FEG INSIGHT

EXECUTIVE SUMMARY

FEG 2021 Community Foundation Survey

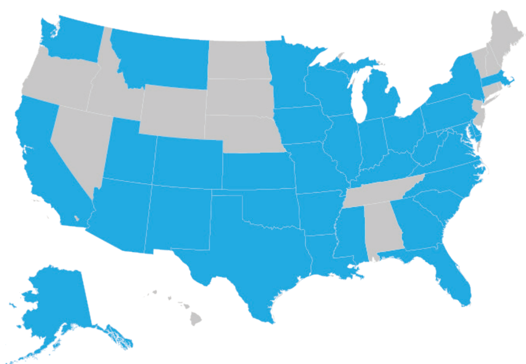
FEG investment advisors

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 survey was completed primarily by senior-level investment decision makers. Responses were accepted from February 22 to March 26, 2021. We would like to extend our thanks to all the community foundations dedicated to serving the needs of their communities, and for their contributions to the survey.

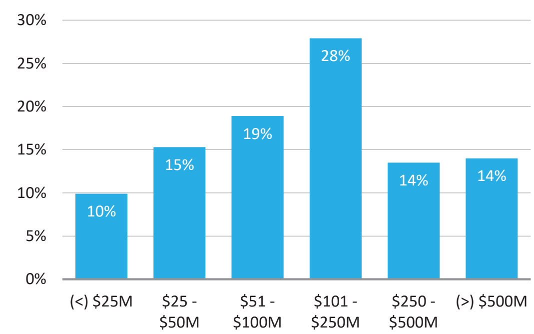
FEG received 110 responses across 35 states, representing approximately $30 billion in assets.[1] Asset sizes ranged from less than $25 million to greater than $1 billion.

STATES REPRESENTED



N = 110

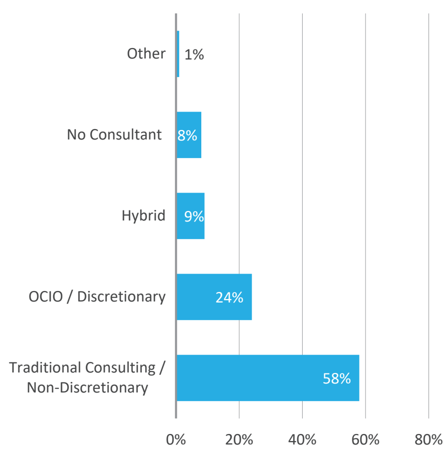
INVESTABLE ASSET BASE



N = 110

- Despite an industry trending toward OCIO, the majority of respondents use a traditional consulting model. However, of those who plan to change their consulting model or service provider, more than 30% are considering the OCIO model.

CURRENT CONSULTING MODEL



DEFINITIONS

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.

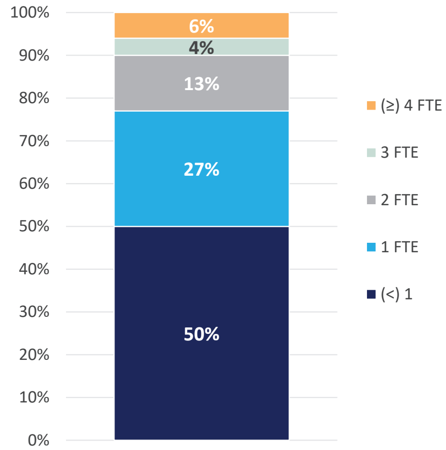
HYBRID CONSULTING
This is a model that combines traditional consulting and OCIO. The consultant (third party advisor) advises the board/committee on investment decisions but might have some discretionary power.

N = 110

- Investment staffing continues to be limited; more than 75% of respondents have one or less full-time equivalent (FTE) to administer the investment portfolio.
- Staffing doesn't appear to be changing soon; nearly 80% of respondents also expect staffing levels to the remain the same over the next five years.

