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National Study Reports
Foundations Maintained or Increased Spending in 2020;
Long-Term Investment Returns Held Steady

Data from the Council on Foundations-Commonfund Study Show Foundations Adopting Responsible Investing Practices at Increasing Rate

Wilton, Conn. (August, 23, 2021) — Data gathered in the **2020 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®** (CCSF) (the "Study") show that U.S. foundations generally maintained or increased their spending rates in support of their mission during the year, while many also targeted spending to specifically address needs arising from COVID-19.

Investment returns did not match 2019's strong gains, but nevertheless surpassed the single-digit mark and, more importantly, helped sustain the long-term investment returns that are essential for supporting foundations' mission. Study data also showed a marked increase in the number of foundations that have adopted responsible investment policies, particularly the practice of investing in accord with environmental, social and governance (ESG) criteria.

With 260 participating private and community foundations representing combined assets of $115.4 billion, the Study is believed to be the most comprehensive annual survey of its kind. The 2020 Study marks the ninth year that Commonfund Institute and the Council on Foundations have partnered to produce this research.

Participating private foundations reported an average return of 13.1 percent in 2020 while participating community foundations reported an average return of 12.1 percent. Both represented a decline compared with 2019's return of 17.4 percent for private foundations and 18.2 percent for community foundations. (All return data are reported net of fees.)

Longer-term returns were mixed for the two foundation types: Private foundations reported an average 10-year return of 8.4 percent, up from last year's 7.8 percent, while community foundations reported a 10-year return of 7.6 percent, modestly lower than last year's 7.7 percent. More details on returns can be found in the full report.

"For the second consecutive year, participating foundations' investment returns were strong and those returns are the underpinning of the financial wherewithal needed to sustain their organizational viability and support their mission through time," said **Kathleen P. Enright, President and CEO of the Council on Foundations,** and **George Suttles, Executive Director of the Commonfund Institute**, in a joint statement. "While we never take such good returns for granted, the real news coming out of the Study was the maintenance of spending in a highly uncertain environment as well as incremental spending focused on COVID-19 needs. This was especially true on the part of some smaller community foundations, which, it would appear based on the data, had their finger on the pulse of their communities and took action."

Enright and Suttles also addressed the growth of responsible investing. "Not only did the Study reveal increases in the rates at which foundations are implementing various responsible investing policies, it also showed that boards and investment committees are considering adopting these policies at even higher rates over the next 12 months," they said, adding, "ESG, for instance, is under consideration by participating foundations at twice the rate it was just two years ago."

Additional highlights from the data collected and analyzed in the 2020 Study follow:

ASSET ALLOCATION SHOWS LITTLE CHANGE

Private and Community Foundation Allocations Differ

Asset allocation changed little from year to year but continue to reflect the different weightings private and community foundations give to various asset classes and strategies. As of December 31, 2020, participating institutions' asset allocations, and their comparable 2019 allocations, were:

	Private		Community	
	'20	'19	'20	'19
U.S. equities	26	27	35	33
Fixed income	9	9	16	18
Non-U.S. equities	17	18	24	24
Alternative strategies	45	42	22	23
Short-term securities/ cash/other	3	4	3	2

numbers in percent (%)

The greatest single change in asset allocation year over year was a three-percentage-point increase in private foundations' allocation to alternative strategies. (The principal alternative strategies are private capital and marketable alternatives. The former includes U.S. and international private equity, venture capital, private credit, private real estate, and energy and natural resources. The latter includes hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives.) Community foundations reported two-percentage-point changes in two allocations, an increase in U.S. equities and a decrease in fixed income.

Year-over-year changes in allocations to the various sub-strategies within the larger alternatives category were generally minor. Venture capital showed a three-percentage-point increase, to 11 percent, among private foundations but no change, at 1 percent, among community foundations. The largest allocation, to marketable alternative strategies, was unchanged at 14 percent for private foundations and declined one percentage point, to 10 percent, among community foundations. Private foundations reported a 10 percent allocation to private equity, more than twice the 4 percent reported by their community counterparts.

FOUNDATIONS' EFFECTIVE SPENDING RATE MIXED

More Foundations Increase Spending Rates Compared with 2019

Participating foundations' effective spending rate[1] in 2020 was mixed, rising to 5.6 percent from 5.4 percent for private foundations but declining moderately to 4.7 percent from 4.8 percent for community foundations. Foundations of both types with assets over $500 million spent at the highest rate, 6.1 percent, both representing increases compared with 2019.

