools with strong balance sheets and greater financial flexibility will be able to weather some of the challenges facing the sector better than schools that are less fortunate.

S&P Independent School Enrollment & Demand Medians



S&P Independent School Operating Revenue & Expense Medians

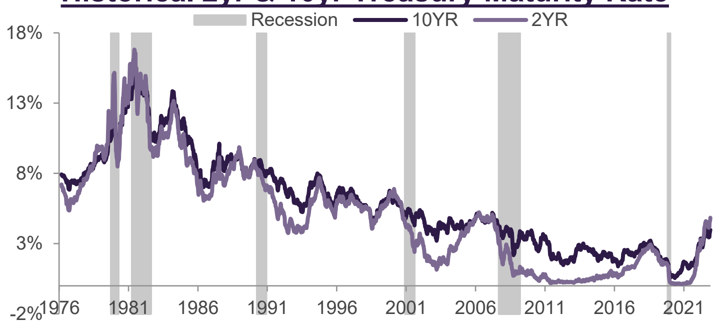


2023 Outlook for Charter Schools is Stable

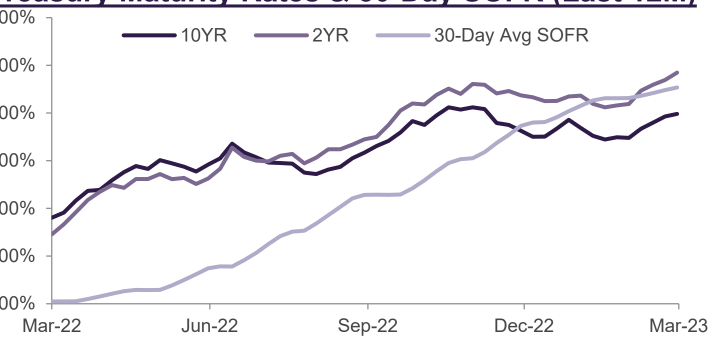
Both Moody's and S&P's outlook for the U.S. Charter School sector are stable noting growing enrollment, strong demand and favorable state funding. According to data from the National Alliance for Public Charter Schools, since the 2019-2020 school year charter school enrollment has increased over 7% from 3.3 million students up to 3.5 million students. Over the same time period, non-charter public school enrollment decreased nearly 3.5% from 43.2 million students down to 41.7 million students.

The Moody's outlook report stated that while state revenue growth has started to slowdown, their finances will likely remain strong enough for stable funding in fiscal 2024, and that if a recession were to take hold many states could avoid education cuts as their reserve levels are at historic highs.

Historical 2yr & 10yr Treasury Maturity Rate



Treasury Maturity Rates & 30-Day SOFR (Last 12M)



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Sources: Fitch Ratings; S&P Global Ratings, Moody's Investors Service; National Alliance for Public Charter Schools; St. Louis Federal Reserve (FRED); NACUBO- TIAA Study, Wiche.edu, National Student Clearinghouse Research Center