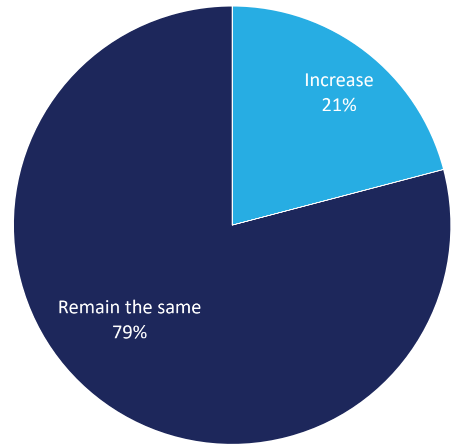
[1] Assets under advisement were self reported by respondents as of September 30, 2020.

CURRENT FTE STAFF
To Administer Investment Portfolio



Totals may not equal 100% due to rounding. N = 110

EXPECTED INVESTMENT STAFF CHANGES
Over the Next Five Years



N = 110

ASSET ALLOCATION

- Small organizations (< \$25 million) indicate a strong home country bias within equities, as 48% of their portfolios, on average, are allocated domestically. This allocation tends to decrease as asset size increases; comparably, organizations with funds exceeding \$500 million have only 32% 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 25% for those with more than \$500 million.

COMMUNITY FOUNDATION ACTUAL ASSET ALLOCATION

	Domestic Equities	Int'l Dev. Equities	Emerging Markets	Public Fixed Income	Public Real Assets	Private Investments	Hedge Funds	Short-term Securities / Cash	Other (ex. Crypto)
Overall Average	*40.1%*	*15.2%*	*5.3%*	*22.0%*	*2.7%*	*5.2%*	*7.2%*	*1.9%*	*0.4%*
(<) \$25 million	48	14	3	27	2	1	2	2	1
\$25 - \$50 million	50	12	4	25	2	1	2	3	1
\$51 - \$100 million	42	15	5	24	2	6	5	1	0
\$101 - \$250 million	35	17	6	22	2	7	9	2	0
\$250 - \$500 million	38	18	6	19	5	4	9	1	0
(>) \$500 million	32	15	6	16	3	11	14	3	1

Asset Allocation as of September 30, 2020 and shown as average of survey responses. Answers off by more than 20% were excluded. Totals may not equal 100% due to rounding. N = 110

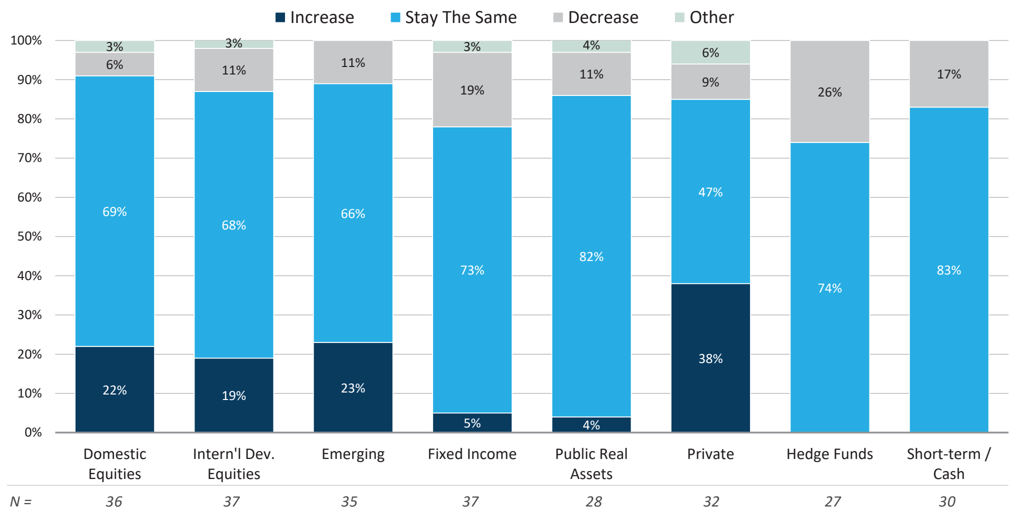
AVERAGE NUMBER OF INVESTMENT MANAGERS IN PRIMARY POOL

Asset Size	*Overall*	(<) $25M	$25 - $50M	$51 - $100M	$101 - $250M	$250 - $500M	(>) $500M
	18	3	7	12	18	20	41

N = 106

- The average number of investment managers in the primary pool varies greatly by asset size, ranging from 3 to 41 managers, with an overall average of 18.
- While asset classes under consideration have been relatively consistent over the years, a large portion (38%) are looking to increase exposure to private investments, while decreasing exposure to hedge funds and global fixed income (26% and 19% respectively).

