Council on Foundations - Commonfund

CCSF

Study of Foundations

INVESTMENT RETURNS | SPENDING RATE
ASSET ALLOCATION | **GIFTS**

2019

2019

Council on Foundations–Commonfund

Study of Investment of Endowments for Private and Community Foundations®

Annual report of the Council on Foundations and Commonfund Institute on investment and governance policies and practices of private and community foundations.

Council on Foundations - Commonfund | CCSF

WELCOME

September 2020

We are pleased to share with you the 2019 Council on Foundations—Commonfund Study of Investment of Endowments for Private and Community Foundations®, (CCSF) representing the eighth year of collaboration between the Council on Foundations and Commonfund Institute.

At this writing, it is difficult to look back at 2019 through the fog of the coronavirus pandemic and national protests in response to racial injustice and police brutality. These ongoing crises have blanketed our vision and memory since the early days of 2020. This year is truly unprecedented, not only because of the virus and civil unrest, but also because of the remarkable performance (to date) of the public equity markets in comparison to the turmoil present in the real economy. Next year's CCSF will offer a baseline for post-COVID analysis, but our focus in this study is on 2019. As we note in our recap of the investment environment (beginning on page 4), "the story of 2019 was that just about everything worked." Indeed, that is reflected in the strong returns posted by foundations participating in this Study—a most welcome development after the weakness of 2018. Beyond investment results, this Study shines light on the important underlying stories that shaped 2019—from asset allocation to spending to gifts and donations and more.

We are grateful that—amidst dealing with the competing priorities caused by the pandemic and the accompanying pressures on foundation staff—the number of foundations participating in the Study grew to 265 this year from last year's 236. This compares with 224 in 2017 and 203 in 2016, adding up to a 30 percent increase over these few years and making for a more robust and authoritative Study.

For that we wish to express our gratitude to the professionals and volunteers at participating foundations for their invaluable contributions of time and knowledge. Both the Council on Foundations and Commonfund Institute hope that this Study will serve as a valuable tool for boards and senior staff as they make decisions shaping the future of their foundations. In brief, we aim to help them become better *stewards* of their organization's mission and resources. As always, we welcome your comments and look forward to being of service to you in the future.

Kathleen P. Enright
President and CEO
Council on Foundations

Mark Anson
President and CEO
Commonfund

TABLE OF CONTENTS

LIST OF FIGURES

Executive Summary
2019 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®

The 265 private and community foundations participating in the 2019 Council on Foundations—Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF) represented $104.7 billion in assets. One hundred seventy-eight private foundations and 87 community foundations comprised the Study, which covers the 2019 calendar year. Regarding community foundations, this report presents data on community foundation endowment funds only; the data do not reflect the activity of the many different types of non-endowed funds that community foundations hold.

Investment Returns Strong

Investment returns for participating foundations were the highest of the decade in 2019: Private foundations reported an average return of 17.4 percent while community foundations reported an average return of 18.2 percent. By comparison, 2018 returns were the weakest of the decade: -3.5 percent for the private foundations and -5.3 percent for community foundations. (All return data are reported net of fees.)

The highest single return in 2019 came from community foundations with assets under $101 million, at 18.5 percent. Like other community foundations, this cohort benefited from a relatively high allocation to U.S. equities. Returns for the largest participating foundations—those with assets over $500 million—were strong but lagged on a relative basis. These foundations had smaller allocations to U.S. equities and the largest allocation to alternative investment strategies, which, while producing good absolute returns, were not able to keep pace with exceptional returns in the public equity markets.

The good one-year returns had a beneficial effect on trailing three- and five-year results. Three-year returns rose to an average of 9.2 percent for private foundations compared to last year's 6.1 percent; for community foundations, three-year returns averaged 8.9 percent versus last year's 5.6 percent. Trailing five-year returns increased to an average of 6.6 percent for private foundations, up from 4.7 percent, and to 6.4 percent for community foundations, up from 3.9 percent.

Trailing 10-year returns declined when 2009's strong return—the best annual performance since the Study's inception in 2002—dropped out of the calculation. For 2019, private foundations reported that 10-year returns averaged 7.8 percent, down from last year's 8.4 percent; for community foundations the 10-year return averaged 7.7 percent compared with last year's 8.2 percent.

Two Allocations Show Change

At December 31, 2019, participating foundations' asset allocations—and their comparable 2018 allocations—were:

	Private		Community	
	'18	'19	'18	'19
U.S. equities	24	27	30	33
Fixed income	9	9	17	18
Non-U.S. equities	17	18	23	24
Alternative strategies	46	42	26	23
Short-term securities/ cash/other	4	4	4	2

numbers in percent (%)

As the table shows, the allocation to alternative strategies declined for foundations of both types—by four percentage points for private foundations and three for community foundations. Allocations to U.S. equities increased by three percentage points for foundations of both types.

Year-over-year changes in allocations to the various sub-strategies within the larger alternatives category were generally minor. The exception was found in foundations' largest allocation, which was to marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives). This allocation declined to 14 percent from 15 percent for private foundations and to 11 percent from 15 percent for community foundations. This allocation was also lower for foundations of both types across the three size segments.

Spending Mixed in 2019

Participating foundations reported that their effective annual spending rate changed little year over year. Private foundations spent at an effective annual rate of 5.4 percent in 2019 compared with 5.7 percent in 2018; for community foundations, the rate rose to 4.8 percent in 2019 from 4.6 percent in 2018. (The effective spending rate is derived by dividing the amount spent on mission by the market value of the foundation's asset pool at the beginning of the year.)

Twenty-six percent of private foundations and 5 percent of community foundations reported increasing their effective spending rate in 2019 while 29 percent of private foundations and 10 percent of community foundations reported decreasing it. Both increases and decreases were modest: Increases were in the 1 percent-plus range, while decreases were under 1 percent.

Spending in dollar terms rose in 2019—most noticeably for community foundations, where 71 percent of Study respondents reported spending higher dollar spending, up from 52 percent in 2018. Fifty-four percent of private foundations reported spending more in dollars, one percentage point higher year over year. Thirty-seven percent of private foundations reported lower spending in dollars versus 23 percent of community foundations.

Gifts and Donations Weaker

Despite the strong investment environment in 2019, gifts and donations to community foundations were weaker. Thity-eight percent of community foundations reported increased giving compared with 55 percent that did so in 2018. Fifty-one percent reported a decrease in gifts, up from 36 percent the previous year. Community foundations with assets over $500 million separated themselves from the other two size cohorts, however, as 53 percent reported an increase—up from 30 percent last year—and just 13 percent reported a decrease compared with last year's 40 percent.

HOW TO READ THIS REPORT

This Council on Foundations—Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF) is the product of a collaboration between the Council on Foundations and Commonfund Institute. Our purpose is to provide a timely and reliable reference resource for those responsible for investment, financial and governance decisions at private and community foundations throughout the country. This section explains the structure of the Study and provides answers to commonly asked questions, both with the aim of helping readers and their organizations obtain the greatest benefit from the Study.

BACKGROUND

From 2002 to 2011, Commonfund Institute published the Commonfund Benchmarks Study® *Foundations Report*, an annual survey of independent and community foundations. In its current form, this Study commenced publication in 2012 as the Council on Foundations—Commonfund Study of Investments for Private Foundations (CCSF). During this period, community foundations continued to be covered in a separate Commonfund Benchmarks Study report. With the 2014 CCSF, we enhanced the report by offering a single, comprehensive Study of private and community foundations, thus reflecting our two organizations' joint vision of sharing information across foundation types. We acknowledge, however, that the many differences in policies and regulations at community and private foundations prevent strict one-on-one comparisons. The CCSF's format is built on data gathered from the 265 foundations 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 CCSF 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 in two primary ways for both types of foundation—private foundations and community foundations. The first is the total number of foundations responding to a particular question. The second breaks this total number of respondents into three cohorts, segmented according to the size of their foundation assets. The three size cohorts are foundations with total endowed assets:

Over $500 million

Between $101 million and $500 million

Under $101 million

Each size cohort is assigned its own color, which remains consistent throughout the report. The purpose of this color coding is to assist readers in locating the size

category relevant to their own foundations and finding the appropriate benchmark data. Supplemental data are provided in Appendix II ("Supplemental Tables"), 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 II presents asset allocation data calculated on an equal-weighted basis.

RESEARCH PROCESS AND METHODOLOGY

Data gathering took place in the second and third quarters of calendar 2020 using an online survey instrument.

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

The distribution of the 265 foundations across size and type was designed to produce data that are statistically representative throughout the full sample. This aspect of the research design supports the ability to benchmark foundations against true peers and enhances the stability of the data. Overall, 71 percent of this year's survey participants also participated in last year's Study. This participation rate breaks down into 71 percent of private foundations and 29 percent of community foundations. The community foundation repeat rate is lower than last year, in part due to the expansion of the Study universe to 265 foundations but also due to a change in composition; we view this as a positive development and where there are clear departures from data reported in previous Studies we prepared matched samples to determine whether the fluctuations can be attributed to new participants. Data may also change from year to year owing to significant migrations across size categories 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 the Study calculate three-, five- and 10-year investment returns for participating foundations?

Commonfund does not calculate returns for participating foundations. Each year we ask our Study participants to 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 Foundations" or "Responding Foundations." The Total Foundations label indicates that the figure depicts responses from the full set of 265 Study participants. "Responding Foundations" indicates that the responses come from a sub-set of participants. For example, Chapter 3's Figure 3.7, which depicts participating foundations' asset mix among various alternative investment strategies, carries the "Responding Foundations" label because 228 of the 265 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.

For community foundations, what assets are included as "endowed assets"?

For purposes of this Study, endowed assets comprise the long-term investable asset pool. All funds, whatever their source, that are invested and spent in the same manner as the foundation's long-term investable asset pool are included in the definition of endowed assets.

How are historical trends for community foundations determined if this is only the fifth year they are included in this report?

As noted above, historical trends for community foundations are derived from the Commonfund Benchmarks Studies data series. We have conducted matched sample evaluations of all data to ensure that year-to-year trends are accurately presented.

How are "community foundations" defined in the body of the Study?

Data included in the "community foundations" results are from foundations that self-selected community foundation when completing their submission to this report. These organizations should meet the Council on Foundations' definition of Community Foundations (see 'community foundation' in the glossary on page 38).

CHANGES TO THE CCSF FOR 2019

The content is somewhat different for this Study than it has been in the past. Mainly this involves the elimination of certain sections and a smaller overall report. This was done because of constraints resulting from the coronavirus pandemic. Both the Council on Foundations and Commonfund Institute wanted to respect the time and energy pressures imposed on foundation staffs by the pandemic. Reducing our request for data in certain areas accomplished this while enabling us to go forward with the Study and maintain the continuity built up over 18 consecutive years of research. Specifically, we eliminated two sections—responsible investing and resources/management/governance. We also chose not to request data on returns by asset class (other than alternative strategies), risk management and portfolio rebalancing. It is our intention to restore these areas of inquiry in the future, dependent on a return to a more normal working environment.

One change that will be permanent is the elimination of the Study's section on CCSF Leaders, which reported returns and asset allocation of those foundations whose one-year returns placed them in top 10 percent and top 25 percent of all Study participants. Our reason is that very fact: inclusion was based on one-year returns, which we felt over-emphasized short-term performance for organizations whose policies and practices should be guided by a long-term, if not perpetual, time horizon.

A primary reason behind the previous CCSF Leaders section was to allow foundations to compare themselves with others. We still believe comparison is valuable, so with this report we are introducing return tables ranking participating foundations (anonymously, of course) by decile and quartile for one-, three-, five- and 10-year periods for total foundations, private foundations and community foundations. We believe this is a much more meaningful and relevant form of analysis for foundations.

We are maintaining certain changes made for last year's report:

- Elimination of the chapter on debt. We have ceased publishing information on debt because the data being collected were not relevant to the foundation community.
- Adding discussion questions for the board and/or investment committee at the end of each chapter. These questions are based on the findings reported in each chapter and are meant to stimulate active discussion of current issues on topics covered in the report.
- Inclusion of additional "sidebar" commentaries. These are short notations regarding important topics touched on in the body of the main report.

We also continue with the "Viewpoint" essay that has been a part of the report since 2011. Viewpoints are longer, more in-depth discussions of trends and topics. Viewpoints are derived from Study data (or other relevant research), often by looking back at how data evolved over multiple years but also by comparing foundation data to that reported in other studies of the nonprofit sector and institutional investment practices overall.

Chapter 1
The Council on Foundations—Commonfund Study of Investment of Endowments for Private and Community Foundations

INTRODUCTION

Two hundred sixty-five foundations, representing $104.7 billion in assets, participated in this year's Council on Foundations—Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF). In this report, participating foundations are segmented by type into three cohorts based on asset size to facilitate analysis and comparison. The size categories and the number of foundations in each are shown in Figure 1.1, while the composition of participating foundations by type—private, family and community—is shown in Figure 1.2.

Seventy-one percent of private foundations and 29 percent of community foundations participating in this year's CCSF also participated in last year's Study. In preparing this report, we have examined matched samples of 2018 and 2019 data where there are significant year-over-year changes that may have resulted from differences in the composition the Study universe. Any instances where data are different owing to changes in composition are noted.

Where data for years prior to 2012 are cited, they are derived from the predecessor Commonfund Benchmarks Study® *Foundations Reports* and have been recalculated to include the relevant foundation type in order to present an accurate comparison. These numbers may, therefore, differ from those published in previous Commonfund Benchmarks Studies.

It is important to note that we have included information and data for community foundation *endowment* funds only; the results herein do not, therefore, reflect the activity of the many different types of funds that community foundations hold that are *non-endowed*, such as non-endowed designated, field-of-interest, agency, scholarship and donor-advised funds, temporary project funds, and pass-through funds.

Figure 1.1 Foundations by Size

number of foundations		Total Foundations		Private		Community	
		'18	'19	'18	'19	'18	'19
Large	Total assets over $500 million	38	95	26	57	12	38
Mid-size	Total assets between $101-$500 million	106	126	81	92	25	34
Small	Total assets under $101 million	92	44	54	29	38	15
Total Foundations		236	265	161	178	75	87

Figure 1.2 Foundations by Type

number of foundations	'18	'19
Private foundations (independent)	107	125
Private foundations (family)	54	53
Community foundations	75	87
Total Foundations	236	265

Foundations, both private and public, are subject to specific state laws governing investment and spending of endowed funds. Virtually all of the states and the District of Columbia have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets forth requirements that foundations must observe when investing and spending, among other matters. Community foundations, in particular, establish prudent spending policies informed by the requirements of UPMIFA.

