

# FEG INSIGHT



## EXECUTIVE SUMMARY

FEG 2019 Community Foundation Survey

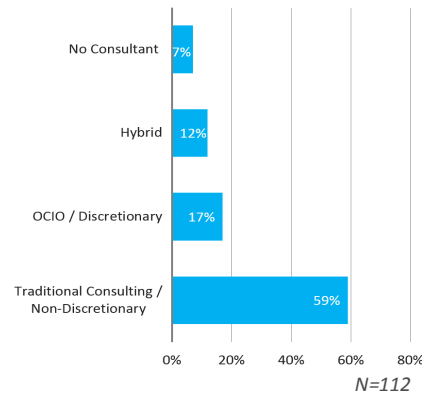
## ABOUT THE SURVEY

The proprietary FEG Community Foundation survey collects insight on spending policies, asset allocation, and current industry trends. The survey was open to all U.S. Community Foundations from March 4, 2019, to April 5, 2019.

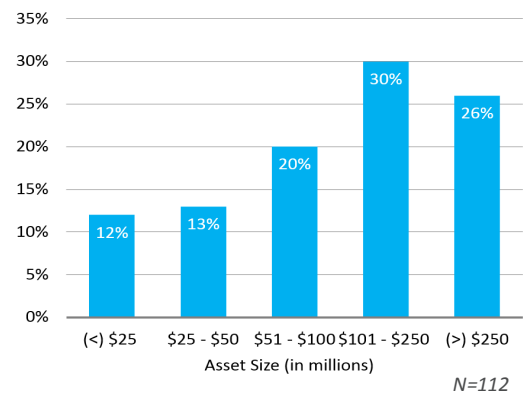
Completed primarily by senior-level investment decision makers, 112 foundations across thirty-five states participated this year. Thirty-five of the participants were FEG clients. A majority of participants use a traditional consulting model, while nearly 30% use either an outsourced CIO (OCIO) or hybrid consulting model.

Asset sizes ranged from less than twenty-five million to greater than one billion. To best communicate the survey results, participants were grouped into the following asset categories: less than \$25 million, \$25-\$50 million, \$51-\$100 million, \$101-\$250 million, and greater than \$250 million.

### CURRENT CONSULTING MODEL

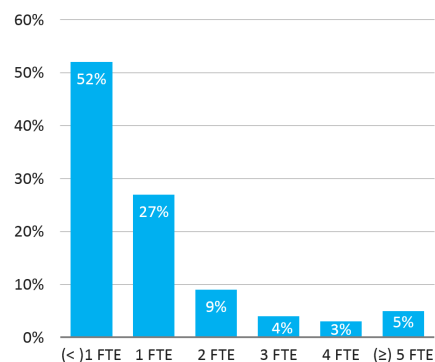


### INVESTMENT ASSET SIZE



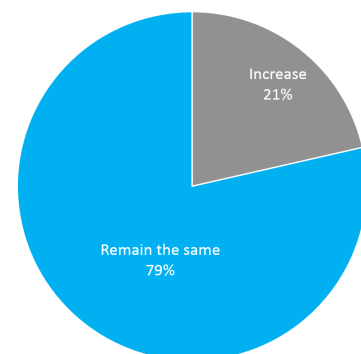
- Consistent with previous surveys, investment staffing continues to be limited. More than 75% of respondents have one or less full-time equivalent (FTE) to administer the investment portfolio.
- Nearly 80% of community foundations also expect staffing to remain the same.

### CURRENT FTE<sup>1</sup> STAFF To Administer Investment Portfolio



<sup>1</sup>Full time equivalents (FTE) N=112

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



N=112

## ASSET ALLOCATION / PERFORMANCE

- Smaller organizations displayed a strong home country bias within equities, with 47% percent of the portfolio allocated domestically.
- The difference between small and large organizations also can be seen within private investments and hedge funds, where allocations range from 0-6% and 2-11%, respectively.

