

FEG INSIGHT



FEG 2018 COMMUNITY FOUNDATION SURVEY Executive Summary

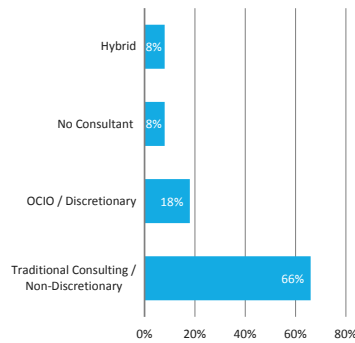
ABOUT THE SURVEY

The proprietary FEG Community Foundation survey collects insight on spending policies, asset allocation, and current industry trends. The survey was open from January 4, 2018, to April 6, 2018.

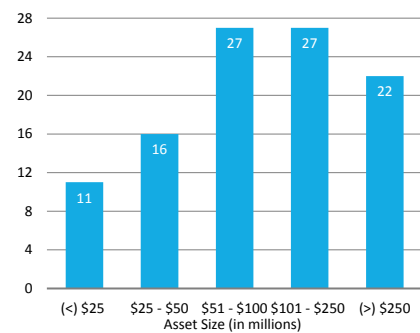
The survey was open to all U.S. Community Foundations and completed primarily by senior-level investment decision makers. We received 103 responses representing 34 states. A majority of participants use a traditional consulting model, while nearly 20% use an outsourced CIO (OCIO) model.

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

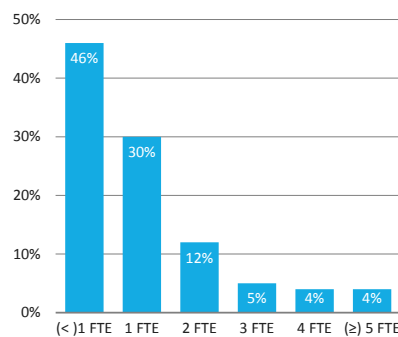


INVESTMENT ASSET SIZE



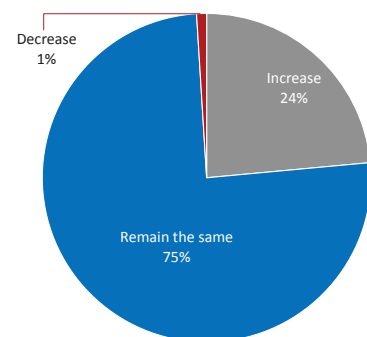
Investment staffing continues to be limited. More than 75% of respondents have one or less than one full-time equivalent (FTE) to administer the investment portfolio. Based on survey results this number is not expected to change, as 75% of respondents expect staffing levels to remain the same for the next five years.

CURRENT FTE STAFF To Administer Investment Portfolio



¹Full time equivalents (FTE)

EXPECTED INVESTMENT STAFF CHANGES Over the Next Five Years



ASSET ALLOCATION / PERFORMANCE

- Smaller organizations have a stronger home country bias with 41% allocated to domestic equities; whereas the larger community foundations allocate 30%.
- The average allocation to hedge funds was 9%; ranging from 2% for smaller community foundations to 14% for larger community foundations.

COMMUNITY FOUNDATION ASSET ALLOCATION

	Domestic Equities	International Developed Equities	Emerging Markets	Core Fixed Income (FI)	Credit Sensitive FI	Public Real Assets	Private Investments	Hedge Funds	Other ¹
Overall Average	36	17	6	18	2	3	5	9	3
(<) \$25 million	41	14	6	22	6	5	0	4	3
\$25 - \$50 million	41	16	5	20	3	3	4	2	6
\$51 - \$100 million	38	18	7	19	1	3	3	9	2
\$101 - \$250 million	36	17	6	16	2	3	6	11	2
(>) \$251 million	30	17	6	15	1	4	8	14	4

¹Shown on the survey as short-term securities / cash / other

Note: Asset Allocation as of September 30, 2017 and shown as average of survey responses. May not add up to 100. Answers that were more than 20% off a total of 100 were removed. N=100

- The median 1-year performance for respondents was 12.5%, while the median 10-year performance was 4.8%.