As noted earlier, 33 percent of private foundations reported increasing their effective spending rate in 2020 while 10 percent of community foundations did so. Both represented increases over the prior year when respective figures were 26 percent and 5 percent. Thirty-two percent of private foundations reduced their spending rate while16 percent of community foundations did so. Compared with community foundations, a greater proportion of private foundations in all three size cohorts increased their spending rate, led by 38 percent of private foundations with assets over $500 million.

Like spending rates, spending measured in dollars was mixed. Fifty-eight percent of private foundations spent more in dollars in 2020, up from 54 percent in 2019, while 67 percent of community foundations did so, representing a decline from 71 percent in 2019. Thirty-eight percent of private foundations and 27 percent of community foundations decreased spending in dollars.

Thirty-three percent of participating private foundations reported increasing their overall spending rate in 2020, up from 26 percent in 2019. Ten percent of community foundations increased their spending rate, double last year's 5 percent. In addition, 41 percent of private foundations and 28 percent of community foundations reported incremental spending directed specifically at addressing the COVID-19 crisis.

COMMITMENT TO RESPONSIBLE INVESTING PRACTICES INCREASES

Foundations of both types reported adopting responsible investment policies at increasing rates compared with data last gathered two years ago (questions regarding responsible investing were not included in the 2019 Study). Nineteen percent of private foundations said they seek to include investments ranking high on ESG criteria, up from 14 percent two years ago. Twenty percent of these foundations said they seek to exclude or screen out investments that are inconsistent with the institution's mission versus 12 percent in 2018. Thirteen percent of community foundations seek to invest with diverse managers (defined as those investment management firms having significant ownership by minorities, including minorities

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[1] The effective spending rate is the actual total spending in dollars during the fiscal year divided by the endowment's beginning-of-year market value.

characterized by race, ethnicity and gender, among others) versus the 8 percent that reported doing so in 2018. Foundations of both types in the largest size category—those with assets over $500 million—reported sharp increases in the share of investments made through diverse management firms; the increase was 25 percent among private foundations and more than 100 percent among community foundations.

GIFTS AND DONATIONS TO COMMUNITY FOUNDATIONS RISE

45 Percent Report a Median Increase in Excess of 80 Percent

Despite the uncertainty that accompanied the global pandemic, giving to community foundations held its own in 2020. The strongest data point was the 45 percent of these foundations that reported increased donations, the median increase being a robust 83.6 percent. Both were improvements over year-earlier figures of 38 percent and 39.0 percent, respectively. Forty-two percent of community foundations reported a decrease in gifts, the median decrease being 41.8 percent. In 2019, 51 percent of community foundations reported a decline, the median decline being 29.4 percent.

OUTSOURCING THE INVESTMENT FUNCTION SHOWS GROWTH

Data Indicate Greater Frequency of Usage and Larger Share of the Function

Thirty-four percent of private foundations and 37 percent of community foundations reported using an outsourced investment office to manage their investment portfolio in 2020. This compared with 24 percent and 31 percent, respectively, in 2018, the last time inquiry related to the structure under which portfolios are managed was included in the Study. The percentage of the investment management function that is outsourced also rose, reaching 88 percent of private foundation portfolios and 93 percent of community foundation portfolios. In 2018, both figures stood at 75 percent.

About the Council on Foundations

The Council on Foundations exists to help philanthropy be a trusted partner in advancing the greater good. Building on our 70-year history, we are charting a course where funders earn and maintain the public's trust by advancing equity, operating with high integrity, collaborating on broadscale challenges and serving as ethical stewards.

About Commonfund

Commonfund was founded in 1971 as an independent asset management firm with a grant from the Ford Foundation. Today, Commonfund provides investment solutions to sophisticated investors through two affiliates. Commonfund Asset Management provides outsourced CIO services designed for nonprofit institutions using investment subadvisers for discretionary and non-discretionary engagements. Commonfund Capital is a global private capital manager with over 30 years of experience offering a full suite of private investment strategies to sophisticated investors, both nonprofit and for-profit. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides long-term, nonprofit institutional investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and governance; proprietary and third-party research such as the Commonfund Benchmark Studies®; publications including the Commonfund Higher Education Price Index® (HEPI); and events such as the annual Commonfund Forum and Investment Stewardship Academy.

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