

FEG INSIGHT



EXECUTIVE SUMMARY

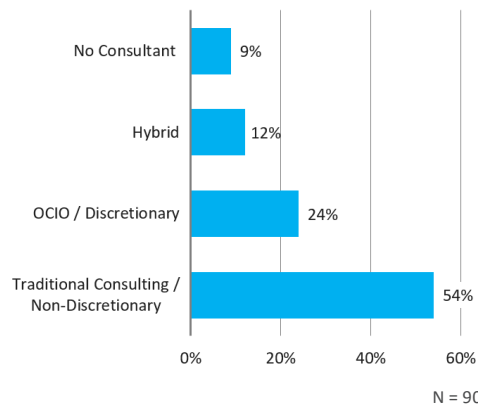
FEG 2020 Community Foundation Survey

ABOUT THE SURVEY

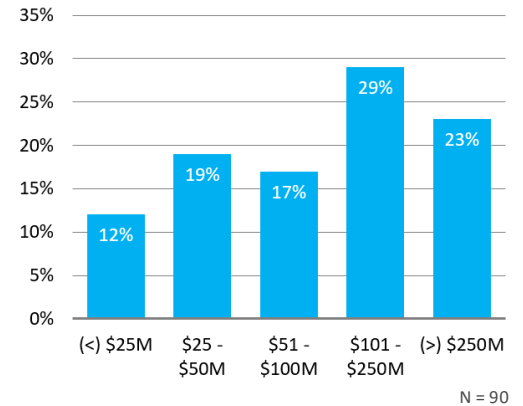
The FEG Community Foundation Survey collects data on a variety of financial and enterprise topics to provide insight on issues affecting community foundations. Open to all U.S. community foundations, the 2020 survey took place during the height of the COVID-19 pandemic. Responses were accepted from March 4, 2020 to May 22, 2020. FEG would like to thank all the community foundations dedicated to serving the needs of their communities during this difficult time.

For the 2020 survey, FEG received responses from 90 community foundations across 31 states, representing approximately \$33 billion in assets. Foundation asset sizes ranged from less than \$25 million to greater than \$1 billion.

CURRENT CONSULTING MODEL



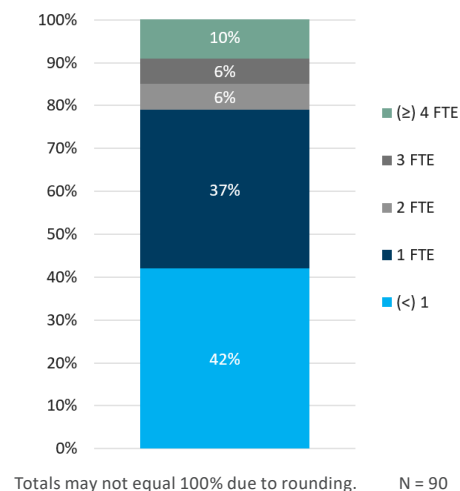
INVESTABLE ASSET BASE



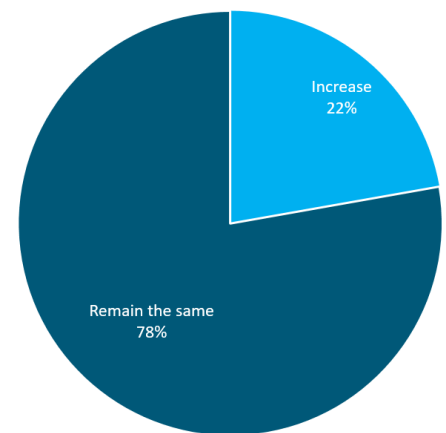
- Traditional consulting remains the primary advisory model for all community foundations, although there has been a notable increase in the use of the hybrid model since 2016 (from 3% to 12%).