PARTICIPATING FOUNDATIONS' RETURN DATA

As mentioned in the introductory section ("How to Read this Report"), we have replaced the previous CCSF Leaders data tables and accompanying analysis with tables summarizing participating foundations' return data ranked by decile and quartile for one-, three-, five- and 10-year periods. There are three tables, one each for Total Foundations, All Private Foundations and All Community Foundations.

Figure 1.3 Total Foundations

numbers in percent (%)

Deciles	1-Year	3-Year	5-Year	10-Year
90th percentile	22.1	11.2	7.9	9.2
80th percentile	20.4	10.3	7.3	8.5
70th percentile	19.5	9.7	7.0	8.1
60th percentile	18.6	9.2	6.7	7.9
50th percentile (median)	17.9	9.0	6.4	7.6
40th percentile	17.2	8.7	6.2	7.3
30th percentile	16.5	8.4	5.9	7.1
20th percentile	15.4	7.9	5.5	6.6
10th percentile	13.7	7.1	5.1	6.0
Quartiles				
75th percentile	19.8	9.9	7.1	8.3
50th percentile (median)	17.9	9.0	6.4	7.6
25th percentile	16.2	8.2	5.7	6.8

Figure 1.4 All Private Foundations

numbers in percent (%)

Deciles	1-Year	3-Year	5-Year	10-Year
90th percentile	22.4	11.5	8.2	9.5
80th percentile	20.2	10.6	7.4	8.7
70th percentile	19.2	9.8	7.0	8.2
60th percentile	18.1	9.3	6.7	7.8
50th percentile (median)	17.6	8.9	6.3	7.5
40th percentile	16.9	8.6	6.1	7.2
30th percentile	16.1	8.4	5.8	6.9
20th percentile	14.9	7.9	5.5	6.5
10th percentile	13.5	7.1	4.8	5.9
Quartiles				
75th percentile	19.6	10.2	7.2	8.4
50th percentile (median)	17.6	8.9	6.3	7.5
25th percentile	15.4	8.1	5.6	6.7

Figure 1.5 All Community Foundations

numbers in percent (%)

Deciles	1-Year	3-Year	5-Year	10-Year
90th percentile	21.8	10.5	7.7	8.6
80th percentile	20.6	9.9	7.1	8.3
70th percentile	19.8	9.5	6.9	8.0
60th percentile	19.3	9.2	6.7	7.9
50th percentile (median)	18.9	9.1	6.4	7.7
40th percentile	17.9	8.9	6.2	7.5
30th percentile	17.2	8.4	6.0	7.2
20th percentile	16.7	8.0	5.7	6.7
10th percentile	15.6	7.3	5.2	6.4
Quartiles				
75th percentile	20.1	9.7	7.1	8.3
50th percentile (median)	18.9	9.1	6.4	7.7
25th percentile	17.0	8.2	5.9	6.9

Chapter 2
Returns and Investment Objectives

GLOBAL INVESTMENT ENVIRONMENT

In a capsule, the story of 2019 was that just about everything worked. Public equities produced exceptional returns, fixed income was strong, and private equity and venture capital generated solid gains. U.S. markets led the way, but international developed and emerging markets delivered good returns as well. As the table of widely-watched benchmarks that follows indicates, none of the indices finished the year in negative territory. Even those that lagged—e.g., distressed debt, commodities and hedge funds—generally produced returns in the range of 3.0 – 7.0 percent.

The broad market Russell 3000 Index returned 31.0 percent in 2019, just about level with the S&P 500 Index, which returned 31.5 percent. The Nasdaq Composite Index was even stronger, posting a 36.7 percent advance. All four quarters saw gains in the S&P 500, and all 11 sectors that comprise the index recorded positive returns. Information technology led the way at 50.3 percent; energy posted the lowest return among the sectors, 11.9 percent. This was a far cry from 2018, when the S&P 500 and the Russell 3000 returned -4.4 percent and -5.2 percent, respectively.

The foundation for the uniformly good results posted by U.S. equities was a stable economy. Unemployment receded to a 50-year low, inflation was muted, consumers spent willingly and companies delivered better-than-expected earnings. While the strong economy primed stocks for a good year, the factor that really propelled them to record levels was three interest rate reductions by the Federal Reserve. This stood in sharp contrast to 2018, when the Fed raised short-term rates four times. In a statement after its December meeting, the Fed offered an upbeat view on the economy and signaled it could hold interest rates steady through next year. The declining interest rates propelled the Bloomberg Barclays U.S. Aggregate Bond Index to an 8.7 percent return, well ahead of 2018's 0.0 percent return.

Globally, there was an undercurrent of concern, chiefly related to the U.S.-China tariff dispute. Throughout the year, equity markets reacted positively or negatively to each pronouncement emanating from Washington or Beijing. Eventually, investors concluded that their worst tariff concerns would not likely materialize and, although messy, Brexit, too, began to show progress toward a resolution. As the year progressed, bond markets stabilized and the yield curve steepened on optimism that the U.S. economy would not slow. Indeed, around the world there was increasingly positive sentiment that economic growth would rebound from recent anemic levels, a feeling reflected in the 22.5 percent return posted by the MSCI World Ex-U.S. Net Index. While not quite as robust as the U.S. market, European equities posted a 26.1 percent return, as measured by the MSCI Europe – Net Index (local currency), a welcome reversal from 2018's -10.5 percent result.

Turning to alternative investment strategies, venture capital and private equity had a good year in 2019, returning 16.2 percent, according to the Burgiss Private IQ VC & PE benchmark. As noted in the table, this performance was above trailing returns for three-, five- and 10-year periods. In the U.S., 2019 saw a boom in M&A and IPO activity with notable exits from Uber, Lyft, Slack, Pinterest and Zoom, among others. The public markets continued to reward high growth companies but maintained a sharper focus on unit economics, cash burn and paths to profitability. While there was a renewed sense of scrutiny on consumer companies and their business models, there was also a strong appetite for companies demonstrating repeatable revenues and strong margins, with enterprise software companies such as Zoom, Crowdstrike and Datadog highlighting this theme.

The aggregate value of venture capital deals for U.S. companies reached a new peak of $104 billion in 2019. Despite this growth in aggregate deal value, the number of deals decreased 18 percent from 2018 to 4,637 deals in 2019. The average size of venture capital investment in U.S. companies was $224 million in 2019, up from $181 million the previous year.[1]

Private equity markets saw steady but increasing entry purchase price multiples. This factor, combined with a continued low interest rate environment, led to a strong seller's market and significant distributions to investors. Tech-focused PE funds continued to outperform comparable strategies in North America. The 18.9 percent 10-year horizon internal rate of return (IRR) figure is nearly five percentage points higher than that for non-tech PE buyouts and almost double that for non-tech growth funds.[2]

In terms of European and Asian VC and PE, increasingly over the last couple of years—including 2019—the largest venture-backed liquidity events occurred on a global scale. Eight of the top 10 IPOs took place outside the U.S., including companies based in China, Europe and India.

European private equity partners tended to be more cautious given the political and economic uncertainty around Brexit as well as signals indicating the possibility of recession. Currency was a factor during 2019, with year over year euro depreciation of 2.2 percent, while sterling appreciated 3.9 percent, fueled by a fourth quarter gain of 7.9 percent.

In markets for real assets and natural resources, volatility in 2019 stemmed from ongoing trade disputes, leading to a decline in valuations, particularly in oil and gas. Reduced capital access drove some of the pullback in production activity. One growing trend to emerge was sustainable investing. Opportunities continue to be seen in several sectors, including renewables and related strategies; food, agriculture and water; and resource efficiency and broader sustainability.

With public equity markets posting one of the strongest one-year returns of the last three decades in a characteristically "risk-on" environment, 2019 was not a year in which hedge fund strategies—which typically have a market beta of less than 1—generally kept up with broad indices on a total return basis. For instance, the HFRI Equity Hedge Index,

1 Source: U.S. Venture Capital in 2019, Preqin and First Republic Bank.

2 Source: Pitchbook 4Q_2019 Analyst Not Overview of Tech Focused PE Funds.

One-, Three-, Five- and 10-year Returns for Periods Ending December 31, 2019

numbers in percent (%)

Index	1-Year	3-Year	5-Year	10-Year
S&P 500	31.5	15.2	11.7	13.5%
Russell 3000	31.0	14.5	11.2	14.5%
MSCI ACWI	26.6	12.4	8.4	8.8%
MSCI World ex-U.S.	22.5	9.3	5.4	5.3%
MSCI Europe*	26.1	7.5	6.7	7.8%
MSCI Emerging Markets Free Net	18.4	11.6	5.6	3.7%
Burgiss Private IQ**	16.2	15.6	12.7	13.6%
Bloomberg Barclays US Aggregate Bond	8.7	4.0	3.1	3.7%
HFRI Distressed Debt	2.9	2.4	2.6	4.5%
HFRI Funds of Funds Composite	8.4	3.9	2.4	2.8%
NCREIF	6.4	6.7	8.2	10.2%
Wilshire Real Estate Securities	23.5	7.8	6.1	11.2%
Bloomberg Commodity	6.5	-0.9	-4.2	-4.7%
3-Month Treasury Bill (Average Yield)	2.3	1.7	1.1	0.6%

*local currency

**Venture Capital and Private Equity Point to Point Group Median IRRs as of December 31, 2019. Benchmark returns calculated through Burgiss Private IQ.
Sources: Bloomberg, Burgiss

the strategy most directly comparable to equities, was up approximnately13.7 percent while the Fund of Funds Composite returned 8.4 percent. For investors in search of a source of diversifying absolute return in their hedge funds, the year was better versus 2018 in that nearly every strategy was positive, though results were mixed across strategies.

One bright spot was in credit-oriented relative value, with many managers continuing to play roles in the evolving credit markets once occupied by banks and other dealers. Meanwhile, in the macro area, where managers take risks in broad country- and index-level positions, the HFRI Macro Index return of 6.5 percent was the strategy's strongest in nearly a decade. Equity market-neutral meanwhile was among the most challenged strategies for the second consecutive year. Among other contributing factors, the unusually narrow leadership in the U.S. equity market that was concentrated in a small number of mega- and large-cap stocks (such as the so-called FAANGS) tended not to reflect the portfolio approach of a typical market-neutral strategy, more often biased to smaller-cap names and rarely allocated in proportion to their returns.

PRIVATE AND COMMUNITY FOUNDATION RETURNS

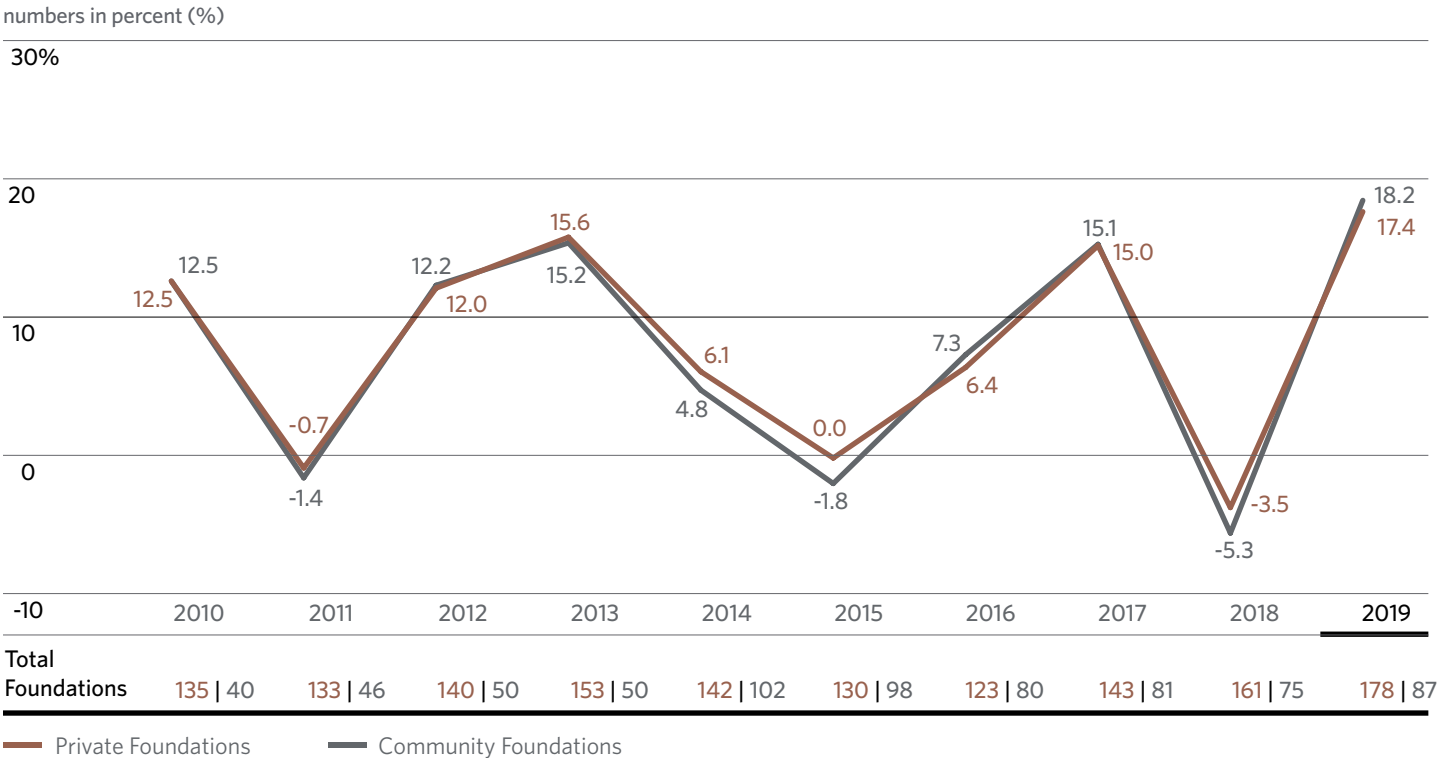
Foundations participating in the 2019 CCSF reported strong yearly returns: 17.4 percent for private foundations and 18.2 percent for their community counterparts. In addition to being solid absolute gains, these results were notable for two reasons:

- They represented a complete reversal of 2018, when returns were negative: -3.5 percent for private foundations and -5.3 percent for community foundations. These returns were the poorest of the past decade.

- They were the highest returns of the decade and the best since 2009, when private foundations realized a return of 20.5 percent and community foundations secured a 22.1 percent return.

When 2019 data are analyzed by size and type of foundation, community foundations secured the higher return in two of the three size cohorts and were level with private foundations in the third. This represented a departure from last year's return pattern, when private foundations reported better relative returns across all three size cohorts (all were negative, however).

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



* Previously published 2010 and 2011 numbers were recalculated to show private foundations and community foundations separately.