### COMMUNITY FOUNDATION ASSET ALLOCATION

September 30, 2018

	DOMESTIC EQUITIES	INT'L DEV. EQUITIES	EMERGING MARKETS	CORE FIXED INCOME	CREDIT SENSITIVE FI	PUBLIC REAL ASSETS	PRIVATE INVESTMENTS	HEDGE FUNDS	OTHER <sup>1</sup>
<b>Overall Average</b>	<b>38%</b>	<b>17%</b>	<b>6%</b>	<b>17%</b>	<b>2%</b>	<b>4%</b>	<b>5%</b>	<b>8%</b>	<b>3%</b>
(<) \$25 million	47	15	3	24	1	3	0	2	4
\$25-\$50 million	41	15	6	18	1	5	5	3	6
\$51-\$100 million	40	17	7	18	3	3	3	8	2
\$101-\$250 million	37	16	7	16	2	4	7	11	4
(>) \$250 million	33	18	5	14	4	3	6	11	4

N=110

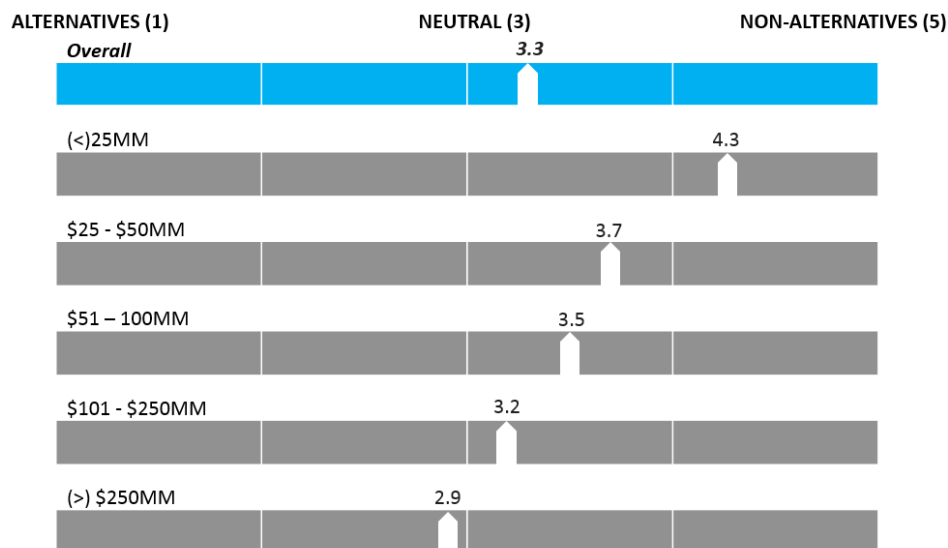
<sup>1</sup>Shown on the survey as short-term securities / cash / other

Note: Asset Allocation shown as average of survey responses. May not add up to 100.

- Overall sentiment has shifted away from alternatives; smaller organizations showed a strong preference for non-alternatives.

### AVERAGE COMMUNITY FOUNDATION POSITION

Alternatives vs. Non-Alternatives on a scale of 1 to 5



N=104

- The median one-year performance for respondents was 7.2%, while the median ten-year performance was 7.4%.
- The effects of the Great Financial Crisis (GFC) fell off in 2018, which brought long-term returns up to a more palatable level for most community foundations.