- Investment staffing is limited, with one or fewer full-time equivalent (FTE) staff to administer the investment portfolio for roughly 80% of respondents.
- Staffing doesn't appear to be changing soon; nearly 80% of respondents also expect staffing levels to remain the same over the next five years.

CURRENT FTE STAFF To Administer Investment Portfolio



EXPECTED INVESTMENT STAFF CHANGES Over the Next Five Years



ASSET ALLOCATION / PERFORMANCE

- Small organizations (< \$25 million) indicate a strong home country bias within equities, as 47% of their portfolios, on average, are allocated domestically. This allocation tends to decrease as asset size increases; comparably, organizations with funds exceeding \$1 billion have only 23% allocated domestically.
- Small and large organizations also vary greatly within private investments and hedge funds, where total allocations range from 3% in organizations with less than \$25 million to 29% for those with more than \$1 billion.

COMMUNITY FOUNDATION ACTUAL ASSET ALLOCATION

	Domestic Equities	Int'l Dev. Equities	Emerging Markets	Global Equities	Public Fixed Income	Public Real Assets	Private Investments	Hedge Funds	Other ¹
Overall Average	35%	13%	5%	6%	21%	4%	5%	8%	3%
(<) \$25 million	47	11	1	4	29	4	2	1	2
\$25 - \$50 million	45	13	4	1	23	3	5	3	3
\$51 - \$100 million	36	13	5	5	22	3	6	6	4
\$101 - \$250 million	27	13	5	10	21	5	5	11	3
\$251 - \$500 million	35	17	6	4	19	5	6	6	1
\$500 million - \$1 billion	31	12	8	0	19	6	6	15	3
(>) \$1 billion	23	9	6	14	14	2	10	19	4

¹Shown on the survey as Short-term Securities / Cash / Other

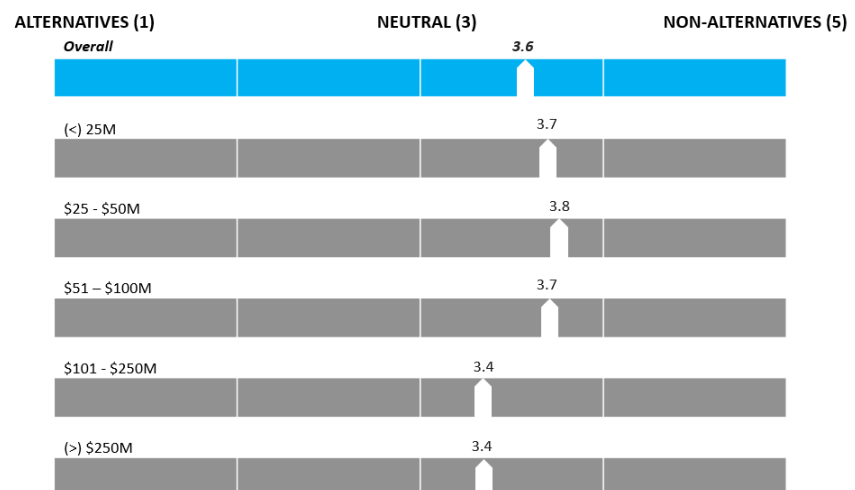
N = 83

Note: Global Equities represents a broad mandate for which domestic, international, and emerging are not quantified. Asset Allocation as of September 30, 2019 and shown as average of survey responses. Answers off by more than 20% were excluded. Totals may not equal 100% due to rounding.

- Overall sentiment has shifted away from alternatives over the years, although the shift is most prominent in organizations with greater than \$250 million in assets, where an average position of 2.6 in 2016 has shifted to 3.4 in 2020.

AVERAGE COMMUNITY FOUNDATION POSITION

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



N = 82

- The overall median 1-year performance for foundations is 2.3%, while median 10-year performance is 7.4%.
- The overweight to domestic equities served smaller community foundations well during periods ending September 30, 2019, providing competitive returns relative to their larger counterparts.