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

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
2019 net annual return	17.4	18.2	16.1	17.6	18.1	18.1	17.0	18.5
3-year net annualized return	9.2	8.9	10.3	9.0	9.3	8.9	8.6	8.8
5-year net annualized return	6.6	6.4	8.2	6.4	6.4	6.4	5.8	6.4
10-year net annualized return	7.8	7.7	9.4	7.8	7.6	7.5	7.2	7.9

Although strong on an absolute basis, the 16.1 percent return reported by private foundations with assets over $500 million was actually the lowest relative return of any size/type segment. The highest single return, 18.5 percent, was reported by community foundations with assets under $101 million. Community foundations in this size cohort benefited from having the largest allocation to the top-performing asset class, U.S. equities, while private foundations with assets over $500 million had the smallest allocation to this asset class.

LONGER-TERM RETURNS

Importantly, the good returns gave a meaningful boost to trailing three- and five-year results. Private foundations saw average three-year returns rise to 9.2 percent from last year's 6.1 percent; community foundations saw three-year returns rise to 8.9 percent from 5.6 percent last year. For private foundations trailing five-year returns rose to 6.6 percent from 4.7 percent a year ago; community foundations reported five-year returns averaging 6.4 percent, up from last year's 3.9 percent.

Trailing 10-year returns were moderately lower year over year, but only because 2009's exceptional returns dropped out of the calculation. Private foundations reported a 10-year return that averaged 7.8 percent while community foundations realized a 7.7 percent return. Comparable year-ago figures were 8.4 percent and 8.2 percent, respectively.

Over the trailing 10-year period, private foundations with assets over $500 million reported the highest average annual return, 9.4 percent. These largest foundations also reported the highest returns for trailing three- and five-year periods. Returns for the other five size/type segments ranged from 7.2 percent to 7.9 percent.

ALTERNATIVE STRATEGIES RETURNS

As mentioned in the "How to Read this Report" section beginning on page vi, this year's CCSF does not break out returns by asset class, except for alternative strategies. This accommodation was made in light of reordered priorities imposed on foundations by the coronavirus pandemic. Assuming a return to a more normalized working environment, it is our intention to resume gathering and reporting this data in future Studies.

Regarding returns for the various alternative strategies, venture capital produced 2019's highest return, 14.0 percent for private foundations and 16.4 percent for community foundations. This was followed by three strategies with similar returns: private equity, marketable alternatives and private real estate. Private equity produced returns of 9.3 percent for private foundations and 10.0 percent for community foundations; respective marketable alternative returns were 9.6 percent and 9.3 percent. Private real estate generated a return of 9.0 percent for private foundations and 10.6 percent for community foundations. Commodities and managed futures—last year's laggard among alternative strategies—reversed direction and produced gains of 7.0 percent for private foundations and 8.1 percent for community foundations.

Figure 2.3 1-Year Returns for Alternative Strategies for 2019

numbers in percent (%)	Total Foundations	
	Private	Community
	178	87
Alternative strategies		
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	9.3	10.0
Private credit	8.7	7.5
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	9.6	9.3
Venture capital	14.0	16.4
Private real estate	9.0	10.6
Energy and natural resources	-0.9	5.5
Commodities and managed futures	7.0	8.1
Distressed debt	5.5	4.1

STANDARD DEVIATION

In a new area of inquiry in last year's report, we asked about foundations' annualized standard deviation of net returns. This year's data show a different pattern from that of a year ago. In the 2018 report, three- and five-year standard deviations did not vary greatly for private and community foundations, but the 10-year figure widened to 8.7 percent for private foundations and 7.5 percent for community foundations. This year, three- and five-year data were more dispersed for foundations of both types. The 10-year data, however, were much tighter, as the standard deviation for private foundations was 7.2 percent and for community foundations it was 7.4 percent.

The Diversification Dividend

Venture capital delivered a sound 16.4 percent return for community foundations in 2019. But, as shown in Figure 3.7 on page 21, these foundations had an average venture capital allocation of just 1 percent. Further, only the largest community foundations reported an allocation—those in the other two size cohorts reported no allocation to venture capital.

Potential outperformance is one rationale for alternative investments. Another is portfolio diversification. Although alternatives did not keep pace with the exceptional returns generated by the public markets in 2019, in 2018 they proved their value as a diversifier. That year, when participating foundations reported U.S. equity returns in the -5.0 to -6.0 percent range, most alternative strategies provided positive returns. For example, foundations participating in the Study for 2018 reported venture capital and private equity returns in the range of 9.5 to 13.3 percent.

Figure 2.4 Annualized Standard Deviation of Net Returns

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
3-year standard deviation	6.8	7.7	5.2	*	7.4	7.6	7.0	8.2
5-year standard deviation	6.4	7.6	5.2	*	7.0	7.5	6.3	7.7
10-year standard deviation	7.2	7.4	6.2	*	8.0	7.6	6.6	*

*sample size too small to analyze

Figure 2.5 Long-Term Return Objectives

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Have return objectives	83	67	86	87	83	68	81	58
Do not have return objectives	15	26	14	13	14	24	16	34
No answer/uncertain	2	7	0	0	3	8	3	8
Average	7.0	7.2	*	*	6.9	7.1	7.1	*
Median	7.3	7.3	*	*	7.3	7.0	7.3	*

*sample size too small to analyze

LONG-TERM RETURN OBJECTIVES

Eighty-three percent of private foundations said they have long-term return objectives, about the same as last year's 82 percent. The data for community foundations were quite different, as 67 percent said they have long-term return objectives, a measurable change from last year's 76 percent. Fifteen percent of private foundations and 26 percent of community foundations this year said they do not have long-term return objectives.

For private foundations with long-term return objectives the average target was a return of 7.0 percent, moderately lower than last year's average of 7.3 percent. Community foundations reported a target of 7.2 percent, also slightly lower than last year's 7.7 percent. The median long-term investment objective was the same for foundations of both types at 7.3 percent.

When data are viewed by size and type, private and community foundations with assets over $500 million reported having long-term investment objectives at about the same rate, 86 percent and 87 percent, respectively. In the remaining two size cohorts, private foundations consistently reported having return objectives at a higher rate than their community counterparts.

To set their return objectives, foundations frequently target a nominal percent rate of return or they target a percent spread above inflation. While these are still widely used methods, the rates at which they are employed shifted this year compared to last. Private foundations used the percent spread above inflation method at a higher rate this year compared to last—41 percent versus 37 percent—while community foundations used it less frequently—25 percent this year, 33 percent last. This year foundations of both types used the target nominal rate of return at the same frequency, 26 percent. This represented a one-percentage-point increase for private foundations but a five-percentage-point decline for community foundations. We note that 33 percent of private foundations and 49 percent of community foundations responded either "other" or "no answer/uncertain."

Topping the Target

Last year we observed that for the first time in a decade foundations' 10-year returns surpassed their long-term return objectives. Although 10-year trailing returns were somewhat lower this year (as noted earlier, because the strong 2009 return dropped out of the 10-year calculation), actual returns once again met and surpassed long-term return objectives. Private foundations reported a 10-year return of 7.8 percent; this compares to their average target of 7.0 percent. Community foundations realized a 10-year return of 7.7 percent compared with their average objective of 7.2 percent. These strong returns bode well for intergenerational equity and mission support in the future.

When data are viewed by size, the largest foundations used the percent spread above inflation method most frequently, with usage rates exceeding 50 percent for foundations of both types.

When using this methodology, private foundations reported that their rate of inflation was 5.2 percent; community foundations used a very similar 5.1 percent spread over inflation. Last year foundations of both types used 5.1 percent as the rate above inflation.

CHAPTER 2 DISCUSSION QUESTIONS

After good returns in 2019 and surprisingly strong returns year to date in 2020, some pundits are looking for a regression to the mean. Has your investment committee debated this point?

Larger foundations participating in the Study reported having long-term investment objectives at a higher rate than foundations in the other two size cohorts. If your foundation has assets below $500 million (meaning it is in one of the two smaller size cohorts), what do you think is standing in the way of adopting a long-term return target? Is it something that should be a higher priority?

Figure 2.6 Method Used to Define Return Objectives

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Target nominal % return	26	26	17	20	27	32	28	24
% spread above rate of inflation	41	25	52	53	41	18	35	21
Other	15	15	17	13	13	18	16	13
No answer/uncertain	18	34	14	14	19	32	21	42

Figure 2.7 Percentage Spread Above the Rate of Inflation

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	73	22	15	8	38	6	20	8
% spread above rate of inflation	5.2	5.1	5.0	*	5.3	*	5.2	*

*sample size too small to analyze

Viewpoint
Meeting the Moment

Some foundations have responded to the call of mission by increasing spending in response to exceptional needs created by COVID-19. But there is a trade-off: the potential erosion of endowment value over the long term. We surveyed what foundations are doing now and modeled potential future implications of higher spending today.

With the coronavirus pandemic exploding into a worldwide healthcare and economic crisis, we followed up our questionnaire about 2019 (the focus of this Study) with a question about an action related to 2020: *What changes has your foundation made to spending in response to the virus?* Most respondents reported holding their effective spending rate steady: fifty-four percent of private foundations and 67 percent of community foundations said that at the time of taking the survey they had made no change to their spending rate in response to the pandemic.

Among foundations changing their spending rate, those reporting increases were well in excess of those reporting decreases. Thirty-five percent of private foundations and 28 percent of community foundations reported increasing their spending rate; just 6 percent of private foundations. Among community foundations, 28 percent said they increased their spending rate compared with just 3 percent reporting they decreased it. (Five percent of private foundations and 2 percent of community foundations gave no answer or were uncertain.)

As the accompanying table shows, 48 percent of private foundations with assets over $500 million reported increasing their spending rate, while just 3 percent decreased it. In the same size cohort, 40 percent of community foundations said they increased their rate, 60 percent held it steady and none reduced it. As data in the table show, the majority of respondents in the other two size cohorts reported no change.

We should note that the question about 2020 spending asked respondents to report any spending changes they had already made at the time of taking the survey related specifically to the COVID-19 pandemic, not any changes they planned to make going forward. A complementary study conducted by the Council on Foundations, Philanthropy California and Dalberg Advisors looked at what changes in giving foundations plan to make as a result of 2020's compounding crises of COVID-19 and racial justice. To see the results of that study, please see *Shifting Practices, Sharing Power? How the US Philanthropic Sector is Responding to the 2020 Crises*.

Figure VP.1 COVID-19 Spending Changes

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Increased spending	35	28	48	40	38	21	23	29
Decreased spending	6	3	3	0	3	9	12	0
No change	54	67	38	60	59	68	56	68
No answer/uncertain	5	2	11	0	0	2	9	3

Today's Need ... and Tomorrow's

A commitment to increase spending in the face of a crisis without precedent in living memory is laudable and consistent with the missions of a great many foundations participating in the Study. At the same time, it raises questions about intergenerational equity: How will stepping up to an immediate need today impact the ability to respond to a crisis in the future? What is the likelihood that higher spending today—even if temporary—will diminish future endowment value and thus future spending?

We sought answers to these questions by creating models based on various spending scenarios, and using the actual asset allocations as reported by private foundations participating in this year's Study (shown in the table below) – with the assumption of maintaining intergenerational equity. We chose to concentrate our analysis on private foundations because they generally do not engage in fund-raising and, instead, rely upon the founder's (or founders') original endowment. Community foundations choosing to elevate their spending levels in response to COVID-19 may decide to support that increase through fund-raising, and thus may not have to increase their draw on existing endowment assets.

Average Asset Allocation* for Private Foundations for 2019

numbers in percent (%)

U.S. equities	27
Fixed income	9
Non-U.S. equities	18
Alternative strategies	42
Short-term securities/cash/other	4

*dollar-weighted

We used the Commonfund Allocation Model (CAM) to analyze the effects of the various spending scenarios over a 20-year period. The CAM creates Monte Carlo simulations based on user forecasts for returns, volatility and correlation (and, in this case, spending) and runs these simulations for the time period specified. Analyzing the distribution of thousands of data points, the CAM can calculate model annualized returns, medians, standard deviations, market values and percentiles for different outcomes for entire portfolios.[1] The CAM model is one of many models used to forecast spending scenarios and the information below is based on certain assumptions. Each foundation making spending decisions should use models that take their specific circumstances into account.

Figure VP.2 shows how the CAM projects the 20-year outcomes of spending at various levels—with an assumption of wanting to maintain intergenerational equity. A closer look at five of these scenarios illustrates the trade-off between spending rates and preservation of endowment values as well as the size of the fund after 20 years and total dollars distributed (these five scenarios are shown graphically in Figure VP.3).

Scenario #1

A foundation with a $100 million endowment has a policy of spending 5 percent of a moving three-year average of endowment value. At that effective spending rate, the model calculates a 54.9 percent chance of maintaining the endowment's value in real terms over 20 years or "intergenerational equity." The median ending market value is projected to be $173.9 million and the cumulative spending over that 20-year period is projected to total $135.4 million.

1 No financial model or simulation can predict the future or account for the infinite number of possible outcomes in forecasting investment returns or risks. In order to assess the predictive value of any forecast, one should seek to understand the underlying assumptions and information that are used to generate the forecast. The results of CAM will vary with any change to the inputs: asset allocation, spending rates or methods, contributions, or beginning market value. The results will also change with any periodic updates to the model starting point. Because the model uses asset class returns, it is not intended to evaluate or simulate the results of any specific investment program offered by Commonfund. The assumptions used for these models can be found in Appendix III on page 33. These simulations and the assumptions used are just one of many ways to model scenarios to help with spending decisions and the scenarios presented here are not meant to represent definitive or absolute ways in which to model these scenarios. Important notes pertaining to the CAM tool used to model these scenarios can also be found in Appendix III.

Figure VP.2 Spending Scenarios in Response to the Pandemic

		Intergenerational Equity*	Median Ending Market Value ($M) | Nominal	Cumulative Spend over 20-year Period ($M) | Nominal
Scenario #1	5% Normal Spending Policy	54.9	173.9	135.4
Scenario #2	6% Spend	38.1	140.2	147.0
Scenario #3	6% Spend for 2 Years, 5% Thereafter	47.9	158.9	134.2
	6% Spend for 3 Years, 5% Thereafter	47.1	157.3	134.6
	7% Spend	24.0	112.3	155.4
Scenario #4	7% Spend for 2 Years, 5% Thereafter	45.3	153.5	133.6
	7% Spend for 3 Years, 5% Thereafter	43.2	150.2	133.9
	10% Spend	2.6	54.7	166.1
Scenario #5	10% Spend for 2 Years, 5% Thereafter	37.1	137.8	131.8
	10% Spend for 3 Years, 5% Thereafter	33.2	130.1	132.1

*Intergenerational equity refers to the percent probability that the portfolio assets are preserved after accounting for the foundations' spending rate and inflation.

