

# FEG



Fund Evaluation Group®  
investment advisors

# INSIGHT



## FEG 2017 COMMUNITY FOUNDATION SURVEY Executive Summary

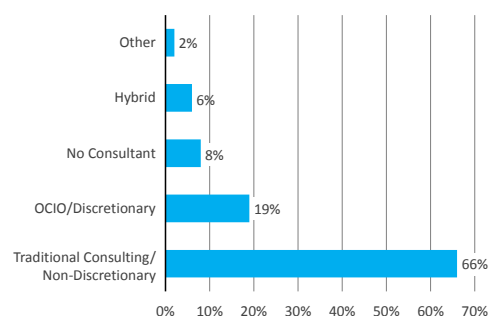
## About the Survey

The proprietary FEG Community Foundation survey collects insight on spending policies, asset allocation, and current industry trends. The survey was open from January 30, 2017, to April 7, 2017.

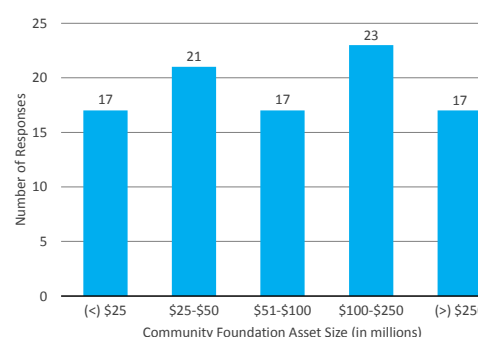
The survey was open to all U.S. Community Foundations and completed primarily by senior-level investment decision makers. We received 90 responses representing 29 states, with approximately 40% of respondents were FEG clients. A majority of respondents use a traditional consulting model, with a notable percentage using an OCIO model.

Asset sizes ranged from less than \$25 million to greater than \$1 billion. For the purposes of the survey, participants were grouped into the following asset categories: Less than \$25 million, \$25–\$50 million, \$50–\$100 million, \$101–\$250 million, and greater than \$250 million.

### CURRENT CONSULTING MODEL

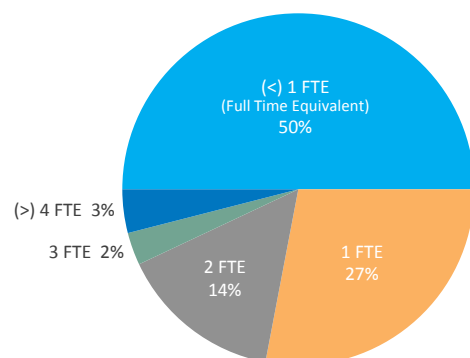


### INVESTMENT ASSET SIZE

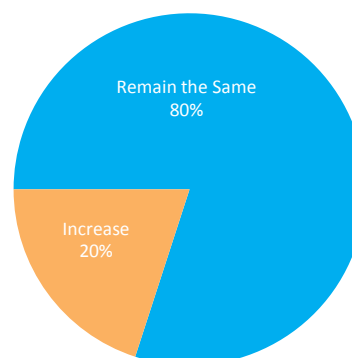


More than 75% of respondents have one or less than one full-time equivalent (FTE) on staff to administer the investment portfolio, and only 20% expect to increase their staffing in the next five years.

### CURRENT INVESTMENT STAFF To Administer Investment Portfolio



### FORESEEN INVESTMENT STAFF CHANGES Over the Next Five Years



## Asset Allocation

- Larger foundations continue to allocate more to alternative investments, while smaller foundations have a larger allocation to domestic equities.
- While the median allocation to hedge funds was 11%, smaller community foundations only had 2% while larger foundations allocated 15%.

### COMMUNITY FOUNDATION ASSET ALLOCATION

	DOMESTIC EQUITIES	INT'L DEV. EQUITIES	EMERGING MARKETS	CORE FIXED INCOME	CREDIT SENSITIVE FI	PUBLIC REAL ASSETS	PRIVATE INVEST- MENTS	HEDGE FUNDS/ LOW VOL.	CASH/ OTHER*
<b>Overall Median</b>	<b>37%</b>	<b>17%</b>	<b>6%</b>	<b>18%</b>	<b>2%</b>	<b>4%</b>	<b>5%</b>	<b>11%</b>	<b>3%</b>
(<) \$25 million	44	16	4	19	0	4	1	2	3
\$25–\$50 million	42	18	7	20	1	6	3	8	3
\$51–\$100 million	39	15	4	18	1	5	4	15	2
\$101–\$250 million	33	18	6	17	4	4	6	12	2
(>) \$250 million	31	17	7	12	3	2	6	12	1
	N=87	N=82	N=71	N=86	N=60	N=60	N=71	N=70	N=75

\*Short-term Securities

Note: Asset Allocation shown as median of survey responses. Taking the median of each asset may not add up to 100. Answers that were more than 20% off a total of 100 were removed. See appendix for equal-weighted average.