NET OF FEE PERFORMANCE FOR PRIMARY (LONG-TERM) POOL OF ASSETS

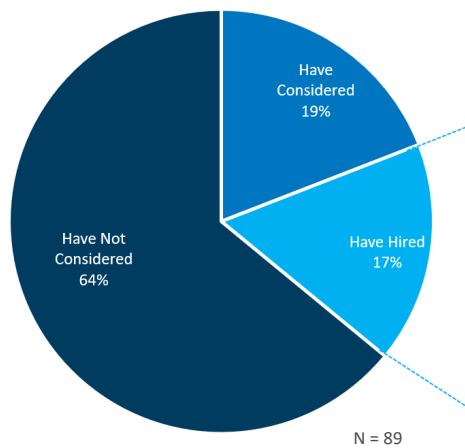
As of September 30, 2019

	Quarter	1-Year	3-Year	5-Year	7-Year	10-Year
Overall Median	0.1%	2.3%	7.0%	5.2%	6.7%	7.4%
(<) \$25 million	0.4%	3.5%	6.9%	6.0%	6.1%	6.3%
\$25 - \$50 million	0.7%	2.5%	7.3%	5.7%	7.2%	8.0%
\$51 - \$100 million	0.2%	2.4%	7.0%	5.7%	6.3%	7.5%
\$101 - \$250 million	0.1%	2.2%	6.8%	4.8%	6.7%	7.3%
\$251 - \$500 million	(0.1%)	1.9%	6.7%	5.0%	6.5%	7.2%
\$500 million - \$1 billion	0.1%	2.8%	7.4%	5.5%	7.1%	7.8%
(>) \$1 billion	(0.5%)	1.0%	6.6%	4.8%	7.0%	7.1%
N	76	75	82	79	55	70

Performance shown as median.

- 36% of respondents have either considered or hired diverse asset managers. Overall, community foundations with more than \$100 million in assets reported hiring 6 managers on average, although the number increases as assets increase.
- The average number of investment managers in the primary pool varies greatly by asset size, ranging from 7 to 31 managers, with an overall average of 16.

HAVE YOU CONSIDERED AND/OR HIRED DIVERSE ASSET MANAGERS?



Number of Managers Hired¹
For Foundations Who Have Hired

Asset Size	N	Average
Overall	9	6
\$101 - \$250 Million	2	2
\$251 - \$500 Million	1	3
\$501 Million - \$1 Billion	2	4
(>) \$1 Billion	4	10

¹ Average taken from those who provided number of hires.

AVERAGE NUMBER OF INVESTMENT MANAGERS IN PRIMARY POOL

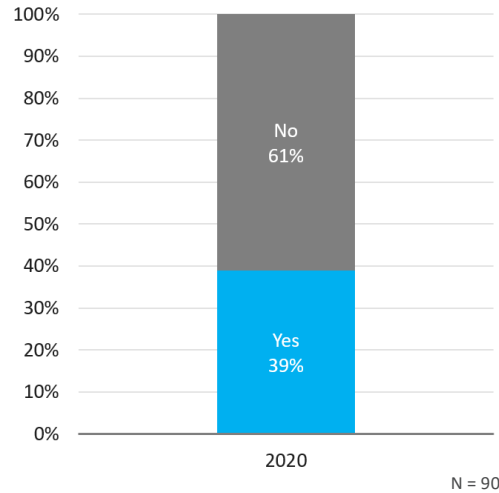
Asset Size	Overall	(<) \$25M	\$25 - \$50M	\$51 - \$100M	\$101 - \$250M	(>) \$250M
Average	16	7	8	10	19	31