Scenario #2

If the same foundation increased its spending policy to 6 percent for the entire period, there is only a 38.1 percent chance of maintaining purchasing power over 20 years. Although the cumulative spend rises to $147.0 million, the median ending market value of the endowment increases only to $140.2 million, as compared to the $173.9 million median market value in the 5 percent spend scenario.

Scenario #3

What if the foundation with a 5 percent spending policy decided to increase its spending rate to 6 percent for two years and then revert to the normal 5 percent spend for the remainder of the time period? In this case, there is a 47.9 percent likelihood of achieving intergenerational equity. The median ending market value of the endowment would be $158.9 million and cumulative spending would total $134.2 million. (Compare this to Scenario #1. How is it that spending more for the first two years results in a lower cumulative spend than a level 5 percent over the 20-year period, i.e., $134.2 million versus $135.4 million? Because spending more for two years reduces the amount available to compound over the remaining 18 years.)

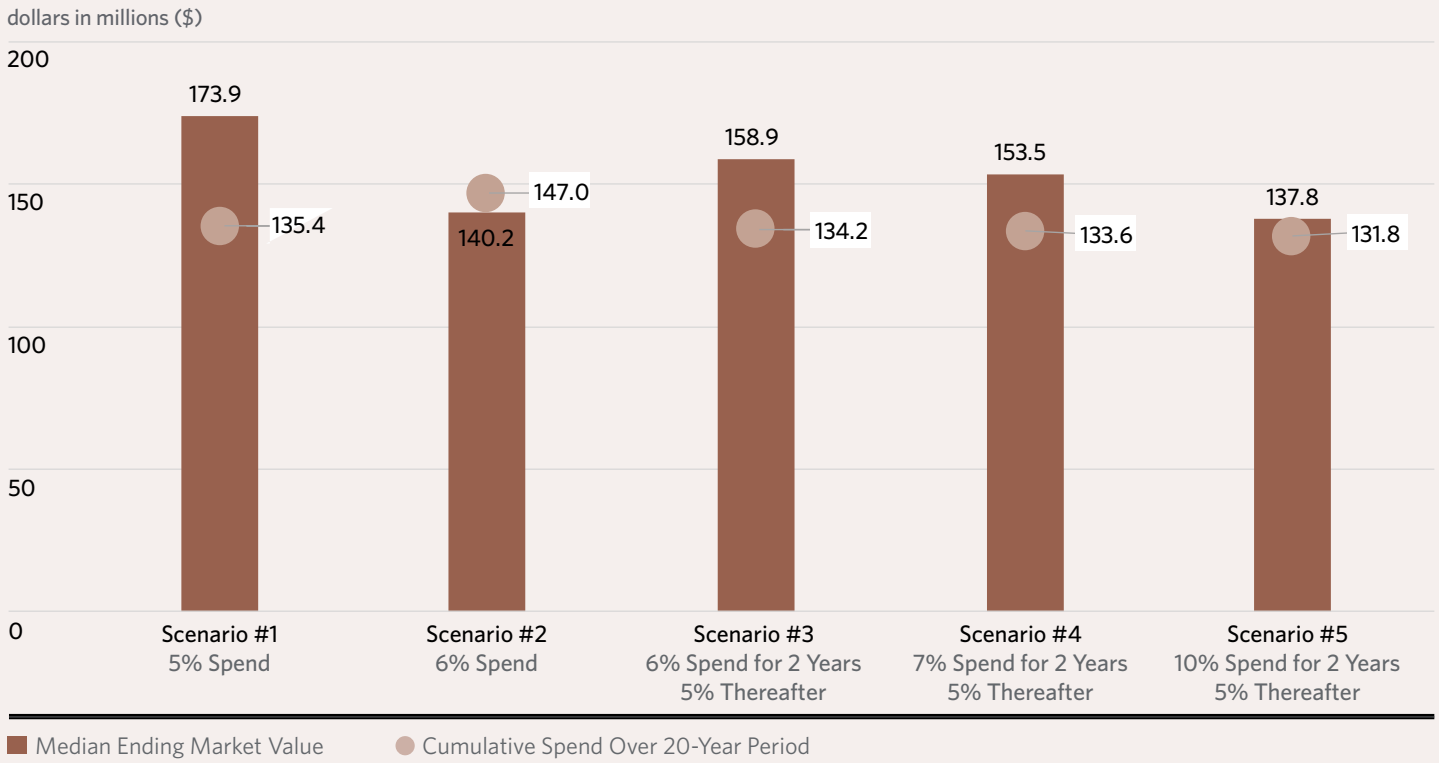
Scenario #4

An approach that may strike a balance between immediate needs and long-term capital preservation is spending 7 percent for two years and returning to the 5 percent spending policy thereafter. In this case, there is a 45.1 percent probability of maintaining endowment purchasing power. Spending would total $133.6 million and the median ending market value would be $153.5 million.

Scenario #5

A foundation may feel that needs stemming from the pandemic are serious enough to double spending to 10 percent for two years before reverting to the 5 percent policy rate thereafter. In this case, the foundation is spending off an ever-smaller base and the chance of achieving intergenerational equity after 20 years is only 37.1 percent. Moreover, this leads to the smallest cumulative spend over the entire time period, $131.8 million, of all the scenarios modeled.

Figure VP.3 **20-Year Impact of Spending at Various Rates**



Conclusion

There is no right or wrong approach to any of these spending scenarios. Foundations are in business to fulfill their mission and exceptional circumstances may mandate an exceptional response. However, understanding the trade-offs with the help of models or scenario analyses can be helpful.[2] The verbatim comments submitted by Study respondents that accompany this Viewpoint clearly substantiate the human commitment felt by many foundations (the verbatim comments are drawn from community foundations as well as private foundations to provide a representative sample of responses).

In the final analysis, decisions such as these are the essence of strategic governance...what trustees should focus on as they guide their foundations into an uncertain future. Today's COVID-19 pandemic, coupled with continued calls for racial justice, indeed represents more than one crisis. But what of the next crisis...what, when, where and how severe? A natural disaster? Another pandemic? Does meeting today's need compromise the ability to meet tomorrow's? The future is unknowable—but thinking about it long and hard can only lead to better decisions. To help facilitate these important strategic conversations, we have provided the following additional resources.

Additional Resources

Balancing Purpose, Payout, and Permanence: Strategy Guide: National Center for Family Philanthropy and Council on Foundations

Increasing Giving During COVID-19: Thoughts for Philanthropy: Cathleen Rittereiser, Executive Director, Commonfund Institute, Council on Foundations

2 The assumptions used for these models can be found in Appendix III on page 33. These simulations and the assumptions used are just one of many ways to model scenarios to help with spending decisions and the scenarios presented here are not meant to represent definitive or absolute ways in which to model these scenarios. Important notes pertaining to the CAM tool used to model these scenarios can also be found in Appendix III.

Foundations Respond to COVID-19: In their Own Words

The Study's question about changes in spending in response to the coronavirus pandemic elicited a number of comments that add color to the data.

"In response to COVID: Paid discretionary grants earlier in the year (no change to spending, but faster) and reduced foundation overhead spending." Community foundation in the Midwest

"In relation to COVID-19, while we did not change our spend rate, we did start a separate response and recovery fund in which over $500,000 has been raised and $240,000 granted out to date." Community foundation in the Midwest

"In 2020, while the spending rate was kept the same, we accelerated some of our grantmaking/payments in response to need related to the pandemic." Community foundation in the Midwest

"In response to the COVID crisis, our community foundation started a community response fund and special grant process to support COVID relief and recovery efforts. We partnered with the local United Way for promotion of donations to the fund. We redirected a portion of current year grant budget from our unrestricted, field of interest and donor advised funds to the community response fund." Community foundation in the Midwest

"In spring 2020, our board approved a 1 percent increase in our drawdown to address the COVID-19 crisis in our community." Community foundation in the Northeast

"Our spending during COVID has remained the same due to the geographic restrictions of our foundation. Our area has not been impacted as much as metropolitan areas, resulting in fewer emergency grant needs." Private foundation in the Midwest

"We have had some funds created specifically to address COVID-19 needs, with no spending limitations. In addition, we have had a fund for 'basic needs' approve a significant one-time withdrawal from the endowment to address the current increase in needs." Community foundation in the Midwest

"Our foundation will at least double its spending in 2020 due to the increased needs in the community and in response to COVID-19. We plan to continue this increased spending for at least three years." Private foundation in the Southeast

"We have decided to spend 10 percent for the next four years COVID-related, but more importantly for racial justice issues." Private foundation on the West Coast

"The board of trustees decided to increase spending significantly in 2020 due to the impact of COVID-19. I would expect spending levels to be in the 7 – 10 percent range in 2020." Private foundation in the Midwest

Chapter 3
Asset Allocation

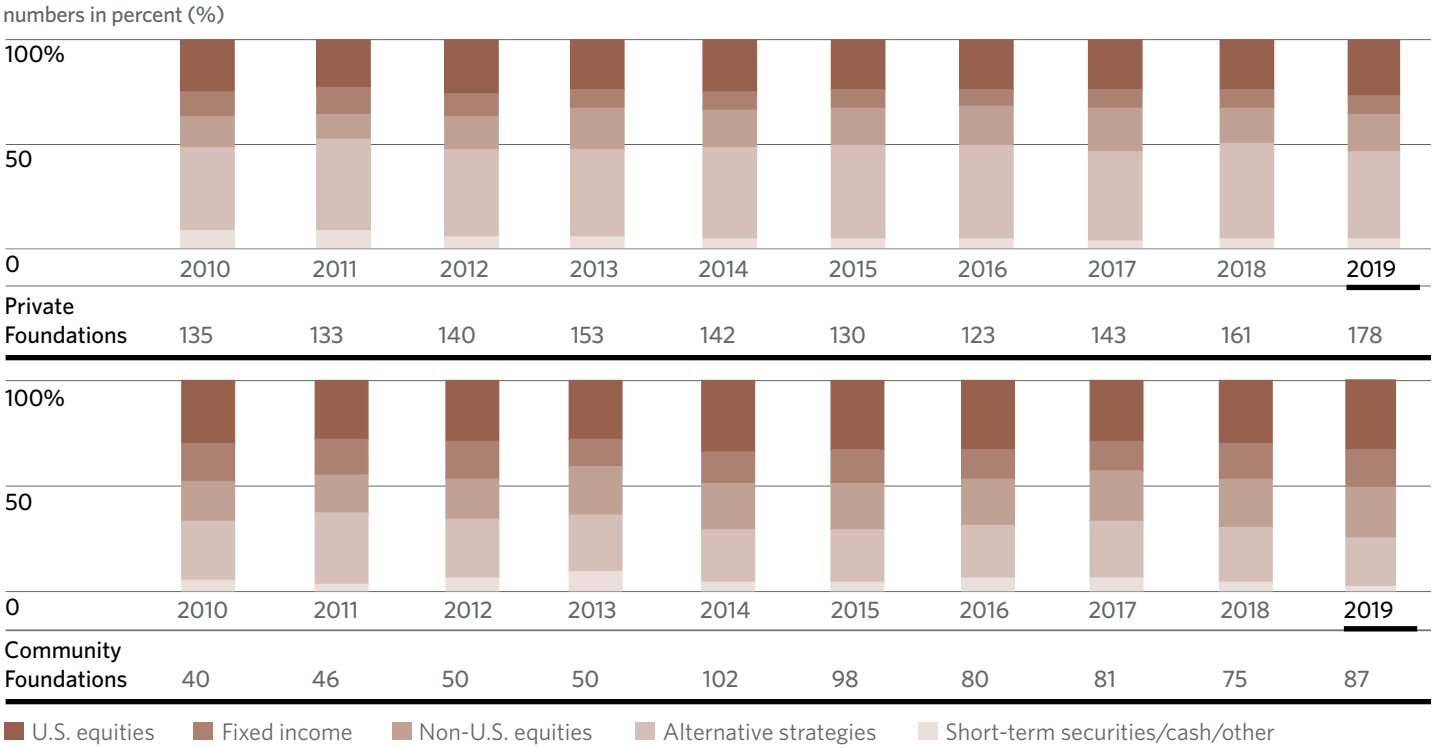
OVERALL ASSET ALLOCATION

Longer-term trends in asset allocation remained in place in 2019, the data show, but that does not mean allocations remained static.

To longer-term trends: private foundations reported larger alternative strategies allocations than community foundations and community foundations reported larger U.S. equities, non-U.S. equities and fixed income allocations than private foundations. Allocations to short-term securities/cash and other were closer among the two foundation types, but even then there was a wider spread than a year ago when foundations of both types reported a 4 percent allocation. This year the 4 percent allocation held for private foundations but it shrank to 2 percent for community foundations.

To year-over-year movements: The greatest occurred in U.S. equities and alternative strategies. The former rose by three percentage points for all foundations on average: to 27 percent from 24 percent for private foundations and to 33 percent from 30 percent for community foundations. The allocations to alternative strategies contracted—to 42 percent from 46 percent for private foundations and to 23 percent from 26 percent for community foundations.

Figure 3.1 **Asset Allocations* for Total Foundations for Years 2010-2019****



*dollar-weighted
** Previously published 2010 and 2011 numbers were recalculated to show private foundations and community foundations separately.

Figure 3.2 Asset Allocations* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
U.S. equities	27	33	23	30	36	36	36	43
Fixed income	9	18	7	17	15	18	20	23
Non-U.S. equities	18	24	17	24	22	25	20	21
Alternative strategies	42	23	49	27	24	18	20	10
Short-term securities/cash/other	4	2	4	2	3	3	4	3

*dollar-weighted

Although changing little this year from last, the allocation to fixed income was twice as large for community foundations as it was for private foundations (18 percent versus 9 percent). The allocation to non-U.S. equities remained at a six-percentage-point spread between all participating private and community foundations, but was one percentage point higher this year for both.

When allocations are analyzed by size of foundation, U.S. equities accounted for a larger share of portfolios for five of the six size/type cohorts and remained unchanged for the other. Alternative strategies allocations were smaller for all six cohorts, with the reductions ranging from three to as much as five percentage points. Allocations to fixed income varied inversely with size, smaller foundation reporting larger allocations than their larger counterparts. For the most part, allocations to non-U.S. equities were in the range of 20 to 25 percent. The one outlier was private foundations with assets of $500 million, which reported a 17 percent allocation. Short-term securities/cash/other was reported at 2 or 3 percent for four of the six size/type cohorts and 4 percent for the remaining two.