While 1-Year performance for Community Foundations overall was 8.6%, the average 10-Year performance was lower at 4.9%.

### COMMUNITY FOUNDATION PERFORMANCE

As of September 30, 2016

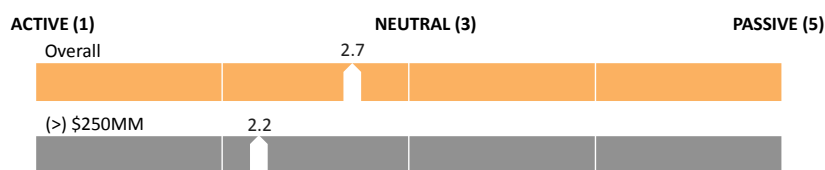
FOUNDATION SIZE	1-YEAR	3-YEAR	5-YEAR	7-YEAR	10-YEAR
<b>Overall Median</b>	<b>8.6%</b>	<b>4.6%</b>	<b>8.5%</b>	<b>7.2%</b>	<b>4.9%</b>
(<) \$25 million	8.6	4.9	8.4	7.4	5.0
\$25–\$50 million	9.0	4.8	8.5	7.4	5.1
\$51–\$100 million	8.5	4.9	8.9	7.1	4.7
\$101–\$250 million	8.9	4.6	8.2	7.1	4.7
(>) \$250 million	8.1	4.2	8.3	7.3	5.4
	N=87	N=85	N=85	N=55	N=70

Note: Performance shown as median and net of fees.

The majority of Community Foundations were balanced or neutral in preference towards active vs. passive investment strategies, with \$250m+ entities expressing a more favorable opinion of active strategies.

### AVERAGE COMMUNITY FOUNDATION POSITION

Active vs. Passive on a scale of 1 to 5

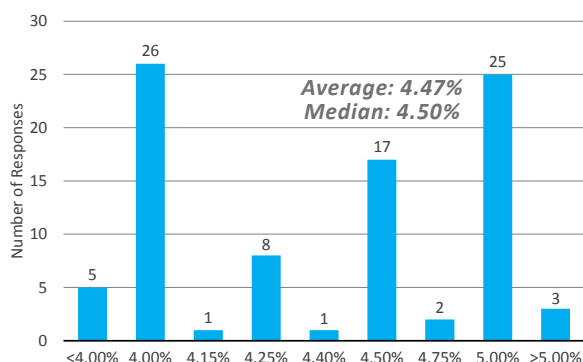


N=82

## Spending Policy

- While there are a variety of spending rates, the majority of respondents selected either 4.00%, 5.00%, or 4.50%, with a 4.50% median.
- More than 65% of respondents used a rolling quarter to determine their spending base, and an overwhelming majority used a moving average.

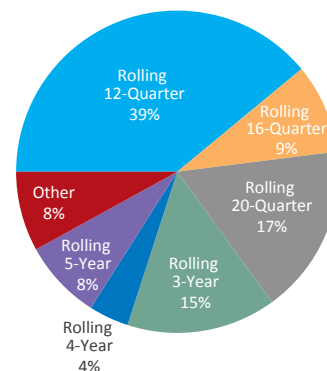
### SPENDING POLICY RATE



Note: Answers below 4% were grouped. To factor the average and median, numbers greater than 5% were figured as 6%.

N=88

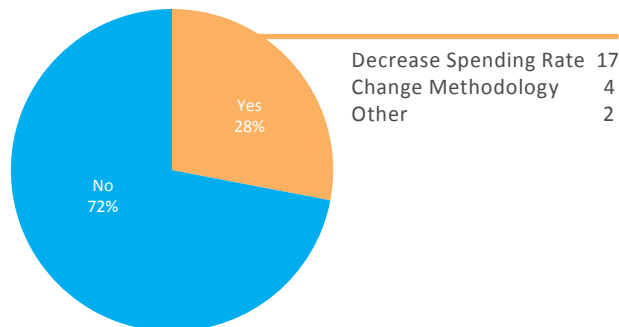
### TIME PERIOD USED TO DETERMINE SPENDING BASE



Note: Other answers were grouped.