COMMUNITY FOUNDATION PERFORMANCE

As of September 30, 2017

FOUNDATION SIZE	1-YEAR	3-YEAR	5-YEAR	7-YEAR	10-YEAR
Overall Median	12.5%	5.8%	7.8%	7.8%	4.8%
(<) \$25 million	12.6	5.5	6.9	7.0	5.0
\$25-\$50 million	13.2	5.9	7.9	8.3	5.5
\$51-\$100 million	12.9	6.0	7.7	8.0	4.8
\$101-\$250 million	12.7	5.8	7.6	7.4	4.7
(>) \$250 million	11.9	5.7	7.9	7.4	4.6

N=100

N=95

N=98

N=60

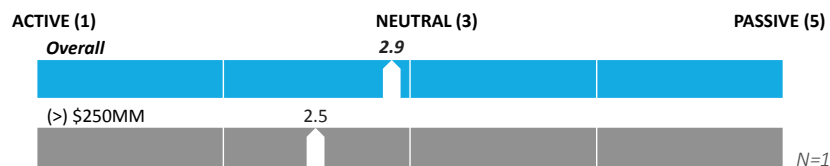
N=80

Note: Performance shown as median and net of fees.

- While the overall average of respondents were neutral in preference towards active vs. passive investment strategies, entities larger than \$250m expressed a more favorable opinion of active strategies.

AVERAGE COMMUNITY FOUNDATION POSITION

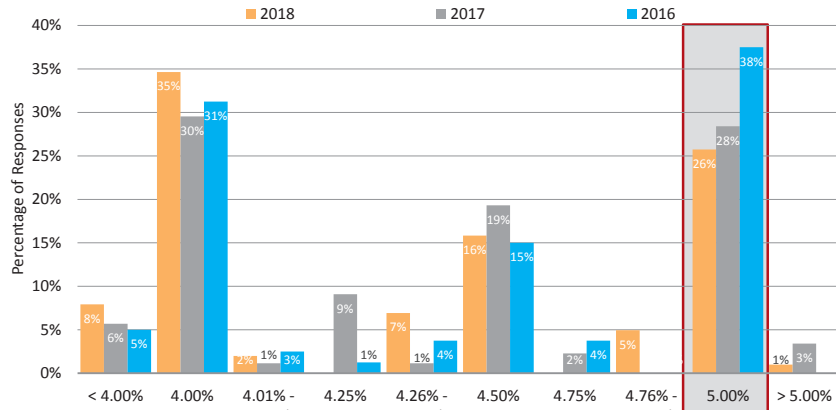
Active vs. Passive on a scale of 1 to 5



SPENDING POLICY

- There has been a reduction in spending policy rates over the past three years; however, it appears the spending policy rate might be leveling off.
- The overall spending rate median was 4.3%. This is a reduction since the 2016 survey when respondents median was 4.5%.

SPENDING POLICY RATE



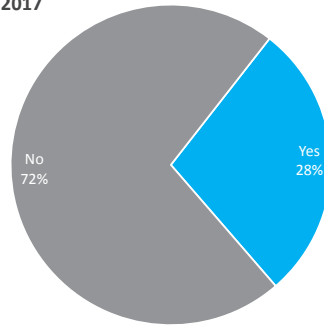
Note: Answers were grouped for 2017. Answers may have been excluded that were more than 20% off the average. 2018 N= 102 2017 N= 88 2016 N= 80

- This year the percent of respondents that foresee changing spending policy dropped significantly from 2017.

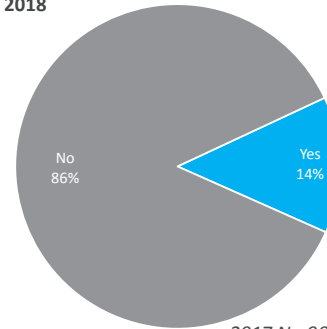
FORESEEN SPENDING POLICY CHANGE

In the next year

2017



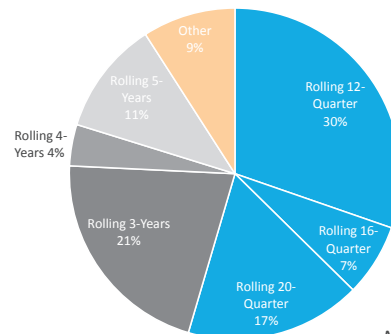
2018



2017 N= 90 2018 N= 89

TIME PERIOD USED TO DETERMINE SPENDING BASE

The most common time period used to determine spending is a rolling 12-quarter moving average.