More closely examining the sub-allocations within the broad category of alternative strategies, reflecting their greater allocation overall, private foundations generally reported larger allocations to most of these strategies than did community foundations. Among foundations of both types, allocations were usually correlated with size, with larger foundations having more diversified and substantially larger alternative strategies allocations than smaller ones.

Trending

Last year, we reviewed how allocations to alternative strategies grew steadily through the first decade of the new century and continued for most of the second. In recent years, foundations of both types have slowed that growth—although the allocation could not have been much larger for private foundations, as it crested at nearly half of portfolios (46 percent). This year, private foundations reported an allocation of 43 percent—a reduction that only future data will confirm to be a trend or an aberration. For community foundations, however, the data reveal what can be described as a mini-trend. These foundations' allocation reached an apex of 27 percent in 2017, eased to 26 percent in 2018 and then declined to 23 percent in 2019. Once again, only future allocation data will answer the question: trend or simply normal variability?

Figure 3.3 Detailed Asset Allocations* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
U.S. equities	27	33	23	30	36	36	36	43
Fixed income	9	18	7	17	15	18	20	23
Non-U.S. equities	18	24	17	24	22	25	20	21
Alternative strategies	42	23	49	27	24	18	20	10
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	9	5	11	6	6	4	4	1
Private credit	1	1	0	1	1	1	1	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives	14	11	16	13	8	10	9	4
Venture capital	8	1	11	2	2	0	1	0
Private real estate	4	2	4	2	3	2	2	2
Energy and natural resources	3	2	4	2	1	1	1	0
Commodities and managed futures	1	0	1	0	2	0	1	1
Distressed debt	2	1	2	1	1	0	1	1
Short-term securities/cash/other	4	2	4	2	3	3	4	3
Short-term securities/cash	3	2	3	2	2	2	3	3
Other	1	0	1	0	1	1	1	0

*dollar-weighted

Again in 2019 the largest single alternatives allocation across all sizes and both types of foundation was to marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives). In 2018 among the Study universe, this allocation was equal, at 15 percent, for foundations of both types; this year was different as private foundations reported a 14 percent allocation while community foundations reported 11 percent. Further, allocations to marketable alternatives shrank across the size/type spectrum, led by community foundations having more than $500 million in assets reducing their average allocation to 13 percent from 20 percent.

The allocation to private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity) was unchanged at 9 percent for private foundations and 5 percent for community foundations. Private foundations across the size spectrum consistently reported higher private equity allocations than did community foundations. After rising among private foundations a year ago, the allocation to venture capital declined two percentage points this year, falling to 8 percent. Community foundations' allocation to venture capital was unchanged at 1 percent (and only among community foundations with assets over $500 million, as the other two size cohorts reported no allocation).

The next-largest allocation, to private real estate, showed no year-over-year change, holding at 4 percent for private foundations and 2 percent for community foundations.

Figure 3.4 U.S. Equity Asset Mix* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	175	87	27	15	91	34	57	38
Type of investment strategy								
Active	72	53	77	55	65	50	59	49
Indexed (passive/enhanced)	28	47	23	45	35	50	41	51

*dollar-weighted

Figure 3.5 Fixed Income Asset Mix* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	170	87	26	15	88	34	56	38
Type of investment strategy								
U.S. investment grade (active)	71	63	79	69	63	61	58	50
U.S. investment grade (passive)	17	24	10	21	24	24	26	35
U.S. non-investment grade (active or passive)	7	5	6	3	8	6	9	7
Non-U.S. investment grade (active or passive)	3	5	4	4	3	7	5	6
Emerging markets (active or passive)	2	3	1	3	2	2	2	2

*dollar-weighted

INVESTMENTS BY ASSET CLASS

U.S. Equities

Last year we noted that private and community foundations took differing approaches to managing their U.S. equity allocation; that observation would hold again this year as private foundations practiced active management at much higher rates that community foundations. The former managed 72 percent of their allocation actively and 28 percent passively; for community foundations, the same figures were 53 percent and 47 percent, respectively. Reviewing data by size, as asset size decreased the proportion of foundations practicing passive management increased.

Fixed Income

The share of foundation fixed income portfolios allocated to actively managed U.S. investment- grade securities grew in 2019 to 71 percent from 67 percent for private foundations and to 63 percent from 60 percent for community foundations. Passive management of the same securities declined to 17 percent of the fixed income allocation for private foundations but was slightly higher, at 24 percent from 23 percent, for community foundations.

Allocations to U.S. non-investment-grade issues and non-U.S. investment-grade bonds (active or passive) as well as emerging market debt were much smaller, all in single digits. Private foundations reported the larger allocation to U.S. non-investment-grade bonds, while community foundations reported the larger allocation to non-U.S. investment-grade bonds. Emerging market debt (active or passive) accounted for 2 percent of private foundations' allocation and 3 percent of community foundations' allocation.

Figure 3.6 Non-U.S. Equity Asset Mix* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	174	84	28	15	90	33	56	36
Type of investment strategy								
Non-U.S. developed (active)	58	52	60	55	55	48	56	43
Non-U.S developed (passive)	13	20	8	16	21	26	20	34
Emerging markets (active)	27	22	31	23	20	20	15	15
Emerging markets (passive)	2	6	1	6	4	6	9	8

*dollar-weighted

Non-U.S. Equity

Foundations continued to favor an active approach to their developed market non-U.S. equity allocation, although they went in slightly different directions in 2019. Private foundations' active developed markets allocation grew to 58 percent from 55 percent while for community foundations it declined to 52 percent from 56 percent. Passive allocations grew for foundations of both types—to 13 percent from 11 percent for private foundations and to 20 percent from 15 percent for community foundations. Active allocations to emerging market equities decreased moderately, falling to 27 percent from 31 percent for private foundations and to 22 percent from 24 percent for community foundations. Passively managed emerging markets allocations remained modest—2 percent for private foundations and 6 percent for community foundations.

When data are examined by size and type, private foundations consistently favored active management for their developed market non-U.S. equity allocation over community foundations' passive approach. Foundations' approach to emerging markets was more balanced, however. The largest foundations allocated more to an active approach, while private and community foundations in the other two size cohorts were exactly equal at 20 percent for those with assets between $101 and $500 million and 15 percent for those with assets under $101 million.

Alternative Strategies

As it has in the past, marketable alternative strategies consistently claimed the largest share of all foundations' broader alternatives allocation. Last year it reached as much as 64 percent of community foundations with assets over $500 million total alternative allocation. This year, the proportion of these allocations generally declined. In the example just cited it decreased to 49 percent. For foundations overall, 33 percent of private foundations' alternatives allocation was to marketable alternatives, the same as last year, while for community foundations it decreased to 49 percent from 59 percent. Among the six size/type cohorts, allocations were smaller for five this year compared to last.

The second-largest allocation, to private equity, grew by two percentage points for foundations of both types, reaching 22 percent for private foundations and 20 percent for community foundations. Viewing data across the cohorts, allocations were consistently larger for private foundations than for community foundations.

Only private foundations showed meaningful allocations to venture capital. Overall, private foundations committed 20 percent of their alternatives allocation to venture capital compared with 5 percent for community foundations. Private real estate represented 10 percent of the alternative allocation for both private and public foundations. This allocation was fairly consistent across the size/type cohorts (in the 9 to 12 percent range) but expanded to 21 percent among community foundations with assets under $101 million. This same cohort reported the largest allocation to commodities and managed futures, 9 percent, versus 2 percent for all participating private and community foundations.

Figure 3.7 Alternatives Strategies Asset Mix* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	159	69	27	14	83	30	49	25
Type of investment strategy								
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	22	20	22	21	24	19	22	14
Private credit	2	4	1	2	5	6	4	9
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives	33	49	32	49	34	53	43	40
Venture capital	20	5	23	6	8	1	4	0
Private real estate	10	10	9	9	12	11	10	21
Energy and natural resources	7	8	7	9	6	6	6	6
Commodities and managed futures	2	2	1	1	7	2	5	9
Distressed debt	4	2	5	3	4	2	6	1

*dollar-weighted

ANTICIPATED CHANGES IN EQUITY MIX

In a question introduced last year, the Study sought to understand what changes in the critically important area of asset allocation foundations are contemplating over the next three years. Respondents' data were reported by total foundations and then segmented by size into the three cohorts. In general, the highest response rates were found in the areas of "no change" and "uncertain," which is understandable in light of all the variables, internal and external, that enter into the asset allocation decision. Yet there were also responses indicating that foundations are clearly considering "increases" or "decreases" in many asset classes and strategies.

Total Foundations

For total foundations, the largest potential increases coming in passive equities, distressed debt, private credit, private equity, private real estate and venture capital. They saw the potential for decreases in active equities, hedge funds, private natural resources and private real estate (the outlook was divided for the latter, as 17 percent of private foundations anticipated higher allocations while 10 percent foresaw a decrease).

The largest anticipated increase was reported in private equity, where 25 percent of private foundations and 24 percent of community foundations saw higher allocations; just 5 percent of private foundations and 1 percent of community foundations anticipated a decrease. Nineteen percent of private foundations and 14 percent of community foundations forecast higher allocations to private credit versus 2 percent of both private and community foundations anticipating smaller allocations. Sixteen percent of private foundations and 10 percent of community foundations foresaw higher venture capital allocations, while only 4 percent of private foundations and no community foundations anticipated lower allocations.

Twenty-one percent of private foundations and 13 percent of community reported expecting lower hedge fund allocations while 16 percent of private foundations and 18 percent of community foundations expect lower active equities allocations.

Figure 3.8 **Portfolio Changes Expected Over the Next Three Years**

numbers in percent (%)	Increase		Decrease		No Change		Uncertain	
	Private	Community	Private	Community	Private	Community	Private	Community
Total Foundations	178	87	178	87	178	87	178	87
Active equities	20	7	16	18	34	36	30	39
Passive equities	17	17	11	7	38	38	34	38
Active fixed income	7	3	8	8	52	47	33	42
Passive fixed income	7	7	7	2	52	52	34	39
Commodities and managed futures	1	1	3	2	60	53	36	44
Distressed debt	17	7	2	0	46	55	35	38
Hedge funds	7	3	21	13	41	46	31	38
Private credit	19	14	2	2	41	48	38	36
Private equity	35	24	5	1	31	40	29	35
Private natural resources	3	3	13	7	48	49	36	41
Private real estate	17	9	10	1	39	55	34	35
Venture capital	16	10	4	0	44	49	36	41

Figure 3.9/Large **Portfolio Changes Expected Over the Next Three Years**

numbers in percent (%)	Increase		Decrease		No Change		Uncertain	
	Private	Community	Private	Community	Private	Community	Private	Community
Over $500 Million	29	15	29	15	29	15	29	15
Active equities	24	13	31	20	28	27	17	40
Passive equities	24	20	17	13	41	27	18	40
Active fixed income	3	13	7	7	69	40	21	40
Passive fixed income	0	7	7	0	72	53	21	40
Commodities and managed futures	0	7	7	7	76	53	17	33
Distressed debt	17	20	0	0	66	40	17	40
Hedge funds	14	13	34	13	38	40	14	34
Private credit	21	27	0	0	59	40	20	33
Private equity	48	47	3	0	34	20	15	33
Private natural resources	7	7	34	27	45	33	14	33
Private real estate	17	27	14	0	45	40	24	33
Venture capital	34	40	17	0	28	27	21	33

Foundations with Assets Over $500 Million

The largest foundations participating in the Study overwhelming reported expecting higher allocations to private equity and venture capital over the next three years. Forty-eight percent of private foundations and 47 percent of community foundations anticipated higher private equity allocations. For venture capital, 34 percent of private foundations and 40 percent of community foundations expected higher allocations.

Among anticipated decreases in allocations, hedge funds, private natural resources and active equities drew the highest response rates. Among private foundations, 34 percent reported expecting lower allocations to hedge funds and private natural resources, while 31 reported expecting lower active equities allocations. Among community foundations, 27 percent foresaw lower private natural resources allocations; 20 percent expected lower active equity allocations; and 13 percent each saw lower hedge fund and passive equities allocations.

Foundations with Assets between $101 and $500 Million

Private equity and venture capital once again drew expectations of higher future allocations, although there was disparity with regard to the latter, as 17 percent of private foundations but only 6 percent of community foundations foresaw higher venture allocations. Similar disparities emerged in response rates regarding distressed debt, where 21 percent of private foundations but only 9 percent of community foundations foresaw increased allocations, and for private real estate, where expected increases were 22 percent and 9 percent, respectively.

Institutions in this size range also reported expecting smaller hedge fund allocations over the next three years—16 percent of private foundations and 15 percent of community foundations. Fourteen percent of private foundations and 21 percent of community foundations reported anticipating lower active equities allocations.

Foundations with Assets under $101 Million

Private equity and passive public equities attracted the highest share of foundations expecting increases. Thirty-two percent of private foundations and 18 percent of community foundations reported expecting higher private equity allocations, while 21 percent of the former and 13 percent of the latter expected passive public equities allocations to rise. Compared with community foundations, a meaningfully higher share of private foundations expects higher allocations to distressed debt, private credit, private real estate and active fixed income.

Twenty-three percent of private foundations and 11 percent of community foundations in this size cohort anticipated reductions in hedge fund allocations. Eleven percent of private foundations foresaw reductions in: active equities, passive equities, active fixed income and private real estate. Among community foundations, 16 percent anticipated lower allocations to active equities.

CHAPTER 3 DISCUSSION QUESTIONS

What factors are most influential in guiding your asset allocation? Is it your return target (assuming your foundation has one)? Is it risk management? Is it liquidity needs? If a combination, how do you weigh each?

Has your asset allocation remained relatively the same over the years? Or do you rebalance frequently or make tactical changes in response to market conditions? There may be no right or wrong answer, but your organization should have a guiding philosophy.