**COMMUNITY FOUNDATION PERFORMANCE**

As of September 30, 2018

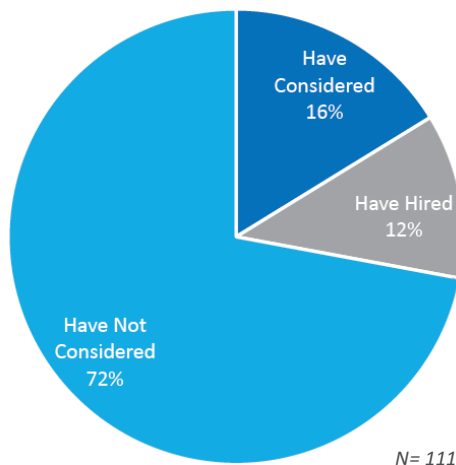
FOUNDATION SIZE	1-YEAR	3-YEAR	5-YEAR	7-YEAR	10-YEAR
<b>Overall Median</b>	<b>7.2%</b>	<b>9.5%</b>	<b>6.7%</b>	<b>9.1%</b>	<b>7.4%</b>
(<) \$25 million	7.2	8.5	5.6	8.4	7.3
\$25-\$50 million	7.2	9.9	6.9	9.3	7.8
\$51-\$100 million	6.7	9.7	6.7	9.5	7.5
\$101-\$250 million	7.1	9.4	6.7	8.7	7.2
(>) \$250 million	6.7	9.3	6.8	8.9	7.2

N=100      N=98      N=94      N=63      N=85

*Note: Performance shown as median and net of fees. Answers given for dates other than September 30, 2018 were excluded.*

- New to the 2019 survey was a question around manager diversity, of which only 29% of respondents have either considered or hired diverse asset managers.
- Of those who have hired, larger community foundations seem to be implementing diverse managers more so than smaller community foundations.

**HAVE YOU ACTIVELY CONSIDERED AND/OR HIRED DIVERSE ASSET MANAGERS?**



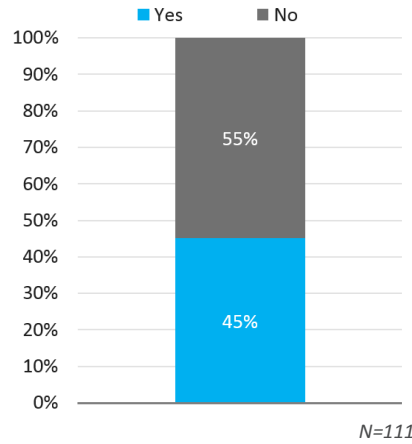
**NUMBER HIRED**

ASSET SIZE	COUNT	MEDIAN
<b>Overall</b>	<b>12</b>	<b>3.5</b>
(<) \$25 Million	1	1.0
\$25 - \$50 Million	1	4.0
\$51 - \$100 Million	0	0.0
\$101 - \$150 Million	1	1.0
\$151 - \$250 Million	0	0.0
(>) \$250 Million	9	4.0

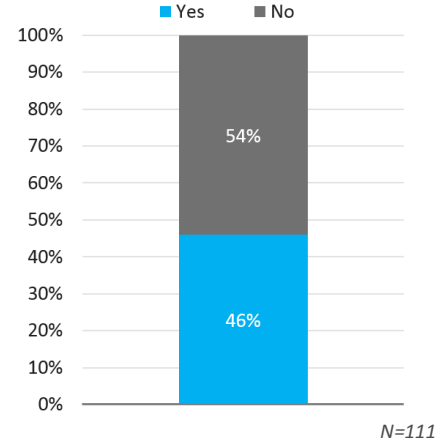
## RESPONSIVE INVESTING<sup>1</sup>

- Interest in Responsive Investing (RI) has almost doubled since our 2017 survey.
- Further, the number of organizations that invest in RI has also nearly tripled—46% of respondents currently have RI within the portfolio.