PLANNED CHANGES TO ASSET CLASSES



PERFORMANCE

- The overall median 1-year performance for foundations is 6.33%, while median 10-year performance is 7.0%.

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

As of September 30, 2020

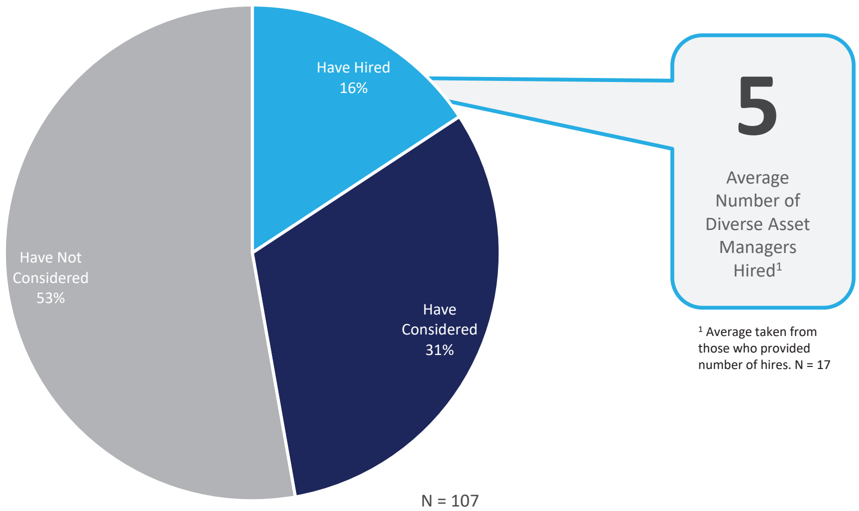
	Quarter	1-Year	3-Year	5-Year	7-Year	10-Year
Overall Median	***5.5%***	***6.3%***	***5.2%***	***7.2%***	***6.1%***	***7.0%***
(<) $25 million	5.8%	5.5%	5.1%	7.0%	5.2%	6.9%
$25 - $50 million	5.7%	8.5%	6.3%	8.0%	6.4%	7.7%
$51 - $100 million	5.6%	6.7%	5.6%	7.8%	6.8%	7.3%
$101 - $250 million	5.0%	6.0%	5.1%	7.3%	5.8%	6.6%
$251 - $500 million	5.6%	5.0%	4.8%	6.7%	5.8%	6.7%
(>) $500 million	5.3%	6.5%	5.3%	7.1%	6.2%	6.8%
N =	*106*	*107*	*107*	*102*	*62*	*94*

Performance shown as average.

DIVERSE ASSET MANAGERS

- 47% of respondents have either considered or hired diverse asset managers. Overall, community foundations reported hiring 5 managers on average.

HAVE YOU CONSIDERED AND/OR HIRED DIVERSE ASSET MANAGERS?