Figure 3.9/Mid-Size Portfolio Changes Expected Over the Next Three Years

numbers in percent (%)	Increase		Decrease		No Change		Uncertain	
	Private	Community	Private	Community	Private	Community	Private	Community
$101-$500 Million	92	34	92	34	92	34	92	34
Active equities	16	9	14	21	35	32	35	38
Passive equities	13	21	9	9	40	35	38	35
Active fixed income	8	3	8	9	50	50	34	38
Passive fixed income	8	3	7	3	47	59	38	35
Commodities and managed futures	0	0	1	0	59	65	40	35
Distressed debt	21	9	3	0	39	59	37	32
Hedge funds	8	0	16	15	43	47	33	38
Private credit	22	18	2	3	33	50	43	29
Private equity	33	21	5	3	27	44	35	32
Private natural resources	2	3	9	3	46	56	43	38
Private real estate	22	9	8	0	32	62	38	29
Venture capital	17	6	2	0	42	56	39	38

Figure 3.9/Small Portfolio Changes Expected Over the Next Three Years

numbers in percent (%)	Increase		Decrease		No Change		Uncertain	
	Private	Community	Private	Community	Private	Community	Private	Community
Under $101 Million	57	38	57	38	57	38	57	38
Active equities	23	3	11	16	37	42	30	39
Passive equities	21	13	11	3	32	45	37	39
Active fixed income	9	0	11	8	47	47	33	45
Passive fixed income	9	11	7	3	51	45	33	41
Commodities and managed futures	2	0	4	3	53	42	42	55
Distressed debt	11	0	2	0	46	58	42	42
Hedge funds	2	3	23	11	39	47	37	39
Private credit	14	5	2	3	46	50	39	42
Private equity	32	18	5	0	37	45	26	37
Private natural resources	4	3	9	3	54	50	33	44
Private real estate	9	3	11	3	49	55	32	39
Venture capital	5	3	2	0	56	53	37	44

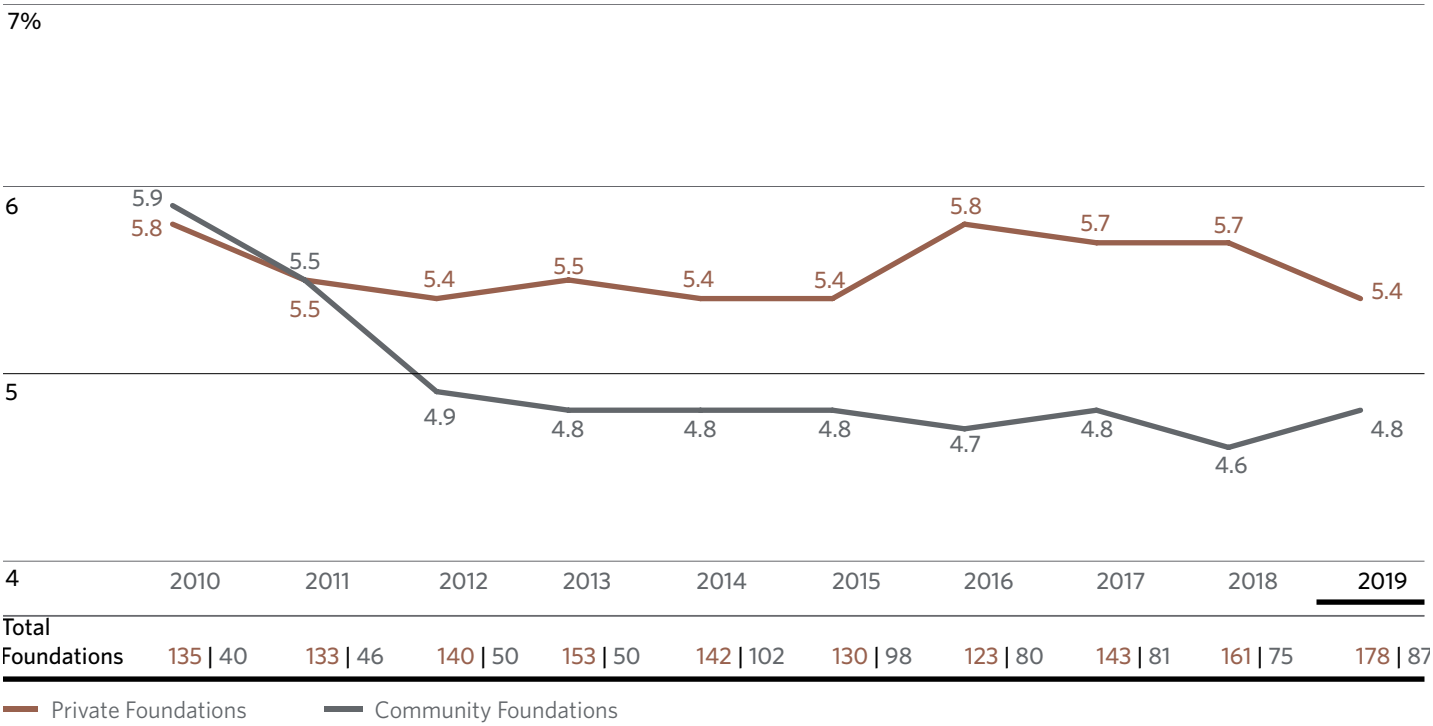
Chapter 4
Fund Flows

EFFECTIVE SPENDING RATES

Foundations, both private and public, are subject to specific state and federal laws governing investment and spending of endowed funds. Virtually all of the states and the District of Columbia have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets forth requirements that foundations must observe when investing and spending, among other matters. Community foundations, in particular, establish prudent spending policies informed by the requirements of UPMIFA. To avoid paying taxes, private foundations must meet the IRS requirement for annual spending, which is generally 5.0 percent.

Among participating foundations, 2019 spending as a percentage of endowed assets—the effective spending rate—averaged 5.4 percent for private foundations and 4.8 percent for community foundations. This compares with 5.7 percent rate for private foundations in 2018 and the 4.6 percent rate at which community foundations spent. These data do not reflect the activity of the many different types of funds that community foundations hold that are non-endowed. That these rates are fairly stable is not an indication of decreases in foundations' grant-making, which actually increased in dollar terms as discussed more fully later in this chapter. (See Figure 4.5 on page 28.)

Figure 4.1 **Average Annual Effective Spending Rates for Total Foundations for Years 2010–2019***



* Previously published 2010 and 2011 numbers were recalculated to show private foundations and community foundations separately.

Figure 4.2 **Average Annual Effective Spending Rates for 2019**

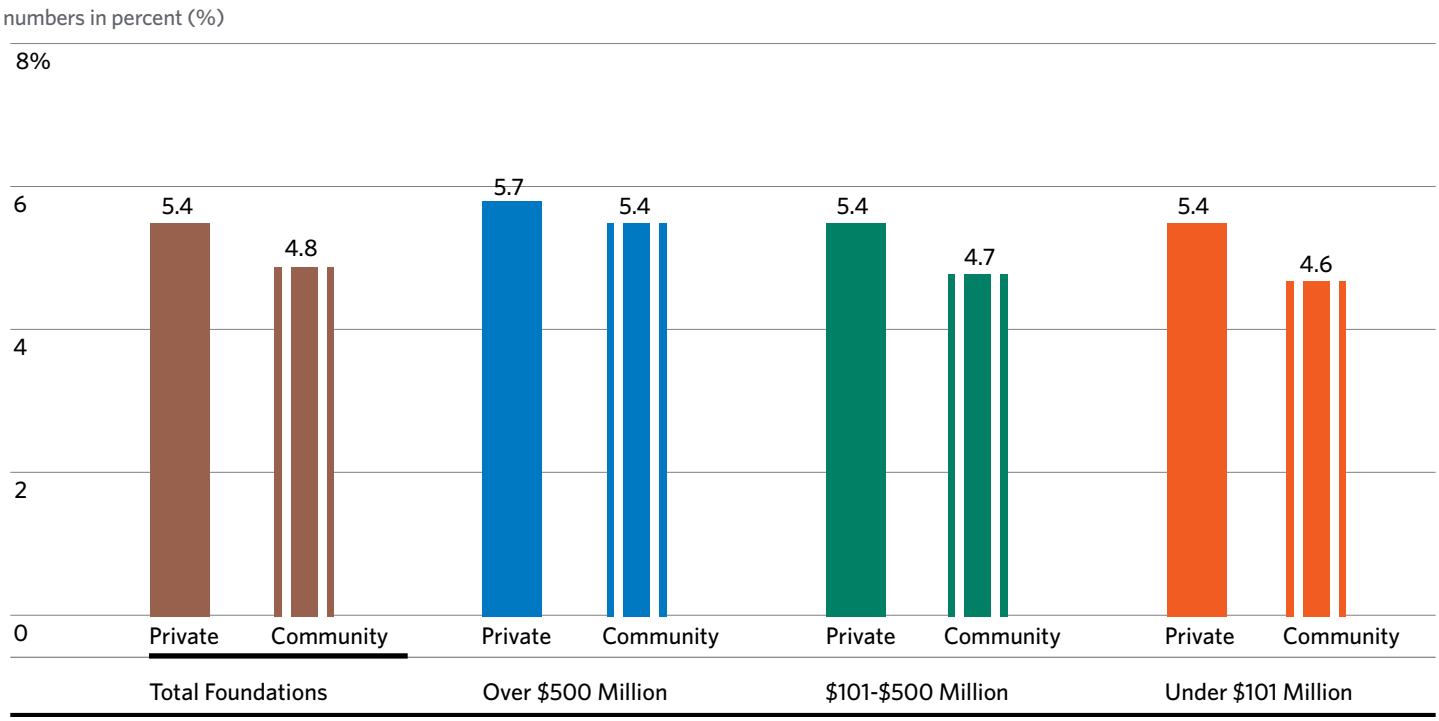


Figure 4.3 **Changes to Effective Spending Rates for 2019**

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Increased spending rate	26	5	45	7	23	6	23	3
Average percent increase	1.1	*	0.9	*	1.3	*	1.2	*
Decreased spending rate	29	10	24	33	36	3	21	8
Average percent decrease	0.9	*	*	*	0.8	*	0.8	*
No change	33	80	21	53	34	85	37	87
No answer/uncertain	12	5	10	7	7	6	19	2

*sample size too small to analyze

Viewing effective spending rates by foundation size and type, the highest rate, 5.7 percent, was found among private foundations with assets over $500 million. Private foundations with between $101 and $500 million and those with assets under $101 million both spent at a 5.4 percent effective rate. Compared with last year, the greatest change was reported by foundations with assets between $101 and $500 million, which spent at a 6.2 percent rate in 2018. Among community foundations, those with assets over $500 million spent at the highest rate, 5.4 percent, a significant increase from last year's 4.7 percent.

Overall, 26 percent of private foundations and 5 percent of community foundations reported an increase in their effective spending rate in 2019; respectively, these figures compare with 25 percent and 8 percent in 2018. Among private foundations increasing their spending rate, the average increase was 1.1 percent.

Figure 4.4 Spending Policy* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Spend all current income	1	0	0	0	0	0	2	0
Percentage of a moving average	35	78	48	80	34	79	30	76
Average percentage	5.0	4.6	5.1	4.8	5.1	4.6	4.8	4.4
Decide on an appropriate rate each year	28	10	21	0	26	9	33	16
Grow distribution at predetermined inflation rate	0	0	0	0	0	0	0	0
Spend a pre-specified percentage of beginning market value	3	5	3	0	2	3	4	8
Average pre-specified percentage spent	*	*	*	N/A	*	*	*	*
Last year's spending plus inflation with upper and lower bands	2	1	0	0	2	3	2	0
Weighted average or hybrid method (Yale/ Stanford rule)	1	3	0	7	1	3	0	3
Meet IRS minimum of 5 percent	58	1	52	0	60	0	58	3
Other	8	7	10	13	7	6	11	5

*multiple responses allowed

Twenty-nine percent of private foundations reported decreasing their effective spending rate in 2019, down from last year's 33 percent. Ten percent of community foundations reported decreasing their effective spending rate, down two percentage points. Among those private foundations reporting a decrease, the average was 0.9 percent (0.6 percent in 2018).

When data are examined by size and type of institution, private foundations consistently increased their effective spending rate more frequently than community foundations. For example, among foundations with assets over $500 million, 45 percent of private foundations increased their spending rate while only 7 percent of community foundations did so. With the exception of the largest foundations, private foundations were also more likely to decrease their spending rate. As to those largest foundations, 24 percent of private foundations decreased their spending rate while 33 percent of community foundations decreased theirs.

SPENDING POLICIES

Spending policies vary between private and community foundations, reflecting the regulatory framework in which they operate. Required by the Internal Revenue Service to spend an average of at least 5 percent of net assets, private foundations overwhelmingly cited this as their spending methodology, 58 percent of these foundations. The next-closest was 35 percent of private foundations that said they spend a percentage of a moving average of their endowment's value, the average percentage spend being 5.0 percent (once again, in line with the IRS requirement). Twenty-eight percent said they decide on an appropriate rate each year, up from last year's 23 percent. While meeting the IRS 5 percent spending minimum was most widely used by private foundations, the rate of use this year fell to 58 percent from last year's 70 percent.

Turning to community foundations, 78 percent said they use the percentage of a moving average of endowment value approach, the average percentage being 4.6 percent. Ten percent of community foundations decide on an appropriate rate each year, down modestly from last year's 12 percent.

Looking at spending policies across the size/type cohorts, community foundations consistently used the percentage of a moving average method at much higher rates than their private counterparts, the latter using IRS 5 percent minimum spending requirement at the highest rates. Private foundations in all three size/type cohorts were much more likely to decide on an appropriate spending rate each year.

SPENDING IN DOLLARS

In terms of spending measured in dollars, 54 percent of private foundations increased their spending while 71 percent of community foundations did so. Year over year, these data were little changed for private foundations, as 53 percent of foundations increased spending in dollars in 2018 but were significantly higher for community foundations, as just 52 percent reported increasing dollar spending a year ago. Among foundations increasing their spending in dollars this year, the median increase was 9.6 percent for private foundations and 11.1 percent for community foundations.

Thirty-seven percent of private foundations and 23 percent of community foundations reported decreasing their spending in dollars in 2019. This compares with 34 percent and 29 percent, respectively, a year ago. Among foundations reducing dollar spending, the median decrease was 6.4 percent for private foundations and 6.9 percent for community foundations.

GIFTS TO COMMUNITY FOUNDATIONS

As public charities, community foundations accept gifts and donations and frequently engage in fund-raising. The level of gifts and donations is subject to a great many influences, including the economy, the financial markets, prevailing public sentiment and confidence in the future as well as the energy and effort dedicated to development by individual community foundations.

Two thousand nineteen was a year that reflected all of these factors—but not in ways that most would intuit. As this report documents in the Investment Environment analysis opening Chapter 2, financial markets enjoyed an exceptionally strong year. Moreover, by just about any measure—GDP, employment, corporate earnings, consumer confidence and declining interest rates—the economy was robust. Hence, a good year for gift-giving? Actually, 38 percent of participating community foundations reported an increase in gifts and donations in 2019, down from 55 percent in 2018. Fifty-one percent reported a decrease in gifts, up from 36 percent the previous year. (Eleven percent gave no answer or were uncertain in this year's Study.)

Another indication of weakness was the size of gift increases. This year, the median increase among those community foundations reporting higher gifts was 39.0 percent; this compares with a median increase of 82.9 percent in 2018. The median decrease, meanwhile, was 29.4 percent this year versus 40.3 percent a year ago—the only moderately positive data point in the 2019 giving picture.