N = 86

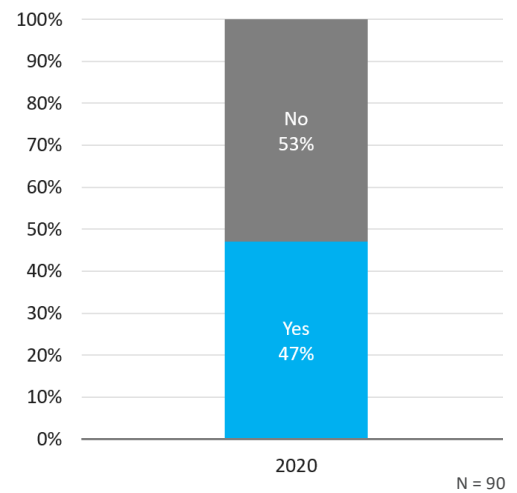
RESPONSIVE INVESTING

- Donor interest in responsive investing (RI) has almost doubled since the 2017 survey, but remains relatively flat from last year’s survey.
- The number of organizations that invest in RI has nearly tripled since 2017, with almost half of respondents now incorporating RI within the portfolio.

EXPERIENCED AN INCREASE IN INTEREST FROM DONORS FOR RI

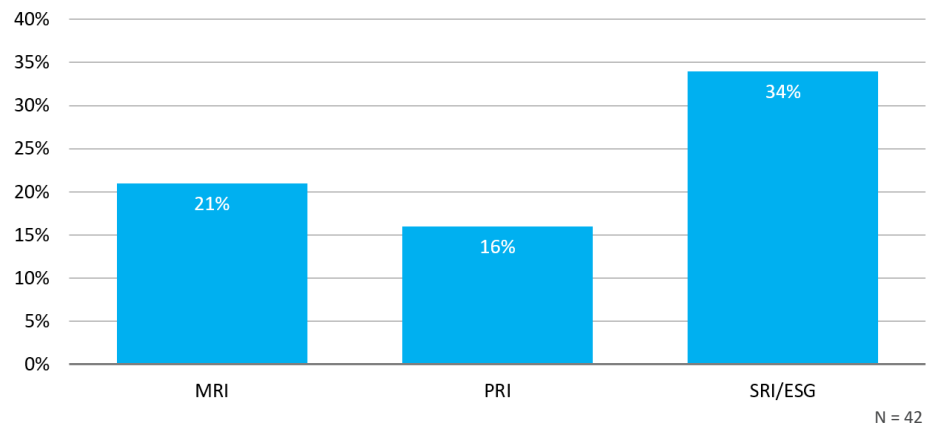


CURRENTLY HAVE RI INVESTMENTS



- Organizations use different types of RI, and some have multiple types. SRI/ESG is the most common, with 34% of total respondents indicating they incorporate it into their portfolio.
- Although adoption has increased, the overall portfolio allocation to RI remains limited; the highest average allocation is 4.2% within SRI/ESG.

PERCENT OF RESPONDENTS WITH RI IN CURRENT PORTFOLIO



PERCENT OF PORTFOLIO DEDICATED TO RI

	MRI	PRI	SRI/ESG
Overall Average	2.1%	1.3%	4.2%
Overall Median	1.0%	1.0%	2.0%
	N = 15	N = 7	N = 15