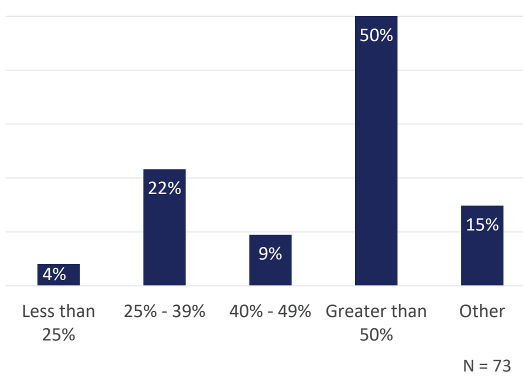


[1] Average taken from those who provided number of hires. N = 17

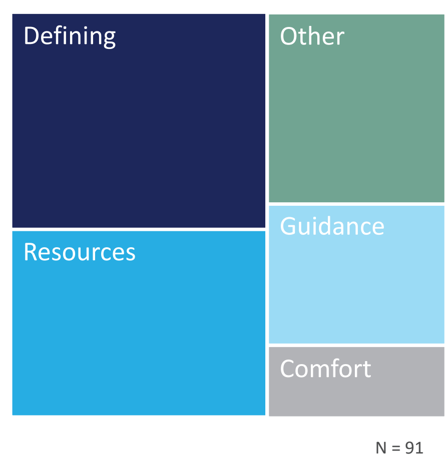
- A majority of respondents define a diverse manager as one with more than 50 composition of ownership and/or portfolio managers are described as women or persons of color.
- Top challenges with investing in diverse managers are identified as defining a diverse manager and having resources.

PERCENTAGE COMPOSITION DEFINED FOR A DIVERSE MANAGER

Percentage ownership and/or portfolio managers described as women or persons of color



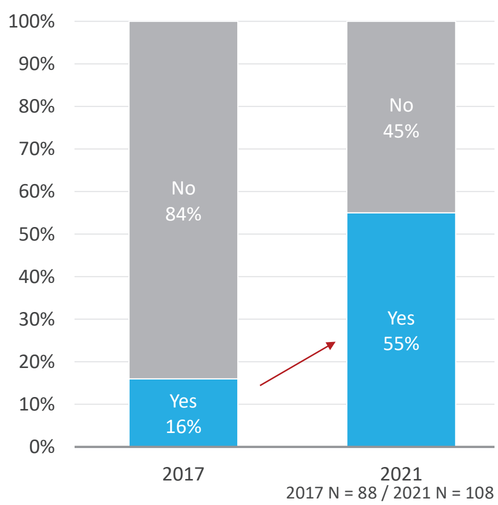
CHALLENGES WITH INVESTING IN DIVERSE MANAGERS



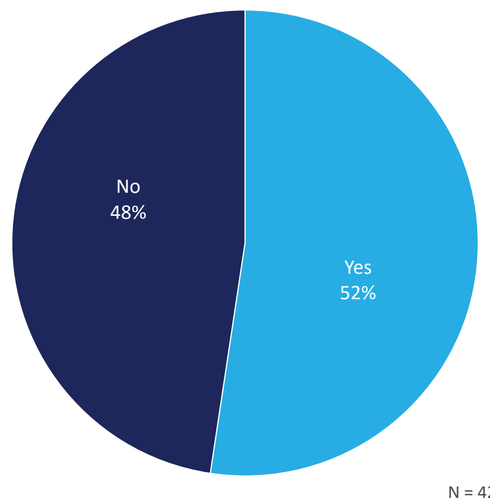
RESPONSIVE INVESTING

- Interest and investment in RI has increased every year since 2017 and for the first time more than half of respondents now have RI strategies within their portfolio.
- Divestment has also become more popular, with 52 of respondents having an SRI/ESG fossil fuel free portfolio.

CURRENTLY HAVE RI INVESTMENTS

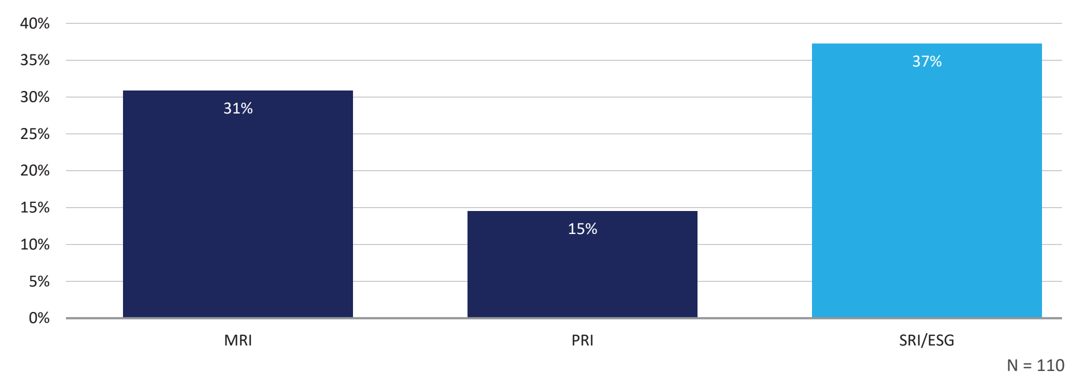


SRI / ESG FOSSIL FREE PORTFOLIO



- Organizations use different types of RI, and some have multiple types. SRI/ESG is the most common, with 37% 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 6.6% within SRI/ESG.

