Contact:
Kate Sylvester
Prosek Partners
646-818-9127
ksylvester@prosek.com

Contact:
Nicole Forman
Director of Communications, Council on Foundations
202.991.5913
nicole.forman@cof.org

National Foundation Study Reports Negative Investment Returns for 2018; Spending Rates Steady, Donations to Community Foundations Mixed

Data from the Council on Foundations-Commonfund Study Generally Positive for the Long Term, but Show Challenges Remain for Future Mission Support

New York, NY, (August 15, 2019) — Data gathered in the **2018 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®** (CCSF) show that investment returns for participating private and community foundations declined to mid-single-digit losses in 2018 from double-digit gains in 2017. (All data collected are for the prior calendar year, January 1 through December 31.)

Participating private foundations reported an average 2018 return of -3.5 percent versus an increase of 15.0 percent for 2017. Participating community foundations reported an average return of -5.3 percent for 2018 compared with 15.1 percent for 2017. (All return data are reported net of fees.)

Two thousand eighteen represented the third time in the past 10 years that CCSF participants have reported flat to negative annual returns. The previous year represented the third time over the same period that average participant returns exceeded 15.0 percent. 2008—when returns were impacted by the financial crisis and great recession—dropped out of trailing 10-year calculations this year; losses in 2008 exceeded 25.0 percent for both private and community foundations.

Compared with the previous year, the effective spending rate in 2018 was unchanged for private foundations while declining moderately for community foundations. The rate remained level at 5.7 percent for private foundations but eased to 4.6 percent from 4.8 percent for community foundations.

With financial markets uncertain and the impact on charitable giving of the Tax Cuts and Jobs Act of 2017 still inconclusive, gift-giving was mixed in 2018. Fifty-five percent of community foundations reported an increase in gifts and donations, up from 49 percent a year ago. Thirty-six percent reported a decrease, however, up sharply from 22 percent the previous year.

"Financial markets were choppy in 2018, at times performing well but at others—particularly the fourth quarter—they reflected a range of investor concerns. It was the uncertain environment that ultimately produced negative returns for many portfolios," said **Mark Anson, President and CEO of Commonfund** in a statement. Anson continued, "If there was an encouraging sign for participating foundations, it was the increase in trailing 10-year returns to an average of 8.4 percent for private foundations and 8.2 percent for community foundations. These compare to last year's trailing 10-year returns of 5.5 percent and 5.3 percent, respectively. The higher returns—in excess of 8.0 percent—are needed to maintain the corpus of foundations' endowments after spending, inflation and costs." **Kathleen P. Enright, President and CEO of the Council of Foundations added,** "Foundations—in fact all organizations in the nonprofit sector— need to embrace the best financial stewardship practices in order to create sustainable organizations that can fulfill their missions over the long term." Anson cautioned that while dropping the poor 2008 returns boosted 10-year returns, more recent three- and five-year returns were both lower compared with 2017 owing to negative returns in 2015 and 2018.

With 236 participating foundations representing combined assets of $89.3 billion, the Study is believed to be the most comprehensive annual survey of its kind. This is the seventh 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.

10-YEAR AVERAGE RETURNS RISE, 3- AND 5-YEAR RESULTS DECLINE

2018 Returns Are Lowest of the Decade

Investment performance reported by foundations participating in the CCSF has been mixed in recent years. While 2017 returns were the third-highest of the decade that began in 2009, 2018 returns were the lowest of the period. Over the past five years, returns were positive in three years but flat to negative the other two. As noted, dropping 2008 from 10-year return calculations caused results for that period to jump in excess of 300 basis points for both private and community foundations.

Return data by asset class show that non-U.S. equities, which generated the highest return for foundations of both types a year ago, lagged all other asset classes this year. U.S. equities, last year's second-best performer, also showed a sharp reversal. Short-term securities/cash produced the best return this year for both private and community foundations.

