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Security of Foundations' Missions Strengthened by Good Investment Returns in 2021, National Study Reports

Data from the Council on Foundations-Commonfund Study Show Foundations Also Continue to Adopt Responsible Investing Practices at Steady Pace

Wilton, Conn. (August 24, 2022) — Data gathered in the **2021 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®** (CCSF) (the "Study") show that good returns on endowed funds in 2021 raised foundations' long-term returns to the highest level in the Study's history.

Ten-year average annual returns in 2021 were 9.7 percent for participating private foundations and 9.2 percent for participating community foundations. Five years ago, in 2018, 10-year returns averaged 5.5 percent for private foundations and 5.3 percent for community foundations, a level low enough to undermine foundations' ability to make grants, cover operating expenses and keep pace with inflation.

"Strong investment returns in 2021 and in the years immediately preceding it have strengthened foundations' ability to support current operations and continue to pursue their long-term mission and objectives," said **George Suttles, Executive Director of the Commonfund Institute**. "Obviously, there is no assurance that recent good investment returns will continue—as year-to-date financial market results for 2022 clearly illustrate—but we are optimistic that wise stewardship of foundations' financial assets will help secure their vital role in our country for the long term."

"In such a tumultuous time in our society, the clear commitment to responsible investing and hiring diverse asset managers is particularly heartening," says **Kathleen P. Enright, President and CEO of the Council on Foundations**. "It is a sign that more foundations are looking for mission-alignment and standards of integrity along with financial returns as they make decisions about their investments."

In 2021 specifically, private foundations participating in the Study reported an average return of 16.3 percent while participating community foundations realized a return of 14.8 percent. Comparable returns in 2020 were 13.1 percent for private foundations and 12.1 percent for community foundations. Even stronger returns were reported for 2019: 17.4 percent for private foundations and 18.2 percent for community foundations. (All return data are reported net of fees.)

Reflecting these results, annualized returns for the past three years averaged 16.0 percent for private foundations and 15.2 percent for community foundations. Trailing five-year returns averaged 11.7 percent for private foundations and 10.8 percent for community foundations. Consistently higher returns for private foundations reflect their larger allocation to equity markets (public and private combined) as well as their smaller allocation to fixed income securities.

Study data for 2021 also showed a continued 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. In addition, gifts and donations to community foundations showed an increase after some recent years when they showed little growth; in 2020, for example, decreases in giving nearly offset increases.

With 231 participating private and community foundations representing combined assets of $119.7 billion, the Study is believed to be the most comprehensive annual survey of its kind. The 2021 Study marks the 10th year that Commonfund Institute and the Council on Foundations—two leading organizations in the field of foundation investment and governance policies and practices—have partnered to produce this research. (Prior to that, beginning in 2003 for the 2002 calendar year, Commonfund published the Study on its own.) The Study reports data from private and community foundations separately to reflect the differing structures of the two foundation types and, for deeper analysis, also breaks both types into three cohorts segmented by endowment size.

Additional highlights from the data collected and analyzed in the 2021Study follow:

RETURNS SEGMENTED BY SIZE

When 2021 results are segmented by size, private foundations with assets over $500 million reported the highest return at 21.6 percent. Community foundations of the same size realized a 15.7 percent return. Returns for the other two size cohorts—foundations with assets between $101 and $500 million and those with assets under $101 million—ranged from 14.1 percent to 15.2 percent.

Similarly, the largest participating private foundations reported the best long-term performance, with 10-year annualized returns of 11.3 percent. Their community foundation counterparts reported an annualized 10-year return of 9.2 percent. Private and community foundations in the other size cohorts reported 10-year returns in the range of 8.7 percent to 9.4 percent.

RESPONSIBLE INVESTING CONTINUES GROWTH

Foundations of both types continued to adopt responsible investment policies at a steady pace. Twenty-three percent of private foundations said they seek to include investments ranking high on ESG criteria, up from 19 percent last year. Twenty-four percent of community foundations responded similarly compared with 20 percent in 2020.

Another area showing strong rates of adoption was the commitment to invest with diverse managers (defined as investment firms with 25 percent or more diverse ownership. Diverse managers include: women, Black/African American, Latinos/Hispanic, Asian, people of indigenous descent, veterans and people with disabilities and other diverse persons potentially not captured in these categories.). Among private foundations, 17 percent said they seek to do so, up from 11 percent a year ago. Among community foundations the response rate rose to 23 percent from 13 percent last year.