PERCENT OF RESPONDENTS WITH RI IN CURRENT PORTFOLIO



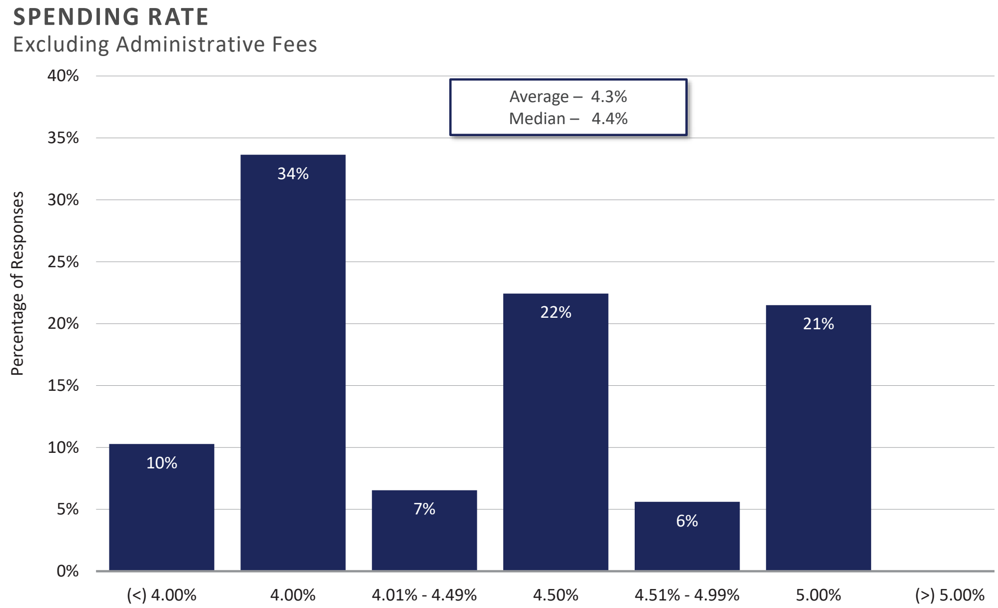
PERCENT OF PORTFOLIO DEDICATED TO RI

Overall Average	2.5%	1.4%	6.6%
Overall Median	1.0%	1.0%	2.7%
N =	27	33	38

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).

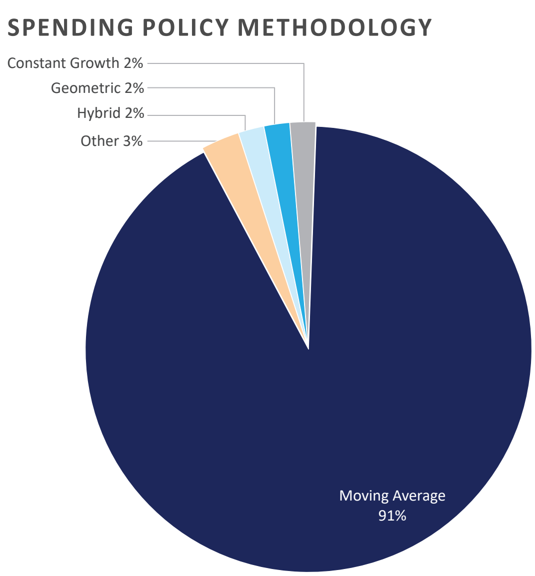
SPENDING POLICY

- The spending rate has been leveling off in the past two years staying consistent at an average of 4.3%. This was the first year in five years that no respondents had a spending rate of greater than 5%.
- Few respondents are planning to change their spending rate (only 10%), and of those that are, the majority will plan to decrease their spending rate.