Analyzing the data by institutional size sheds light on the factor shaping gift-giving—community foundations' development efforts. Here, the largest foundations—which usually have the most active and refined fund-raising efforts—separated themselves. While only 38 percent of total community foundations reported an increase in gifts

Figure 4.5 Changes to Spending Dollars for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
Increased spending dollars	54	71	59	80	57	68	49	71
Median % increase	9.6	11.1	13.0	13.7	8.2	12.4	10.2	10.2
Decreased spending dollars	37	23	31	7	38	26	37	26
Median % decrease	6.4	6.9	*	*	7.1	*	4.1	11.8
No change	1	1	0	7	1	0	0	0
No answer/uncertain	8	5	10	6	4	6	14	3

*sample size too small to analyze

Figure 4.6 Changes in Gifts and Donations to Community Foundations for 2019

numbers in percent (%)	Total Foundations	Over $500 Million	$101-$500 Million	Under $101 Million
	87	15	34	38
Increase in gifts	38	53	38	32
Median % increase	39.0	*	42.7	23.3
Decrease in gifts	51	13	56	61
Median % decrease	29.4	*	33.1	28.6
No change	0	0	0	0
No answer/uncertain	11	34	6	7

*sample size too small too analyze

in 2019, 53 percent of those with assets over $500 million did so. This was a marked increase from the 30 percent of this cohort reporting higher gifts a year ago. In addition, the size of this year's increase was greater for this cohort—a median increase of 50.7 percent versus the previously mentioned 39.0 percent for community foundations overall. A final data point: Only 13 percent of the largest community foundations reported decreased gift-giving (51 percent for total community foundations).

CHAPTER 4 DISCUSSION QUESTIONS

Commonfund has done a lot of work over the years analyzing spending policies. One consistent finding: Many nonprofits, in general, do not give it the attention it deserves. When was the last time your foundation's investment committee devoted time and attention to your policy?

Data show that some private and community foundations practice very different spending policies. For example, private foundations are much more likely to meet the IRS minimum of 5 percent spending, while community foundations use the percentage of a moving average approach at a higher rate. Would it be worthwhile for your investment committee to revisit its current spending policy? The outcome may be a reaffirmation of the policy or a deeper look into a possible change.

What other operational or mission-related factors should be considered in a foundation's spending rate?

Leading Indicator?

As discussed, 2019 should have been a strong year for gifts and donations. Surprisingly, it wasn't. So, can the disappointment be attributed to 2018? Investment returns for foundations specifically and for investors generally were poor. And the year closed with a rout in the U.S. equity market, as the S&P 500 fell 13.5 percent in the fourth quarter. Caution was the byword entering 2019—but it should have been dispelled in short order as financial markets quickly rebounded and economic data were strong all year. So, what to expect of giving in 2020? Based on recent experience, it should show a nice rebound. But then, there is this exogenous event called the coronavirus and that introduced a variable without precedent making 2020 giving an unknown at this point.

APPENDICES
Appendix I
About Commonfund Institute and the Council on Foundations

COMMONFUND INSTITUTE

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. In addition to teaming with the Council on Foundations to produce the CCSF, Commonfund Institute also produces the Commonfund Benchmarks Study® series of research reports. Commonfund Institute also provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and governance; proprietary and third-party research and publications, including the Commonfund Higher Education Price Index® (HEPI); and events such as the Investment Stewardship Academy® and the annual Commonfund Forum.

COUNCIL ON FOUNDATIONS

An active philanthropic network, the Council on Foundations (www.cof.org), founded in 1949, is a non-profit leadership association of grantmaking foundations and corporations. It provides the opportunity, leader-ship, and tools needed by philanthropic organizations to expand, enhance, and sustain their ability to advance the common good. With members from all foundation types and sizes, the Council empowers professionals in philanthropy to meet today's toughest challenges and advances a culture of charitable giving in the U.S. and globally.

Appendix II
Supplemental Tables

Figure 3.3A/EW Detailed Asset Allocations* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	178	87	29	15	92	34	57	38
U.S. equities	34	39	24	31	35	36	37	44
Fixed income	15	20	10	17	15	18	20	24
Non-U.S. equities	21	23	20	24	22	24	20	20
Alternative strategies	26	15	43	26	24	18	19	9
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	6	3	10	6	6	3	4	1
Private credit	1	1	1	1	1	1	1	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives	10	7	16	12	8	10	8	4
Venture capital	2	0	7	2	2	0	1	0
Private real estate	3	2	5	2	3	2	2	2
Energy and natural resources	2	1	3	2	1	1	1	0
Commodities and managed futures	1	1	0	0	2	0	1	1
Distressed debt	1	0	1	1	1	1	1	0
Short-term securities/cash/other	4	3	3	2	4	4	4	3
Short-term securities/cash	3	2	3	2	3	2	3	2
Other	1	1	0	0	1	2	1	1

*equal-weighted

Figure 3.7A/EW Alternatives Strategies Asset Mix* for 2019

numbers in percent (%)	Total Foundations		Over $500 Million		$101-$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding foundations	159	69	27	14	83	30	49	25
Type of investment strategy								
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	24	17	22	22	28	19	19	11
Private credit	5	5	2	4	7	3	2	9
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives	35	46	39	53	30	49	42	37
Venture capital	7	2	12	5	7	1	4	0
Private real estate	14	18	12	7	15	17	14	26
Energy and natural resources	6	7	11	6	5	7	7	8
Commodities and managed futures	5	4	1	1	5	2	6	9
Distressed debt	4	1	1	2	3	2	6	0

*equal-weighted

Appendix III
Commonfund Allocation Model

Figure CAM.1 Capital Market Geometric Return and Volatility

numbers in percent(%)	Returns 5-Year	Returns 20-Year	Volatility
Equities			
Global Equity	6.3	7.4	16.5
U.S. Large Cap Equity	6.1	7.3	15.5
U.S. Small Cap Equity	5.6	7.6	20.8
U.S. All Cap Equity	6	7.4	15.8
Developed International Equity	6.4	6.8	17.2
Emerging Markets Equity	7.1	8.4	25.1
U.S. Private Equity	9.7	10.9	19
U.S. Venture Capital	9.7	10.9	30
Fixed Income			
Cash	1.7	2.5	1
U.S. Treasuries 10 yr	1.6	3.4	7.7
Limited Duration	2.1	3.1	1.5
U.S. Core Bonds	2.6	4.2	5.5
U.S. Short Duration Mortgages	2.3	3.6	2.4
U.S. Investment Grade	2.7	4.6	7
U.S. High Yield Debt	4.9	5.9	10
Global Bonds	1.7	3.7	8.1
Emerging Markets Debt (local)	5.4	6.4	14.5
U.S. Private Credit	7.5	8.1	9

numbers in percent(%)	Returns 5-Year	Returns 20-Year	Volatility
Diversifying Strategies			
Hedged Equity	4.7	5.9	11
Event Driven	5.3	6.7	9
Relative Value	4.7	6	7
Market Neutral	3.6	4.1	5
Macro	3.2	4.6	11.5
Real Assets			
Commodities	5.3	5.1	15
U.S. TIPs	3.6	3.9	7.7
U.S. MLPs	8.6	8.1	17
Public Natural Resources	5.4	6.7	18.2
Private Natural Resources	8.5	10.2	18.9
Public Real Estate (REITs)	6.5	7.6	17.2
Core Private Real Estate	6.3	7.2	12.5
Non-Core Private Real Estate	8.2	9	20.3
Inflation			
CPI	2.2	2.5	3.1

Long-Term (20 Years) / Policy –estimates based upon historical returns, academic literature, the expected future equilibrium macroeconomic environment and expected active management excess return. Medium-Term (5-Year) / Cyclical –estimates based upon historical returns, the academic literature, current valuations, the expected medium term macroeconomic environment and expected active management excess return. Return projections are presented net of associated management fees. These forecasts represent Commonfund's long-term views with respect to the stated asset classes as of the date hereof. There can be no assurance that these forecasts will be accurate. These forecasts do not represent the actual returns earned by any investor or investment fund or product, nor do they constitute a recommendation of any investment fund or product.

IMPORTANT: The projections or other information generated by the Commonfund Allocation Model regarding the likelihood of various investment outcomes and the Forecasts used by the Commonfund Allocation Model are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

WHAT IS THE COMMONFUND ALLOCATION MODEL?

The Commonfund Allocation Model (the "CAM") is a custom application of Windham Portfolio Advisor® application. The CAM is a financial simulation tool that can help investors understand possible outcomes and potential risks of an investment strategy and the interrelationships of the underlying asset classes comprising that investment strategy. The CAM produces a potential distribution of returns for the subject investment strategy. The returns depicted by the output of the CAM are hypothetical and do not represent the actual returns earned by any investor or investment fund or product. The CAM output should not be treated as a recommendation concerning any specific investment or asset class, or any mix thereof, or as a tool that can predict specific investment outcomes. The CAM does not guarantee or assure any future investment results.

HOW DOES THE CAM WORK?

The CAM creates Monte Carlo simulations based on user inputted forecasts for returns, volatility and correlation. The model runs these simulations for the time period specified by the user. Every simulation describes a potential future trajectory of the economy. The projections generated by the CAM are based on assumptions about performance and risk characteristics of various asset classes that may prove to be incorrect. Analyzing the distribution of thousands of returns, the model can derive statistical summaries including medians, standard deviations and percentiles for different outcomes for each asset class. With 20 year projections, Commonfund can calculate model annualized returns, medians, standard deviations, market values, and percentiles for different outcomes for entire portfolios over 5-year, 10-year, 15-year, and 20-year time periods. These returns allow Commonfund to see the effects of compounding, in terms of both return and risk, as well as examine the "tail risk" of the distribution. Where applicable, spending policies, gifts, and capital campaigns are important considerations in decision-making and are also incorporated into the model.

UNDERLYING ASSUMPTIONS OF FORECASTS

All simulations rely upon certain forecasts for expected returns, volatility and correlation. The forecasts employed in the CAM are based on Commonfund's expectations about performance and risk characteristics of various asset classes, which are derived from historical data, academic and professional literature, and the judgment of Commonfund investment personnel. The reasonableness of the input assumptions (including asset allocations, inflation expectations, spending policies, capital gifts and rebalancing rules) made by Commonfund determines to a significant degree the reasonableness of the forecasts. For example, the forecasts take into consideration historical returns from periods experiencing interest rate environments that may be considerably different from future interest rate environments; or, the forecasts project excess returns for active strategies as compared to passive strategies, which Commonfund believes is a reasonable expectation but may or may not be realized in the future. Commonfund cannot guarantee the accuracy of the information it used in generating the forecasts, nor does it represent that the information used will necessarily represent market conditions in the future. In all cases, the statistical confidence in the predictions falls as the simulation period gets shorter.

INDICES

The process of forecasting long and medium term asset class return begins with the selection of a representative index for each asset class. An index is a hypothetical measure of performance based on the ups and downs of securities that make up a particular market. An index does not show actual investment returns or reflect payment of management or brokerage fees, which would lower the index's performance. Commonfund analyzes the historical characteristics of all appropriate indices and selects the one whose composition and factor exposures most closely resembles the asset class under consideration. Data may go back as far as 1970 for certain indices but only as recently as 1996 for newer indices. Where no representative index exists, Commonfund have used historical data from Commonfund's experience as an investor in that particular asset class (e.g. natural resources). Representative indices help the forecasting process for all relevant CAM inputs, including returns, volatility and correlation. Indices are also used in instances where portfolios are designed to include passive investments and to assess the value added from active management.

The blended return of a portfolio of indices is based on historical performance and is provided for illustrative purposes only. It does not necessarily represent the actual performance of any investor, or an investment recommendation. The goals, risk tolerance and circumstances of each investing institution should be taken into account in determining whether any such blended

investment might be appropriate for it. In addition, the reader should be aware that the assumption underlying these returns - namely, that the investor maintained a steady allocation among the indices and rebalanced annually - is artificial in that it does not take into account changes that might be made in response to significant market events, etc. The depicted performance is also based on an assumption that the investor is not being charged any asset allocation or overall portfolio fee.

RISK REPORTING

The projected portfolio return, volatility and value at risk outputs from the CAM tool, if any, are used solely for illustration, measurement or comparison purposes and as an aid or guideline for prospective investors to evaluate a particular investment strategy. The outputs reflect a variety of factors including, among others, investment strategy, portfolio composition, prior performance of selected asset classes, volatility measures and market conditions. Volatility and performance will fluctuate, including over short periods, and should be evaluated over the time period indicated and not over shorter periods. Performance targets or objectives should not be relied upon as an indication of actual or projected future performance. Actual volatility and returns will depend on a variety of factors including overall market conditions and the ability of the investment manager to implement the investment strategy and reasonably manage the inherent risk. No representation is made that these targets or objectives will be achieved, in whole or in part, by any investment product.

FORECASTS MAY NOT COME TRUE

No financial model or simulation can predict the future or account for the infinite number of possible outcomes in forecasting investment returns or risks. In order to assess the predictive value of any forecast, one should seek to understand the underlying assumptions and information that are used to generate the forecast.

THE RESULTS OF FORECASTS WILL VARY

The results of the CAM will vary with any change to the inputs: asset allocation, spending rates or methods, contributions, or beginning market value. The results will also change with any periodic updates to the model starting point. Because the model uses asset class returns, it is not intended to evaluate or simulate the results of any specific investment program offered by Commonfund.

FORECASTS USE ESTIMATED FEES AND EXPENSES

Commonfund's forecasts are based on projected returns net of all fees. These net returns reflect Commonfund's projections for active management returns in excess of both the benchmark and active manager fees. In the case of an actual investment portfolio, fees and expenses may deviate from those projected by Commonfund. To the extent that returns exceed benchmarks for investments that incur incentive fees, fees may be higher. Alternatively, managers in a specific investor portfolio may be different from those employed in the simulation.

INVESTMENT RISKS

The investment asset classes used in the CAM involve varying degrees of investment risk. Alternative assets in particular may involve reduced liquidity and risky investment strategies. Investors in any of these asset classes could lose some or all of their principal. In particular cases (including investments on margin, short selling and similar strategies), investors could lose more than their principal investment.

GENERAL GUIDE, NOT SPECIFIC ADVICE

Monte Carlo simulations do not replicate the investment experience of an investor. As such, the results of the CAM should only be used as a general guide. In no way should the CAM be a substitute for the important policy choices that an investor must make in developing its investment program.

HOW DOES THE CAM COMPARE TO OTHER FORECASTING MODELS?