Nearly a quarter of respondents changed or expect to change their spending policy, and the majority of those expect to decrease spending rates.

### FORESEEN SPENDING POLICY CHANGE

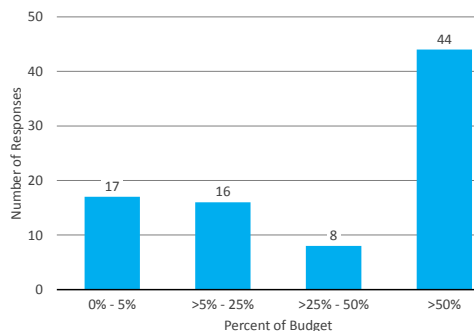


Note: Answers for yes were grouped.

N=89

More than half of respondents support greater than 50% of their operating budget from their foundation spending distributions, which may imply that they are more averse to risk.

### OPERATING BUDGET % SUPPORTED BY FOUNDATION DISTRIBUTIONS



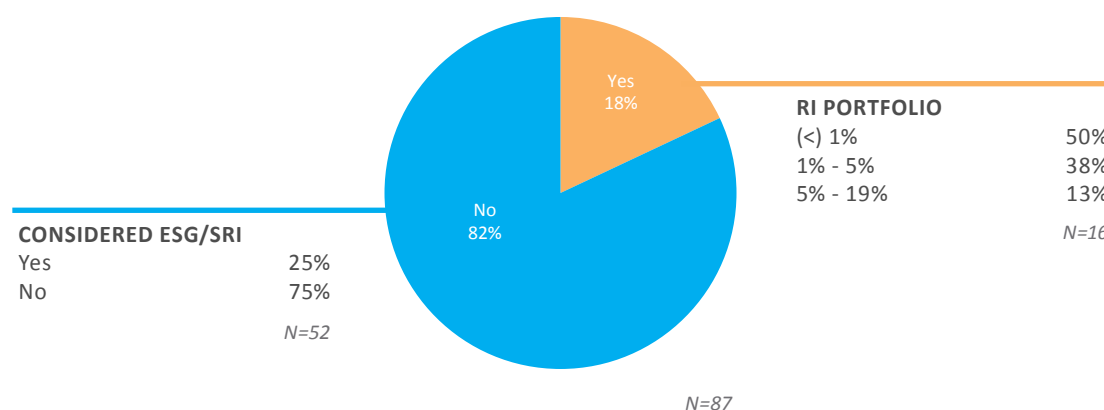
Note: Answers were grouped into ranges.

N=85

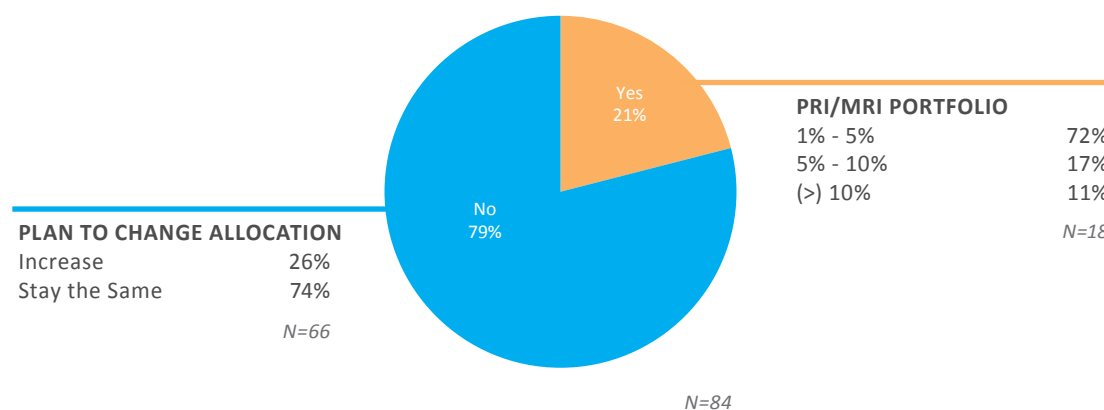
## Responsive Investing

- More than a quarter of respondents saw an increase in interest from donors for Responsive Investing (RI).
- While 18% had ESG/SRI investments, the majority represented less than 1% of the portfolio.
- Slightly more respondents had PRI/MRI with 21%, but again, the overall allocation to their portfolio was small.
- Of those not considering RI, the main reasons were no donor/Board interest, small asset size, or the difficulty in defining RI.