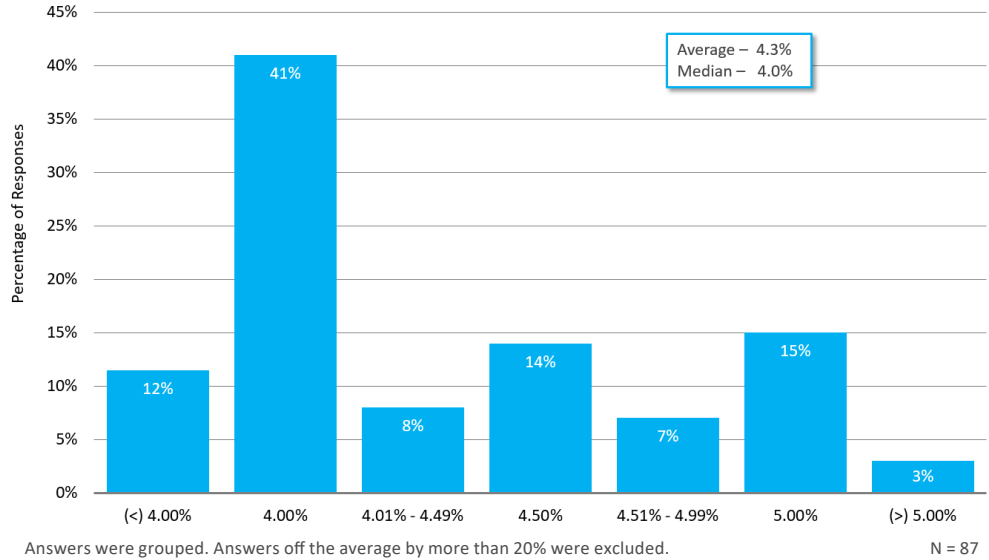
Respondents could select more than one category. Note: Mission-Related Investment (MRI), Program-Related Investment (PRI), Socially Responsible Investment (SRI), and Environmental, Social and Governance (ESG).

SPENDING POLICY

- Over the past 5 years, there has been a consistent reduction in participants with a 5% spending rate, with 41% of respondents now using a 4.0% spending rate.
- The overall average spending rate is 4.3% and the most common calculation methodology is a rolling 12-quarter moving average.

SPENDING RATE

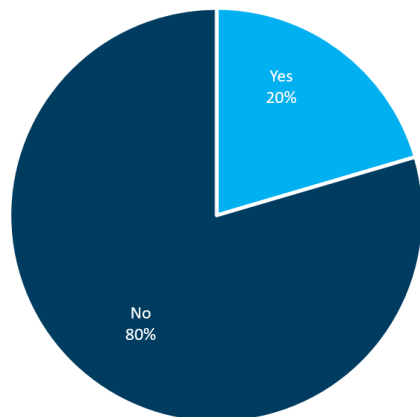
Excluding Administrative Fees



- While 20% of respondents have made changes to their spending policy in the past 3 years, only 13% foresee making a change to their policy in the next year.
- The most common change organizations are considering for next year remains a decrease in their spending rate.

SPENDING POLICY CHANGE

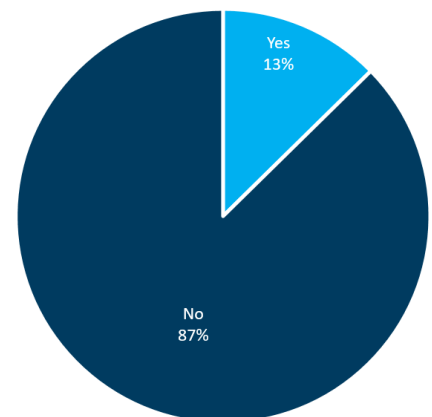
In The Past Three Years



N = 88

FORESEEN SPENDING POLICY CHANGE

In The Next Year



N = 87

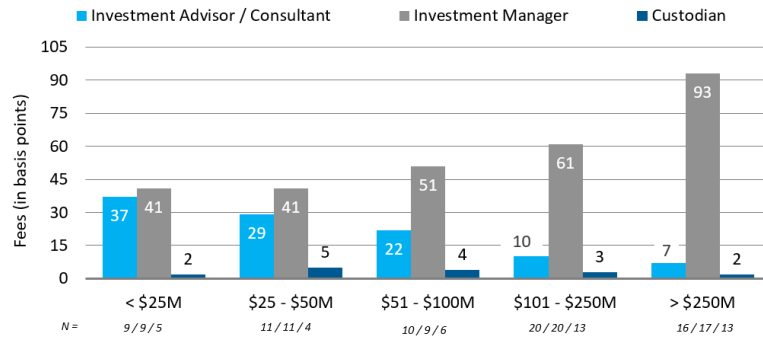
FEES

- On average, the overall advisor/consultant fee is 19 basis points, while investment manager fees come in at 55 basis points.
- Total OCIO and consulting fees—inclusive of manager and custodian costs—vary by only 3 basis points, although investment advisor fees are higher in an OCIO model and manager fees tend to be higher in a consulting model.
- Advisor/consultant fees have an inverse relationship with asset size and decrease as asset size increases, while manager fees increase as asset size increases.