### EXPERIENCE AN INCREASE IN INTEREST FROM DONORS FOR RI

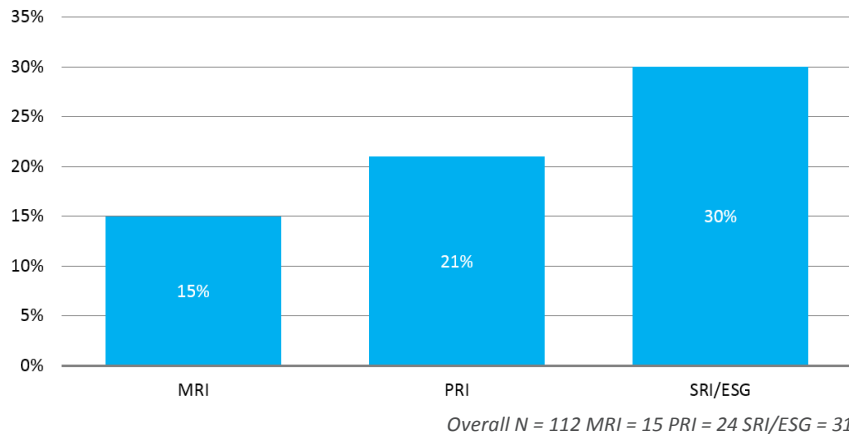


### CURRENTLY HAVE RI INVESTMENTS



- Organizations use different types of RI, and some have multiple types. SRI/ESG is the most common, of which 30% of respondents have within their portfolio.
- Although adoption has increased, the overall portfolio allocation to RI remains limited; the highest average allocation was 3.7% within SRI/ESG.

### PERCENT OF RESPONDENTS WITH RI IN CURRENT PORTFOLIO



### PERCENT OF PORTFOLIO DEDICATED TO RI

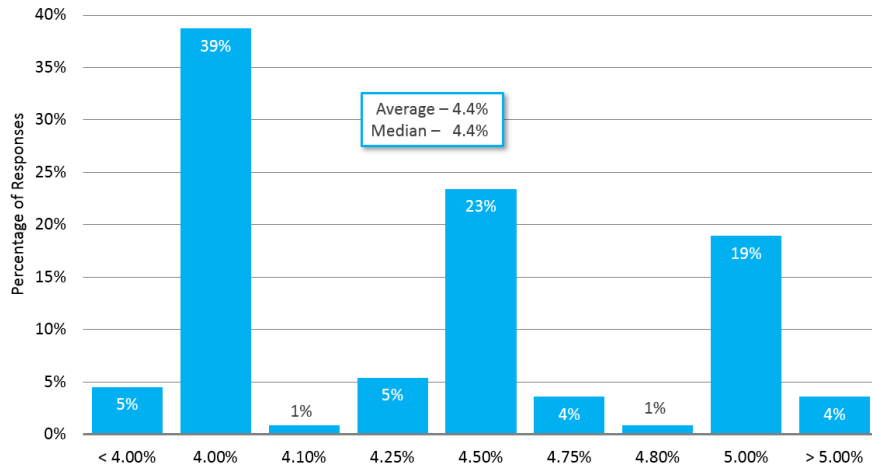
	MRI	PRI	SRI / ESG
Overall Average	1.8%	0.8%	3.7%
Overall Median	1.0%	0.6%	1.0%
	N=15	N=24	N=31

<sup>1</sup>A 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)

## SPENDING POLICY

- Over the past four years, there has been a consistent reduction in participants with a 5% spending rate.
- The overall median spending rate was 4.4% and the most common calculation methodology was a rolling twelve-quarter moving average.

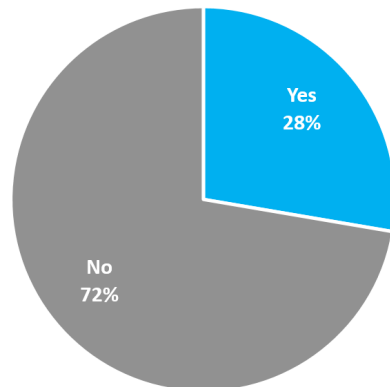
**SPENDING RATE**  
Excluding Administrative Fees



Note: Answers below 4% and greater than 5% were grouped. Answers more than 20% off the average were excluded. N=112

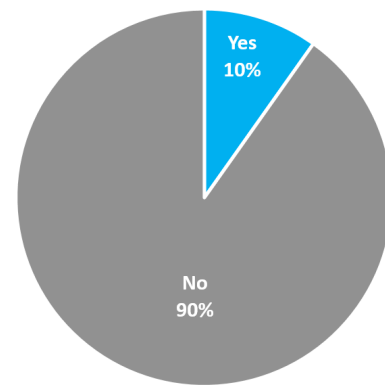
- While 28% of respondents made changes last year, only 10% foresee making a change to their policy in the near future.
- The percent of respondents that foresee a change in spending policy has decreased over the past four years.