### PERCENT OF PORTFOLIO DEDICATED TO ESG/SRI



### PERCENT OF PORTFOLIO DEDICATED TO PRI/MRI



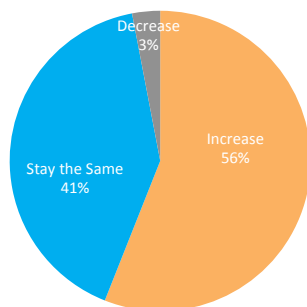
## Enterprise Trends

### DONOR DIRECTED ACCOUNTS

Donor directed accounts can be an additional fundraising avenue and help to increase the assets for community foundations; however, the amount of oversight also will increase.

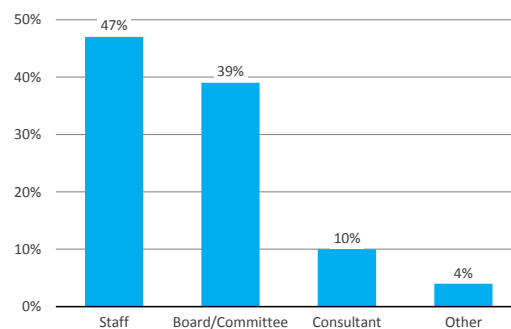
Reporting and oversight on donor directed accounts is done by staff for a large portion of respondents. However, this due diligence could be a drain on staff resources.

#### ANTICIPATED DONOR DIRECTED ACCOUNTS AMOUNT IN FUTURE



N=88

#### MANAGER OF DDA ACCOUNTS OVERSIGHT AND REVIEW PROCESS



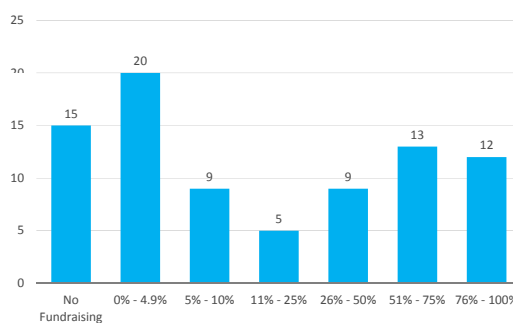
N=49

### GRANTS AND FUNDRAISING

While nearly 40% of respondents expected more than half of their growth to come from fundraising, only 45% integrated the development staff with the investment program.

While three quarters of respondents do not pay out 100% of grants in the year they are awarded, a majority of the respondents indicated the percentage not paid out is less than 10%.

#### PERCENTAGE OF GROWTH FROM FUNDRAISING



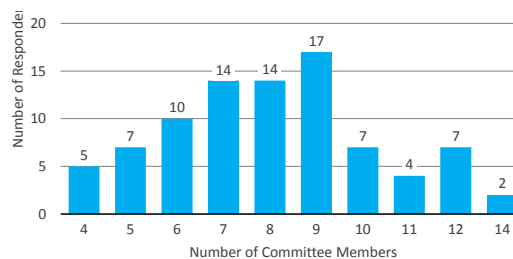
Note: Answers are grouped into ranges. Totals may not equal 100% due to rounding.

N=70

### INVESTMENT COMMITTEE

Approximately 80% of the respondents had an Investment Committee (IC) separate from the Board. More than half of respondents had from six to nine IC members, with a median term length of three years.

#### NUMBER OF IC MEMBERS



N=87

## Closing Thanks

Thank you to all Community Foundations that participated in the survey and contributed to the content.

We greatly appreciate the time and energy of those who participated and look forward to increasing the number of participants and improving the usefulness of the survey as it continues.

## Learn More

### VISIT

Download the full report at [www.FEG.com/cfsurvey](http://www.FEG.com/cfsurvey)

### PARTICIPATE

To participate in the 2018 survey,  
please visit [www.FEG.com/cfsurvey2018](http://www.FEG.com/cfsurvey2018)

## GLOSSARY

### SPENDING METHODOLOGY

**Moving Average** – Spend a fixed percentage of the average market value over a set time period

**Constant growth** – Increase spending each year by a constant growth rate or inflation

**Constant growth with bands** – Spending is contained within a range +/- a percentage of previous year's market value

**Geometric** – Weight given to inflation adjusted spending and target spending of market value

**Hybrid** – Custom combination of spending rules to meet the specific needs of an institution

### ADMINISTRATIVE FEES

**Agency Funds** are established by specific non-profit organizations to provide a source of income for years to come.

Unrestricted **Endowed Funds** are set up to let the community foundation make regular withdrawals used for operations, community needs, specific purposes, etc.