AVERAGE EXPENSES IN BASIS POINTS

	INVESTMENT ADVISOR / CONSULTANT	INVESTMENT MANAGERS / MUTUAL FUNDS / ETFS	CUSTODIAN	TOTAL EXPENSES	N
Overall Average	19	55	3	76	66 / 66 / 41
OCIO	36	40	3	79	17 / 18 / 12
Traditional Consulting	11	68	3	82	39 / 34 / 20

AVERAGE EXPENSES BY ASSET SIZE



Removed answers that were more than 20% off the average. "Hybrid" and "No Consultant" 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 1.35% for all community foundations.

COMMUNITY FOUNDATION ADMINISTRATIVE FEES

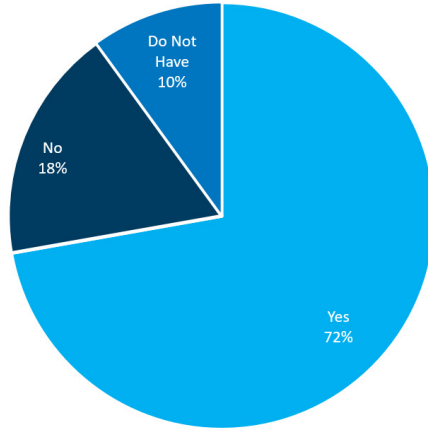
	Overall Average	(<) \$25 million	\$25 - \$50 million	\$51 - \$100 million	\$101 - \$250 million	(>) \$250 million	N
OVERALL FEES	1.35%	1.67%	1.61%	1.47%	1.17%	0.99%	N=56
DAFs (ENDOWED)	1.15%	1.16%	1.23%	1.13%	1.22%	0.97%	N=74
DAFs (NON-ENDOWED)	1.23%	1.24%	1.14%	1.45%	1.30%	0.94%	N=69
SCHOLARSHIP FUNDS	1.79%	2.00%	1.92%	1.64%	1.83%	1.60%	N=71
SUPPORTING ORGANIZATION	0.94%	1.00%	1.20%	0.90%	0.98%	0.72%	N=38
AGENCY FUNDS	1.05%	1.17%	1.46%	0.91%	0.97%	0.76%	N=72
ENDOWED FUNDS	1.18%	1.34%	1.38%	1.02%	1.15%	1.07%	N=64
OTHER FUNDS	1.54%	1.30%	1.85%	1.81%	1.33%	0.78%	N=40

¹Shown as average. Answers off by more than 20% were excluded. See appendix for definitions.

EXTERNALLY MANAGED FUNDS (EMFs)

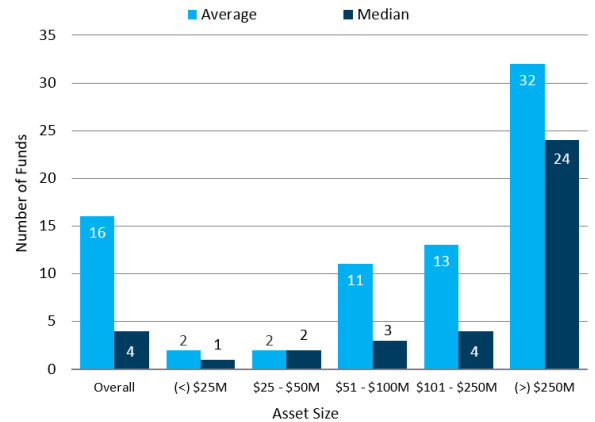
- 72% of foundations allow for externally managed funds, with an average of 16 funds and a median of 4.
- The number of funds used by a community foundation increases significantly as asset size increases, ranging from an average of 2 in smaller organizations to an average of 32 in those with more than \$250 million in assets.