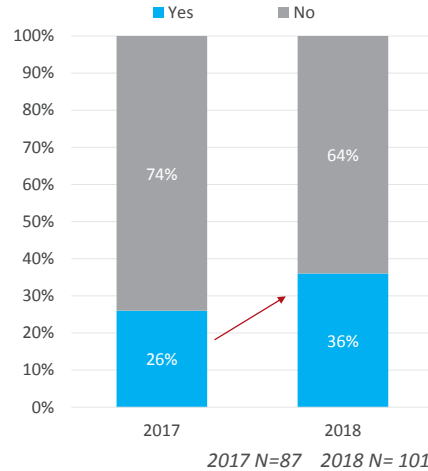


N=99

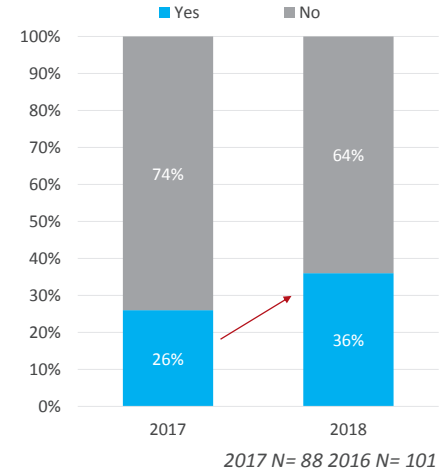
RESPONSIVE INVESTING

- More than a third of respondents have seen an increase in interest from donors for Responsive Investing (RI) in 2018. There was also an increase in respondents that have RI investments.

EXPERIENCE AN INCREASE IN INTEREST FROM DONORS FOR RI

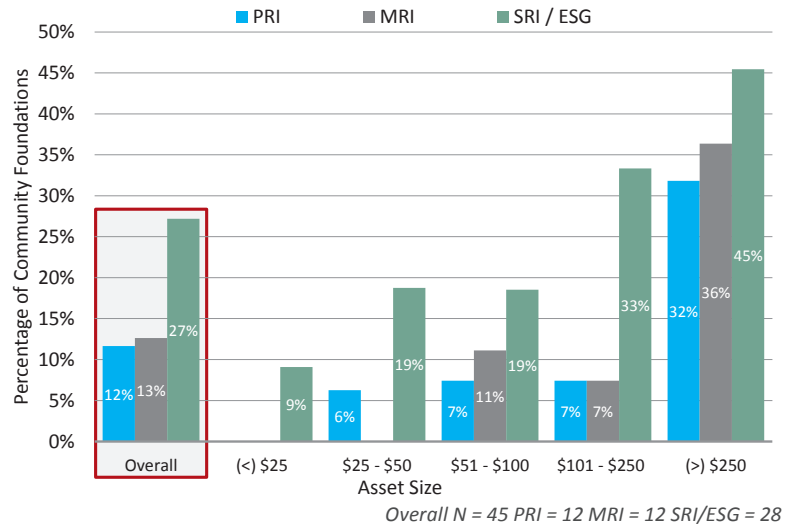


CURRENTLY HAVE RI INVESTMENTS



- The larger the organization, the larger the percentage of respondents that have RI; however, the overall percentage of the portfolio dedicated to RI remains small.

COMMUNITY FOUNDATIONS WITH RESPONSIVE INVESTING



PERCENT OF PORTFOLIO DEDICATED TO RI

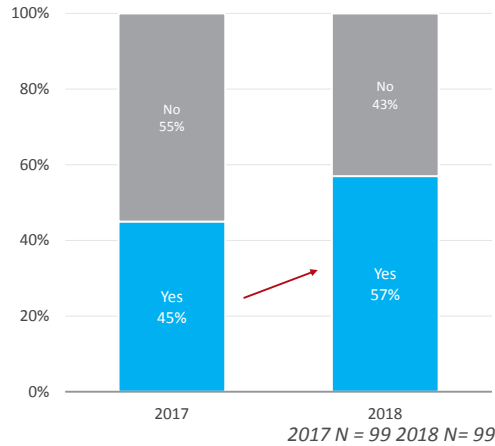
	PRI	MRI	SRI / ESG
Overall Average	1.32%	3.88%	3.51%
Overall Median	1.00%	0.90%	1.90%
	N=11	N=12	N=28

¹A Responsive Investment is any investment made by an organization that seeks to gain both financial & social benefit. Program Related Investments (PRI), Mission Related Investments (MRI), Socially-Responsible Investments (SRI), and Environmental, Social, Governance (ESG)

FUNDRAISING

- Compared to 2017 results, there was greater integration of the fundraising staff with the investment program.