**Donor Advised Fund (DAF)** is a separately identified fund or account comprised of contributions made by individual donors that is maintained and operated by a Community Foundation.<sup>1</sup> They are used by donors who want to personally recommend grant awards from a fund they set up with the Community Foundation.

**Scholarship Fund** is a donation that is set up where the grant making dollars are utilized to provide scholarships to students, and is managed completely by the Community Foundation.

**Supporting Organization** are special types of charitable organizations that, based upon their relationship with the Community Foundation, are themselves classified as public charities. Supporting organizations provide the flexibility desired by donors to meet their objectives.<sup>2</sup>

### RESPONSIVE INVESTING

**Environmental, Social and Governance (ESG)** refers to the three central factors—environmental, social, and governance—in measuring the sustainability and ethical impact of an investment in a company or business.

**Mission Related Investments (MRI)** is the use of investments designed to generate a positive social or environmental impact, while generating reasonably competitive rates of financial return.<sup>3</sup>

**A Program-Related Investment (PRI)** is an investment to support a charitable program objective or activity and is expected to be repaid.<sup>4</sup>

**Socially Responsible Investments (SRI)** is an investment that considers both financial return and social good.<sup>5</sup>

<sup>1</sup> <https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

<sup>2</sup> <http://www.cfncforever.org/fundtypes>

<sup>3,4</sup> <http://web.cof.org/2013fall/docs/resources/Impact-Investing-Basics.pdf>

<sup>5</sup> [https://en.wikipedia.org/wiki/Socially\\_responsible\\_investing](https://en.wikipedia.org/wiki/Socially_responsible_investing)

## DISCLOSURES

This report was prepared by Fund Evaluation Group, LLC (FEG), a federally registered investment adviser under the Investment Advisers Act of 1940, as amended, providing non-discretionary and discretionary investment advice to its clients on an individual basis. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Fund Evaluation Group, LLC, Form ADV Part 2A & 2B can be obtained by written request directly to: Fund Evaluation Group, LLC, 201 East Fifth Street, Suite 1600, Cincinnati, OH 45202, Attention: Compliance Department.

The data is obtained from the proprietary FEG 2017 Community Foundation Survey. The study includes a survey of 90 U.S. Community Foundations as of April 7, 2017. The data from this survey was divided into five categories based on assets of the community foundation with assets ranging from less than \$25 million to greater than \$250 million. The information in this study is based on the responses provided by the participants and is meant for illustration and educational purposes only. Unless otherwise noted the number of responses is 90.

Index performance results do not represent any managed portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell any securities.

Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time period or that investors will not incur losses.

Past performance is not indicative of future results.

Investments in private funds are speculative, involve a high degree of risk, and are designed for sophisticated investors.

This report is prepared for informational purposes only. It does not address specific investment objectives, or the financial situation and the particular needs of any person who may receive this report.

## COMMUNITY FOUNDATION EQUAL-WEIGHTED ASSET ALLOCATION

	(<) \$25 MILLION	\$25 - \$50 MILLION	\$50 - \$100 MILLION	\$101 - \$250 MILLION	(>) \$250 MILLION	MEDIAN	EQUAL-WTD. AVERAGE
Domestic Equities	44%	42%	39%	33%	31%	37%	33%
International Developed Equities	16	18	15	18	17	17	16
Emerging Markets	4	7	4	6	7	6	6
Core Fixed Income	19	20	18	17	12	18	16
Credit Sensitive Fixed Income	0	1	1	4	3	2	3
Public Real Assets	4	6	5	4	2	4	3
Private Investments	1	3	4	6	6	5	6
Hedge Funds / Low Volatility	2	8	15	12	12	11	12
Cash / Other <sup>1</sup>	3	3	2	2	1	3	5

<sup>1</sup>Short-term Securities

Note: Asset Allocation shown as median of survey responses. Taking the median of each asset may not add up to 100. Answers that were more than 20% off a total of 100 were removed.



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