Study data also revealed that foundations plan to continue implementing responsible investing policies and practices in the future. Twenty percent of private foundations and 35 percent of community foundations said they were considering adding ESG, diverse managers or other forms of responsible investing to their investment policy statement (IPS) in the next 12 months. Comparable year-ago figures were 17 percent and 29 percent, respectively.

ASSET ALLOCATION SHOWS CHANGE

Asset allocations generally change little from year to year but in 2021 they did show movement, especially among private foundations. Overall, asset allocations continued to reflect the different weightings private and community foundations give to various asset classes and strategies. As of December 31, 2021, participating institutions' asset allocations, and their comparable 2020 allocations, were:

	Private		Community	
	'21	'20	'21	'20
U.S. equities	23	26	35	35
Fixed income	9	9	15	16
Non-U.S. equities	14	17	22	24
Alternative strategies	50	45	24	22
Short-term securities/cash/other	4	3	4	3

numbers in percent (%)

Of the two foundation types, private entities showed greater changes to their asset allocation in 2021: a five-percentage-point increase in the allocation to alternative strategies and three-percentage-point decreases in allocations to U.S. equities and non-U.S. equities. (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 to 24 percent for alternative strategies and a decrease to 22 percent for non-U.S. equities.

Year-over-year changes were relatively minor in allocations to the various sub-strategies within private foundations' 50 percent alternatives allocation and community foundations' 24 percent allocation. Venture capital showed the most change: a four-percentage-point increase, to 15 percent, among private foundations and an increase to 3 percent from 1 percent among community foundations. The largest allocation, to marketable alternative strategies, was unchanged at 14 percent for private foundations but declined one percentage point, to 9 percent, among community foundations. Private foundations reported a 10 percent allocation to private equity—unchanged year over year—but an increase to 6 percent from 4 percent among community foundations.

FOUNDATIONS’ STATED SPEND RATE IN THE 4.6 – 5.1 PERCENT RANGE

Participating private foundations reported an average stated policy spend rate for 2021 of 5.1 percent, while community foundations reported a rate of 4.6 percent. (Private foundations are required to meet the IRS minimum spending rate of 5.0 percent.) In terms of spending policy, 79 percent of community foundations used the percentage of a moving average methodology, the average reported percentage being 4.6 percent. Fifty-nine percent of private foundations used the IRS minimum spending rate as their policy, while 40 percent use the percentage of a moving average approach and 28 percent reported they decide on an appropriate rate each year.

GIFTS AND DONATIONS TO COMMUNITY FOUNDATIONS RISE

As public charities, community foundations accept gifts and donations and frequently engage in fundraising. In 2021 gifts to these foundations improved relative to 2020, a year that was unsettled owing to the COVID-19 outbreak. Fifty-nine percent of participating community foundations reported an increase in gifts and donations in 2021, up from 45 percent in 2020. The median increase was 84.8 percent, slightly above 83.6 percent in 2020. The median decrease declined to 32.3 percent, an improvement compared to 41.8 percent the previous year. All three size cohorts reported an increase in giving in 2021, the sharpest gain being 60 percent of community foundations with assets under $101 million compared with 36 percent reporting an increase in 2020.

Giving has not always correlated with economic and financial market conditions. For example, in 2019, which should have been a strong environment for giving, more than half of community foundations reported a decline. As noted, 2020 was the year when COVID-19 emerged to unsettle the environment for donations; giving reflected this, as about as many foundations reported a decrease in giving as reported an increase.

OUTSOURCING THE INVESTMENT FUNCTION UNCHANGED

Thirty-four percent of private foundations and 37 percent of community foundations reported using an outsourced investment office to manage their investment portfolio in 2021, both unchanged year over year. The percentage of the investment management function that is outsourced declined moderately among private foundations, easing to 85 percent from 88 percent, but was unchanged, at 93 percent, among community foundations.

About the Council on Foundations

The Council on Foundations is a nonprofit membership association that serves as a guide for philanthropies as they advance the greater good. Building on our almost 75-year history, the Council supports over 800 member organizations in the United States and around the world to build trust in philanthropy, expand pathways to giving, engage broader perspectives and co-create solutions that will lead to a better future for all. Learn more about the Council and become a member by visiting www.cof.org.

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 subadvisors 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); Commonfund Institute Online – a learning management system to deliver educational content and courses to fiduciaries of nonprofit organizations; and events such as the annual Commonfund Forum and Investment Stewardship Academy.

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