**SPENDING POLICY CHANGE**  
In The Past Three Years



N= 112

**FORESEE SPENDING POLICY CHANGE**  
In The Next Year



N= 112

## FEES

- On average, the overall advisor/consultant fee is twenty basis points while investment manager fees come in at fifty-three basis points.
- Total OCIO and consulting investment fees—inclusive of manager and custodian costs—are roughly the same, although investment advisor fees are higher in an OCIO model and manager and custodian fees are higher in a consulting model.
- Investment advisor/consultant fees have an inverse relationship with asset size, decreasing as asset size increases, while investment manager fees seem to be directly correlated to asset size and increase as asset size increases.

### AVERAGE EXPENSES

In Basis Points

	INVESTMENT ADVISOR/ CONSULTANT	INVESTMENT MANAGERS / MUTUAL FUNDS / ETFS	CUSTODIAN	TOTAL
<b>Overall</b>	<b>20</b>	<b>53</b>	<b>5</b>	<b>76</b>
OCIO	34	42	2	78
Consulting	14	60	5	79
	<i>N= 92/89/60</i>	<i>N=17/15/9</i>	<i>N=46/46/30</i>	

Note: “Hybrid” and “No Consultant” model fees are included in the overall average.

- More labor intensive funds, such as scholarship funds, have the highest associated administrative fees.
- Overall administrative fees stand at 1.27% for all community foundations.

### ADMINISTRATIVE FEES

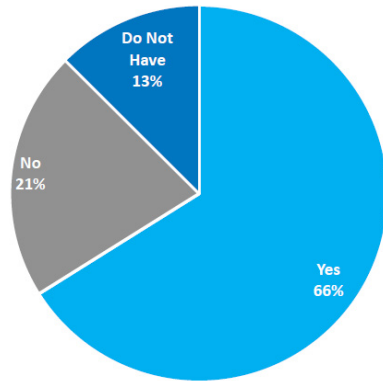
	OVERALL FEES	DONOR ADVISED FUNDS	SCHOLARSHIP FUNDS	SUPPORTING ORGANIZATION	AGENCY FUNDS	ENDOWED FUNDS	OTHER FUNDS
<b>Overall</b>	<b>1.27%</b>	<b>1.21%</b>	<b>1.69%</b>	<b>0.93%</b>	<b>0.94%</b>	<b>1.16%</b>	<b>1.58%</b>
(<) \$25 million	1.35	1.32	1.61	n/a	1.18	1.38	2.36
\$25 - \$50 million	1.15	1.24	1.65	1.12	0.95	1.13	1.56
\$51 - \$100 million	1.54	1.41	1.81	1.08	1.09	1.14	1.77
\$101 - \$250 million	1.25	1.13	1.71	0.79	0.88	1.17	1.47
(>) \$250 million	1.12	1.04	1.61	0.84	0.80	1.10	1.18
	<i>N=99</i>	<i>N=102</i>	<i>N=101</i>	<i>N=54</i>	<i>N=94</i>	<i>N=84</i>	<i>N=58</i>

Note: Shown as average. n/a = Categories with less than five organizations answering. Answers off by more than 20% were excluded. See appendix for definitions.