Answers were grouped. Answers off the average by more than 20% were excluded. N = 107

- The most common methodology used is moving average, primarily over a rolling 12 quarter period.



METHODOLOGY DEFINITIONS

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

GEOMETRIC
Weight given to inflation adjusted spending and target spending of market value

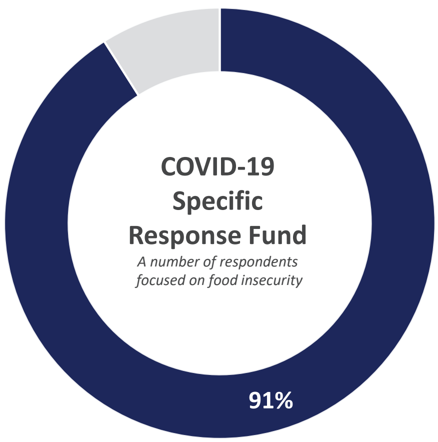
HYBRID
Custom combination of spending rules to meet the specific needs of an institution

N = 108

RESPONSE TO THE PANDEMIC

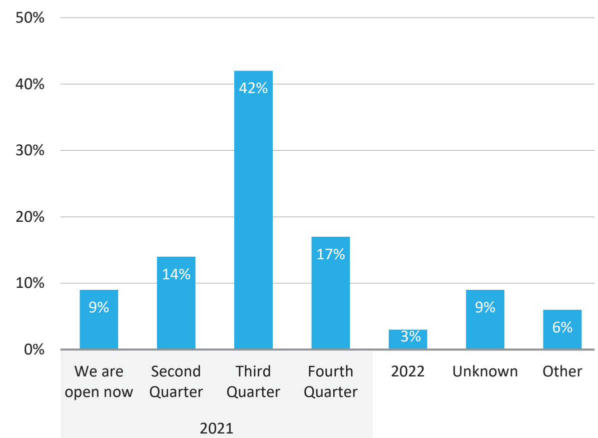
- An overwhelming majority of respondents developed a COVID 19 specific response fund, and more than ¾ charged an administrative fee for this fund.
- 78% also made a one time distribution in response to the pandemic to support their community.
- When asked at the time of the survey (Feb/March), 8% had the office open full time and a majority expected to return to the office sometime in third quarter 2021.

PANDEMIC RESPONSE



N = 108

EXPECTED RETURN TO THE OFFICE



N = 66

FEES

- On average, the overall advisor/consultant fee is 18 basis points, while investment manager fees come in at 51 basis points.
- Overall administrative fees stand at 1.13% for all community foundations, while more labor intensive funds, such as scholarship funds, have the highest associated administrative fees.