A traditional mean variance optimization model uses historical-based inputs and/or user inputs to produce an efficient frontier along which reside optimal portfolios for a given expected return and standard deviation. Monte Carlo simulation, in contrast, generates distributions for projected returns and risks. With this type of analysis, the user is able to analyze the likelihood of achieving goals rather than merely focusing on a mean and standard deviation of an "optimal" portfolio produced by a mean variance optimization. Although no analytical tool can completely replace informed professional judgment, the CAM can provide a foundation on which to base that judgment.

KEY TERMS

Frequency distribution: shows the number of observations within the ranges as defined by the horizontal axis.

Directional hedge strategies: an investing strategy that consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options.

Depending on the mix of long and short positions the portfolio may have either a long or short bias. Not necessarily providing complete market neutrality, there will be some movement with the market.

Relative value strategies: an investing strategy that typically targets some kind of absolute-return objective, without reference to any market index and emphasizes capital preservation and risk control. Examples of these strategies include arbitrage strategies (e.g. convertible, fixed income and statistical) as well as credit strategies.

Mean variance optimization: a quantitative asset allocation technique that creates optimal portfolios using return, risk and correlation forecasts that maximize return for different levels of risk. A graph of all optimal portfolios is called the efficient frontier.

Percentile: a value on a scale of one hundred that indicates the percent of a distribution that is equal to or below it.

Standard deviation: a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution; the larger the standard deviation, the greater the degree of dispersion around the average value.

Daily/monthly/quarterly liquidity: investment purchases and/or redemptions may be transacted once per day, month or quarter.

Illiquid: investment programs (e.g. limited partnerships) in which redemptions may be transacted only at liquidation of the investment program, typically after a number of years.

HEPI: Higher Education Price Index.

CPI: Consumer Price Index.

Market Beta: a measure of the volatility of a portfolio in comparison to a particular market as a whole (i.e. the S&P 500, Barclays US Aggregate Bond Index, etc.).

Sharpe Ratio: A risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. A greater Sharpe Ratio indicates better historical risk-adjusted performance.

Value at Risk: measures the left tail risk of a distribution, calculated by estimating the probability of portfolio losses based on a confidence level of 95%. Larger Value at Risk (VaR) measures are more attractive than lower VaR measures (i.e. a VaR of -3% is more attractive than a VaR of -9%).

Conditional Value at Risk: a measure of left tail risk on the condition that a given confidence level (95%) is exceeded, calculated by estimating the probability of portfolio losses beyond a given confidence level. Larger Conditional Value at Risk (CVaR) measures are more attractive than lower CVaR measures (i.e. a CVaR of -3% is more attractive than a CVaR of -9%).

Max Drawdown: the peak-to-trough decline during a time agnostic period of a portfolio. Smaller values are more attractive than larger values; calculated by finding the largest peak to trough decline of the 1,000 projected scenarios.

Appendix IV
Participating Foundations

A

Abell-Hanger Foundation, TX
The Ahmanson Foundation, CA
Akron Community Foundation, OH
The George I. Alden Trust, MA
The Alleghany Foundation, VA
Rita Allen Foundation, Inc., NJ
Altman Foundation, NY
American Savings Foundation, CT
John W. Anderson Foundation, IN
Arizona Community Foundation, AZ

B

Mary Reynolds Babcock Foundation, NC
Ball Brothers Foundation, IN
George & Frances Ball Foundation, IN
Batchelor Foundation, FL
The Russell Berrie Foundation, NJ
Charles K. Blandin Foundation, MN
Blue Mountain Community Foundation, WA
Boettcher Foundation, CO
Bonfils - Stanton Foundation, CO
The Boston Foundation, MA
The Brinson Foundation, IL
Brooklyn Community Foundation, NY
James Graham Brown Foundation, KY
Edyth Bush Charitable Foundation , FL
The Butler Family Foundation, MN

C

Morris & Gwendolyn Cafritz Foundation, DC
The Louis Calder Foundation, CT
California Community Foundation, CA
The California Endowment, CA
The California Wellness Foundation, CA
The Keith Campbell Foundation for the Environment, MD
Capital Region Community Foundation, MI
Curtis L. Carlson Family Foundation, MN
Carnegie Corporation of New York, NY
Case Alumni Foundation, OH
Harold K.L. Castle Foundation, HI
Cedar Tree Foundation, MA
Central Indiana Community Foundation, IN
Charlottesville Area Community Foundation, VA
Chester County Community Foundation, PA
Chicago Community Trust, IL
Coastal Community Foundation of South Carolina, SC
Sam L. Cohen Foundation, ME
Cold Spring Harbor Laboratory, NY
College Spark Washington, WA
Columbus Jewish Foundation, OH
The Commonwealth Fund, NY
Communities Foundation of Texas , TX
The Community Foundation for Greater Buffalo, NY
Community Foundation for Muskegon County , MI
The Community Foundation for Northeast Florida, FL
Community Foundation for Southeast Michigan, MI
Community Foundation of Burke County, NC
Community Foundation of Eastern Connecticut, CT

Community Foundation of Frederick County, MD
Community Foundation of Grant County, Indiana , IN
Community Foundation of Greater Des Moines, IA
Community Foundation of Jackson Hole, WY
Community Foundation of Lorain County, OH
Community Foundation of North Florida, FL
Community Foundation of North Louisiana, LA
Community Foundation of Northeast Alabama, AL
Community Foundation of Northeast Iowa , IA
Community Foundation of Northwest Mississippi, MS
Community Foundation of the Hudson Valley, NY
Community Foundation of the Ozarks, MO
Community Foundation of Sarasota County , FL
Community Foundation of St. Joseph County , IN
Community Foundation of West Texas, TX
Community Foundation Santa Cruz County, CA
Community Foundation Sonoma County, CA
Community Funds, NY
Community Health Endowment of Lincoln, NE
Jack Kent Cooke Foundation, VA
Cooper Foundation, NE
The Cullen Foundation, TX

D

Christel DeHaan Family Foundation, IN
The Denver Foundation, CO
The Dietrich Foundation, PA
Carrie Estelle Doheny Foundation, CA
Herbert H. & Grace A. Dow Foundation, MI
Joseph Drown Foundation, CA
The Duke Endowment, NC
Jessie Ball duPont Fund, FL
The Dyson Foundation, NY

E

Fred L. Emerson Foundation , NY
Endowment for Health, Inc., NH

F

Samuel S. Fels Fund, PA
First Community Foundation Parternship of Pennsylvania, PA
Flight Attendant Medical Research Institute, FL
Foellinger Foundation, IN
The Foundation for a Healthy High Point, NC
Foundation for a Healthy St. Petersburg, FL
The Foundation For Enhancing Communities, PA
Foundation for MetroWest, MA
Foundation for Seacoast Health, NH
The France-Merrick Foundation, MD
The Fremont Area Community Foundation, MI
Frey Foundation, MI
The Frist Foundation, TN

G

Gaston Community Foundation, NC
General Service Foundation, CO
Elizabeth Morse Genius Foundation, FL
George Family Foundation, MN
George Foundation, TX
The Gerber Foundation, MI
Gheens Foundation, KY
GHR Foundation, MN
Grand Rapids Community Foundation, MI
Greater Green Bay Community Foundation, WI
Greater Milwaukee Foundation , WI
Greater Worcester Community Foundation, MA
Greentree Foundation, NY
The Harry Frank Guggenheim Foundation, NY

H

Walter & Elise Haas Fund, CA
Hamilton Community Foundation , OH
Hau'oli Mau Loa Foundation, HI
Hawaii Community Foundation, HI
The Healing Trust, TN
Health Foundation of South Florida, FL
Healthcare Georgia Foundation, GA

HealthSpark Foundation, PA

The Heising-Simons Foundation, CA

Houston Endowment, TX

Humboldt Area Foundation, CA

Roy A. Hunt Foundation, PA

I

The Crawford Idema Family Foundation, MA

Innovia Foundation (Inland Northwest Community Foundation), WA

J

Jewish Community Fnd. of Greater Hartford, CT

Jewish Community Foundation of Greater Kansas City, KS

Jewish Community Foundation of San Diego, CA

Lloyd and Mabel Johnson Foundation, MI

Robert Wood Johnson Foundation, NJ

Theodore R. & Vivian M. Johnson Scholarship Fdn, FL

Walter S. Johnson Foundation, CA

Juneau Community Foundation, AK

K

K21 Health Foundation , IN

Kalliopeia Foundation, CA

Kalamazoo Community Foundation, MI

Kane Family Foundation, CO

Lippman Kanfer Foundation for Living Torah, OH

The Kern Family Foundation, Inc., WI

Peter Kiewit Foundation, NE

Carl B. and Florence E. King Foundation, TX

Samuel H. Kress Foundation, NY

L

Lancaster County Community Foundation, PA

Albert and Mary Lasker Foundation , NY

Lavelle Fund for the Blind, NY

Legacy Foundation, IN

Leon Levy Foundation, NY

Lincoln Community Foundation, NE

The Lozier Foundation, NE

Lumina Foundation for Education, IN

The Lumpkin Family Foundation, IL

M

Josiah Macy, Jr. Foundation, NY

Dan and Margaret Maddox Charitable Fund, TN

Madison Community Foundation, WI

Nellie Mae Education Foundation, MA

Marion Community Foundation, OH

Mather Foundation, IL

Alletta Morris McBean Charitable Trust, CA

McConnell Foundation, CA

Marshall & Perrine D. McCune Charitable Foundation, NM

McGregor Fund, MI

The McKnight Foundation, MN

Meadows Foundation, TX

The Andrew W. Mellon Foundation, NY

Melville Charitable Trust, MA

Merrick Foundation, Inc., NE

Metta Fund, CA

Michigan Health Endowment Fund, MI

Milbank Memorial Fund, NY

The Roy F. and Joann Cole Mitte Foundation , TX

Montana Community Foundation, MT

Montana Healthcare Foundation, MT

Burton D. Morgan Foundation, OH

Mark & Bette Morris Family Foundation, KS

Ruth Mott Foundation, MI

M.J. Murdock Charitable Trust, WA

The Music Center Foundation, CA

N

Natural Resources Foundation of Wisconsin, WI

New Hampshire Charitable Foundation, NH

New York Foundation, NY

NextFifty Initiative, CO

North Dakota Community Foundation, ND

Northwest Area Foundation, MN

Laird Norton Family Foundation, WA

O

I.A. O'Shaughnessy Foundation, MN
Oak Park-River Forest Community Foundation, IL
Obici Healthcare Foundation, VA
Paul Ogle Foundation, IN
Oshkosh Area Community Foundation, WI
Osteopathic Heritage Foundations, OH

P

PAH Foundation, WA
The Parasol Tahoe Community Foundation, NV
The Ralph M. Parsons Foundation, CA
Partnership for Better Health, PA
Pasadena Community Foundation , CA
Paso del Norte Health Foundation, TX
The Patterson Foundation, FL
Virginia G. Piper Charitable Trust, AZ
The Pittsburgh Foundation, PA
Polish American Freedom Foundation, NY
Polk Brothers Foundation, IL
Powder Mill Foundation, PA
Prince Charitable Trusts, IL
Princeton Area Community Foundation, NJ
The Public Welfare Foundation, Inc., DC
Nina Mason Pulliam Charitable Trust, IN

Q

Quantum Foundation, FL

R

Rancho Santa Fe Foundation, CA
Rapides Foundation, LA
The REACH Healthcare Foundation, KS
Research Corporation, AZ
The Research Foundation, MO
John Rex Endowment, NC
Rochester Area Community Foundation, NY
Rockefeller Brothers Fund, NY
The Winthrop Rockefeller Foundation, AR
The Russell Family Foundation, WA

S

Russell Sage Foundation, NY
The Saint Luke's Foundation of Cleveland, OH
The Saint Paul & Minnesota Foundations, MN
The San Diego Foundation, CA
The San Francisco Foundation, CA
Scharbauer Foundation, TX
Dr. Scholl Foundation, IL
Schooler Family Foundation, OH
The Sealy & Smith Foundation, TX
May and Stanley Smith Charitable Trust, CA
Sioux Falls Area Community Foundation, SD
Y & H Soda Foundation, CA
The Sosland Foundation, MO
Southern Minnesota Initiative Foundation, MN
Southern Oklahoma Memorial Foundation, OK
Spartanburg County Foundation, SC
The Spencer Foundation, IL
Springfield Foundation, OH
St. Louis Community Foundation, MO
The George B. Storer Foundation, Inc., WY
Stranahan Foundation, OH

T

Teagle Foundation, Inc., NY

Texoma Health Foundation, TX

The Tinker Foundation, NY

Toledo Community Foundation, OH

Toyota USA Foundation, CA

Harry C. Trexler Trust, PA

Tull Charitable Foundation, GA

V

Bert L. & N. Kuggie Vallee Foundation , MA

Valley Baptist Legacy Foundation, TX

Vitalyst Health Foundation, AZ

W

The Andy Warhol Foundation for the Visual Arts, NY

Washington Research Foundation, WA

Washington Square Health Foundation, IL

Weld Community Foundation, CO

Wellmark Foundation, IA

WELS Foundation, WI

Kemper & Leila Williams Foundation, LA

Mitchell Wolfson Senior Foundation, FL

Women's Foundation of Minnesota, MN

Robert W. Woodruff Foundation, GA

Wyoming Community Foundation, WY

Y

Yakima Valley Community Foundation, WA

York County Community Foundation, PA

Z

The Zellerbach Family Foundation, CA

Appendix V
Glossary of Terms

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

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

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

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

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

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

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

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

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

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, auto-no-mous, nonsectarian philanthropic institution supported by the public with the long-term goals of:

1) Building permanent, component funds established by many separate donors to carry out their charitable interests;

2) Supporting the broad-based charitable interests and benefitting the residents of a defined geographic area, typically no larger than a state; and

3) 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 foundations.

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 foundations/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 foundations.

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 foundations, the distribution committee is intended to be broadly representative of the community served by the foundation.

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.

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

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 foundations 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 foundations, 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 foundations make grants to other tax-exempt organizations to carry out their charitable purposes. Private foundations must make charitable expenditures of approximately 5 percent of the market value of their assets each year. Although exempt from federal income tax, private foundations 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 foundations to nonprofit organizations. Philanthropy addresses the contribution of an individual or group to other organizations that in turn work for the causes of poverty or social problems—improving the quality of life for all citizens. Philanthropic giving supports a variety of activities, including research, health, education, arts and culture, as well as alleviating poverty.

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

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

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

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 foundations 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 foundations, 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 foundations are publicly supported nonprofit organizations and are predominantly funded by contributions from individuals, corporations, governmental units and private foundations. As distinguished from most public charities, public foundations 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 foundations 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 foundations). 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 foundations 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 foundations).

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.

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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