## EXTERNALLY MANAGED FUNDS (EMFs)

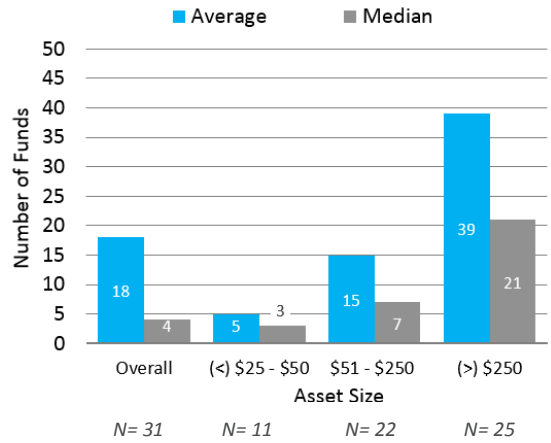
- Nearly 70% of foundations allow for externally managed funds, with an average of eighteen funds and a median of four.
- The number of EMFs increase as the size of the foundation increases, therefore smaller foundations negatively skew the average.

ALLOW EMFs



N= 112

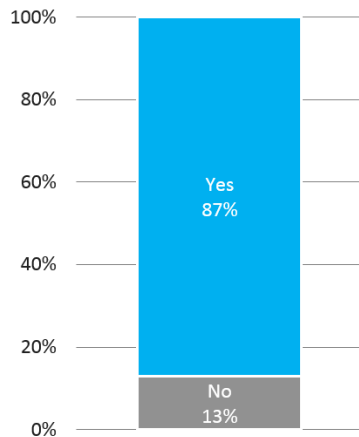
NUMBER OF EMFs



## INVESTMENT COMMITTEE STRUCTURE

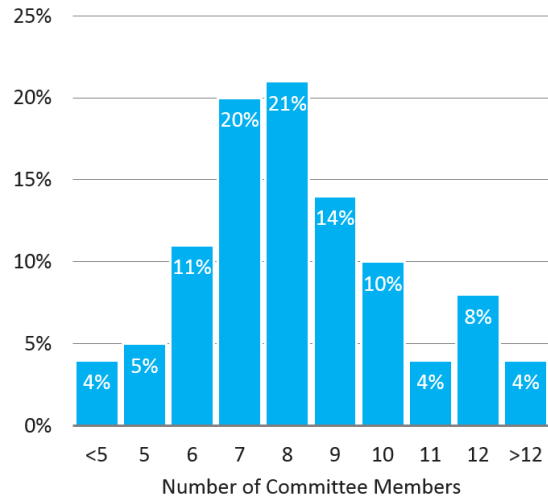
- Overall, 87% of the respondents have an Investment Committee (IC) separate from the Board.
- More than half of respondents have between seven and nine IC members, although more than 25% have ten or more.

IC SEPARATE FROM BOARD



N= 112

NUMBER OF IC MEMBERS



N= 112



## CLOSING THANKS

Thank you to all the community foundations that participated in the survey and contributed to its content. We greatly appreciate the time and energy of those who have participated in the past and look forward to increasing the number of participants and improving the usefulness of the data for community foundations nationwide.

## LEARN MORE

We greatly value your input; if you have questions you would like to be considered for future surveys, please contact us. To watch the webinar replay, download the presentation, or stay informed on the 2020 survey, visit [www.feg.com/cfsurvey](http://www.feg.com/cfsurvey).



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## 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.

**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 third party advisor advises the board/committee on investment decisions but may also 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 Funds (DAFs)** are 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. Donor advised funds are those where the donor has influence/ input over granting. **Externally Managed Funds (EMFs)** are those that are managed by an outside advisor or broker. **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.<sup>2</sup>

### RESPONSIVE INVESTING TERMS

**Responsive Investing (RI)** - Any investment 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)

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

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

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The data is obtained from the proprietary FEG 2019 Community Foundation Survey. The study includes a survey of 112 U.S. Community Foundations. The survey was open for responses online from March 4 – April 5, 2019. Participants also had the option to complete as a word document and email the results back to FEG. The data from this survey was grouped into six categories based on assets of the community foundation with assets ranging from less than \$25 million to greater than \$1 billion. The information in this study is based on the responses provided by the participants and is meant for illustration and educational purposes only.

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.

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