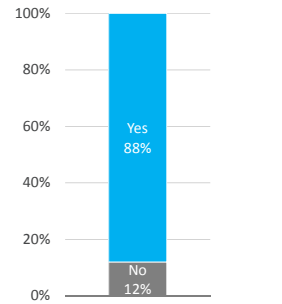
FUNDRAISING STAFF INTEGRATED WITH INVESTMENT PROGRAM



INVESTMENT COMMITTEE STRUCTURE

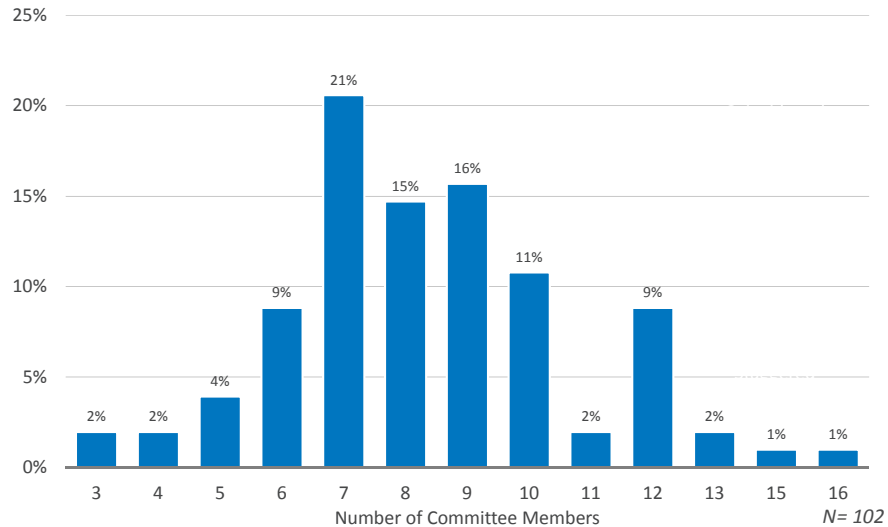
- Overall 88% of the respondents have an Investment Committee (IC) separate from the Board; however, for respondents with less than \$25 million in assets, only 64% have an IC separate from the board.
- More than half of respondents have between 7-9 IC members, although more than 25% have 10 or more members.

IC SEPARATE FROM BOARD



N = 102

NUMBER OF IC MEMBERS



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 continually improving the usefulness of the survey as it continues.

LEARN MORE

Visit www.feg.com/cfsurvey to download the full report, contact us, or learn about the 2019 survey.

GLOSSARY

INVESTMENT CONSULTING MODELS

Traditional Consulting / Non-Discretionary – Traditional consulting is the use of a third party that advises the board/committee on investment decisions but does not have discretionary power. (sometimes referred to as investment advisor)

OCIO / Discretionary – OCIO is the use of a third party that manages the investment portfolio

Hybrid Consulting Model – This is a model that combines traditional consulting and OCIO. The consultant (third party advisor) advises the board/committee on investment decisions but might have some discretionary power

Investment Manager – A mutual fund manager (ex. Morgan Stanley)

FUND TYPES

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

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.¹ They are used by donors who want to personally recommend grant awards from a fund they set up with the Community Foundation.

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

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.²

RESPONSIVE INVESTING TERMS

Responsive Investing - Any investment made by an organization that seeks to gain both financial and social benefit.

Program Related Investment (PRI) - PRIs are defined by the IRS tax code. PRI constitutes investments for which the primary purpose is to accomplish one or more of the foundation's exempt purposes, and for which production of income or appreciation of property is not a significant purpose. A PRI may produce at market, above market, or below market returns. A PRI is eligible to count against the 5 percent payout that foundations are required to make each year to retain their tax-exempt status. (Adapted from the Internal Revenue Service)

Mission Related Investment (MRI) - MRIs are market-rate investments that support the mission of the foundation by generating a positive social or environmental impact. These investments are made from the foundation's endowment corpus. MRI opportunities exist across asset classes in cash, fixed income, public equity, private equity and venture capital, and real estate. (Adapted from Mission Investors Exchange)

Socially Responsible Investment (SRI) – Considered socially responsible because of the nature of the business the company conducts. This could include negative exclusionary criteria (ex. Exclusion of “sin stocks”) (Adapted from Investopedia)

Environmental, Social, Governance (ESG) – ESG is a holistic view of all aspects that can impact security value. ESG factors are a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues (ex. human rights issues or renewable energy) (Adapted from Financial Times Lexicon)

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

² <http://www.cfhcforever.org/fundtypes>

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