COMMUNITY FOUNDATION ADMINISTRATIVE FEES

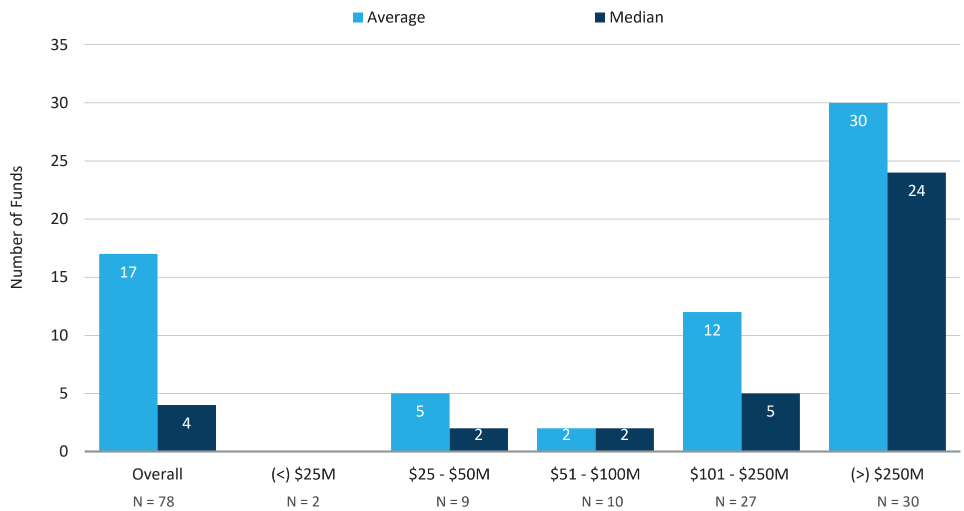
	Overall Average	(<) $25 million	$25 - $50 million	$51 - $100 million	$101 - $250 million	(>) $250 million	
OVERALL FEES	*1.13%*	1.46%	1.17%	1.22%	1.18%	0.93%	*N=78*
DAFs (ENDOWED)	*1.13%*	1.53%	1.21%	1.26%	1.07%	0.89%	*N=97*
DAFs (NON-ENDOWED)	*1.22%*	1.69%	1.18%	1.54%	1.07%	1.05%	*N=91*
SCHOLARSHIP FUNDS	*1.71%*	1.75%	1.71%	1.73%	1.81%	1.55%	*N=91*
SUPPORTING ORGANIZATION	*1.03%*	1.08%	1.71%	0.79%	1.26%	0.59%	*N=55*
AGENCY FUNDS	*1.00%*	1.41%	1.23%	1.06%	0.90%	0.77%	*N=90*
ENDOWED FUNDS	*1.16%*	1.46%	1.07%	1.25%	1.12%	1.08%	*N=80*
OTHER FUNDS	*1.46%*	1.58%	1.68%	1.47%	1.56%	1.13%	*N=51*

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

DONOR ADVISED FUNDS

- Similar to previous years, 72% of respondents anticipate the number of DAFs will increase.
- Externally managed funds are primarily used by mid-size to large foundations, with an overall average of 17 and median of 4.
- The number of funds used by a community foundation increases significantly as asset size increases, ranging from an average of 0 in smaller organizations to an average of 30 in those with more than $250 million in assets.