ALLOW EMFs



N = 90

NUMBER OF EMFs



N = 90

N = 12

N = 16

N = 14

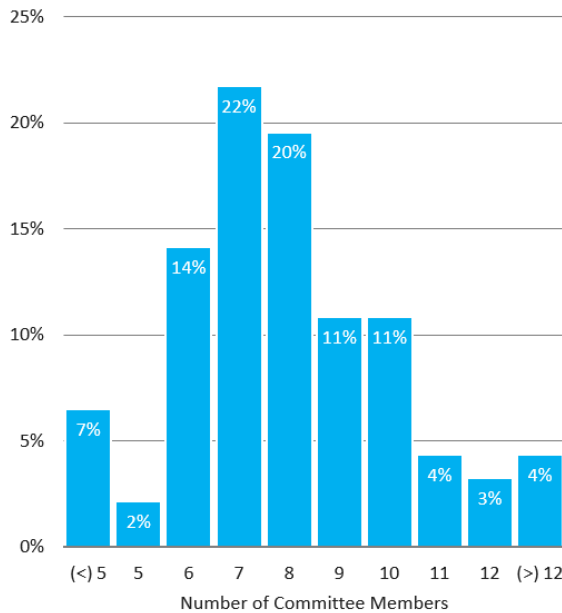
N = 27

N = 21

INVESTMENT COMMITTEE STRUCTURE

- More than half the respondents have between 6 and 8 investment committee (IC) members, although 22% have 10 or more.
- Surprisingly, less than half the respondents have term limits for their IC members. For those that do, 92% allow 2 to 3 terms.

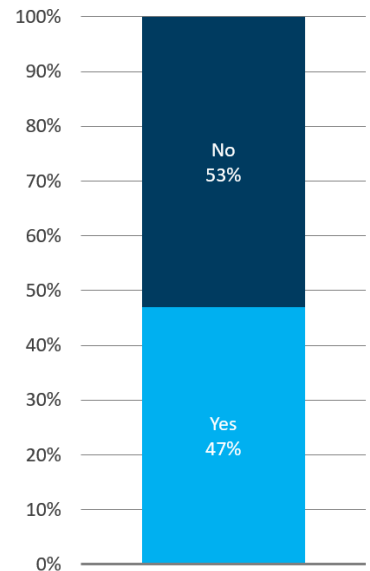
NUMBER OF IC MEMBERS



Answers that were not numbers were not counted.

N = 90

ARE THERE TERM LIMITS?



N = 89

CLOSING THANKS

Thank you to all the community foundations that participated in the survey and contributed to its content. FEG greatly appreciates the time and energy of those who have participated in the past and looks forward to increasing the number of participants and improving the usefulness of the data in the future.

LEARN MORE

FEG greatly values your input; if you have questions you would like considered for future surveys, please contact us. To watch the webinar replay, download the presentation, or stay informed on the 2021 survey, visit 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.¹ 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.²

RESPONSIVE INVESTING TERMS

Responsive Investing (RI) – Any investment made by an organization that seeks to gain both financial and social benefit.

Program-Related Investment (PRI) – Investments aligned with the mission of an organization that act as a component to their grant-making. A PRI may produce at market, above market, or below market returns. The investment is eligible to count against the five 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) / Impact Investment – MRIs or impact strategies are investments that support the mission of the foundation by generating a positive social or environmental impact. Impact investments for Community Foundations are often place-based (geographically constrained to the Foundation's region) and can be market return seeking or concessionary return. These investments are made from the foundation's endowment corpus. MRI and Impact opportunities exist across asset classes and can be through a fund or direct investment. [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). ESG criteria is integrated into the decision-making and goes beyond simple issue exclusion. [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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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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