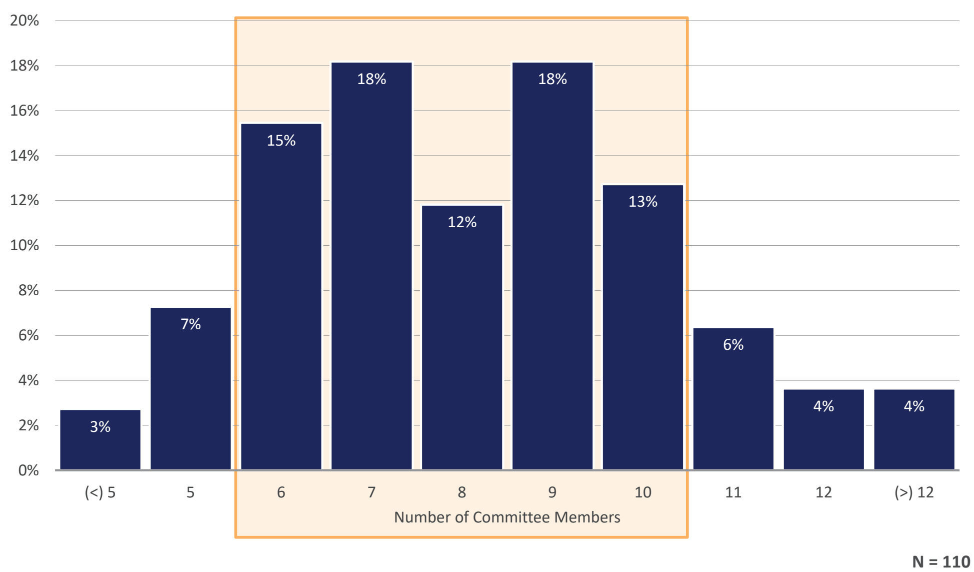
NUMBER OF EXTERNALLY MANAGED FUNDS



INVESTMENT COMMITTEE STRUCTURE

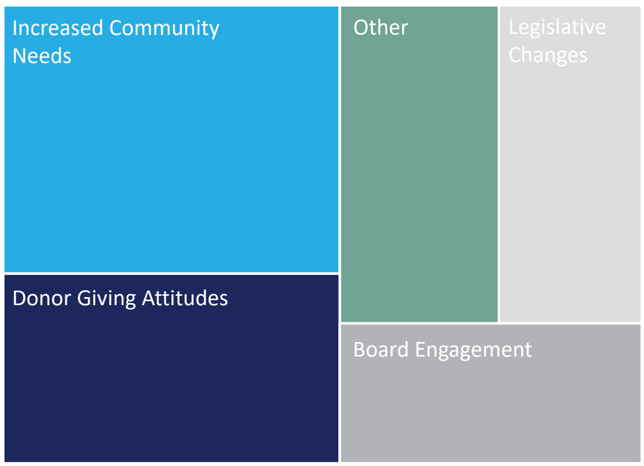
- More than half the respondents have between 6 and 9 investment committee (IC) members, although nearly 25% have 10 or more.

NUMBER OF INVESTMENT COMMITTEE MEMBERS



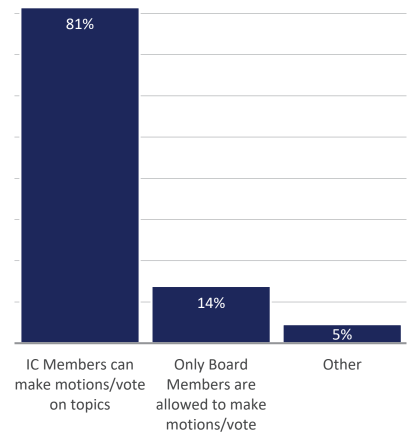
- The top industry trends being discussed are increased community needs, and donor giving attitudes. The most written trends for 'other' were DEI and responsive investing.
- 81% of respondents allow IC members to make motions and vote on topics.
- Nearly 60% of the respondents have term limits for their IC members. Of those that do, 88% allow 2 to 3 terms.

INDUSTRY TRENDS BEING DISCUSSED BY THE INVESTMENT COMMITTEE



Respondents could select more than one answer. N = 95

WHO CAN MAKE MOTIONS / VOTE ON TOPICS



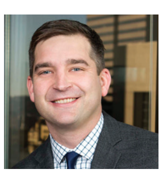
N = 108

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

- To watch the webinar replay, download the presentation, or stay informed on the 2021 survey, visit www.feg.com/cfsurvey.
- FEG greatly values your input! Please contact us with any questions you may have.



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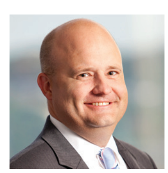

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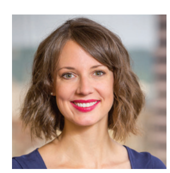

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The contacts listed above greatly assisted with the survey and are wonderful resources. If you have any ideas to share, please feel free to reach out to them directly.

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 2021 Community Foundation Survey. The study includes a survey of 110 U.S. Community Foundations. The survey was open for responses online from February 22 – March 26, 2021. 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 between five and seven 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.

Data in this presentation is also obtained from the 2020, 2019, 2018, 2017, and 2016 proprietary FEG Community Foundation Surveys. To receive the full disclosures for these surveys, please email communications@feg.com.

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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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.

Diversification or Asset Allocation does not assure or guarantee better performance and cannot eliminate the risk of investment loss.

The purchase of interests in private equity funds involves certain risks and is suitable only for persons of substantial financial means who have no need for liquidity in their investment, and who can bear the risk of the potential loss of their entire investment. No guarantee or representation is made that the investment will be successful, that the various underlying funds selected will produce positive returns, or that the fund will achieve its investment objectives. Various risks involved in investing may include market risk, liquidity risk, limited transferability, investment funds risk, non-registered investment funds risk, valuation risk, derivative risk, venture financing risk, distressed securities risk, interest rate risk, real estate ownership risk, currency risk, and financial risk, among others. Investors should refer to the applicable Private Placement Memorandum and Offering Documents for further information concerning risks.

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