Average Returns by Asset Class for 2017 and 2018

numbers in percent (%)	Total Institutions			
	Private Foundations		Community Foundations	
	143	161	81	75
	'17	'18	'17	'18
U.S. equities	20.5	-4.9	18.7	-6.0
Fixed income	4.1	0.4	4.1	0.0
Non-U.S. equities	26.4	-13.2	26.1	-13.4
Alternative strategies	9.7	*	8.6	*
Short-term securities/cash/other	0.6	1.2	0.5	0.3

*The study is no longer reporting an aggregated alternative strategies performance result since it is not meaningful, e.g., combining private equity and marketable alternatives can be misleading.

Investment Results by Type of Foundation Widen Compared to Year-Ago Figures

Last year, community foundations captured 10 additional basis points of return compared to their private foundation counterparts. Private foundations reported an average return of 15.0 percent for 2017, while community foundations realized an average return of 15.1 percent. This year the return gap widened to 180 basis points, with private foundations turning in the better relative performance, -3.5 percent, versus community foundations' -5.3 percent.

When 2018 CCSF data are analyzed by both size and type of participating foundation, private and community foundation returns in the cohort having assets over $500 million fared the best on a relative basis; private foundations in this category reported a modest decline of 0.2 percent, while their community foundation counterparts reported a loss of 4.4 percent. Among the remaining two size cohorts, private foundations realized slightly more moderate losses than did community foundations.

Over the trailing three-year period, private foundations reported an average return of 6.1 percent, 50 basis points higher than community foundations. By size cohort, private foundations produced higher returns than community foundations in the two larger size categories, while community foundations reported higher returns among foundations with assets under $101 million. The widest performance gap was found in the over $500 million cohort, where private foundations outperformed community foundations by 370 basis points.

For the trailing five-year period, private foundations' average annual returns exceeded those of community foundations by 80 basis points. Once again, private foundations outperformed community foundations in two of the three size categories, trailing only in the category of foundations with assets under $101 million.

For the trailing 10 years, the private-community foundation return spread narrowed to just 20 basis points, 8.4 percent for private foundations and 8.2 percent for community foundations. By size, private foundations with assets over $500 million produced the strongest return, 9.9 percent (8.7 percent for community foundations of the same size). Returns were equal, at 8.2 percent, for foundations of both types having assets between $101 and $500 million. Community foundations with assets under $101 million generated an average annual return of 8.0 percent, 20 basis points higher than their private foundation counterparts.

FOUNDATIONS' EFFECTIVE SPENDING RATE MIXED,

WHILE SPENDING IN DOLLARS GROWS

Spending Rate to Support Mission Mixed, Dollar Spending Rises

As noted, the effective spending rate in 2018 was mixed, declining moderately for community foundations but remaining unchanged for private foundations. For community foundations, the 2018 spending rate was 4.6 percent, down from 4.8 percent the previous year. Among private foundations, the effective spending rate was level at 5.7 percent.

Among private foundations with assets over $500 million, the effective spending rate was all but unchanged at 5.2 percent versus 5.3 percent in 2017; for community foundations, it declined to 4.7 percent against 2017's 5.5 percent rate (which represented a sharp increase from 2016's 4.8 percent). The highest spending rate, 6.2 percent, was found among private foundations with assets between $101 and $500 million; community foundation in that size category spent at a rate of 4.8 percent. Private foundations with assets under $101 million reported a 5.3 percent spending rate compared with 4.5 percent for community foundations in the same size category.

Spending in dollar terms rose, albeit not as sharply as the prior year. Fifty-three percent of private foundations increased spending in dollars versus 57 percent a year ago; 52 percent of community foundations did so versus 56 percent last year. Thirty-four percent of private foundations decreased spending dollars compared with 30 percent a year ago, while 29 percent of community foundations reported a decrease, up from last year's 22 percent.

Sixty-one percent of private foundations with assets under $101 million reported increasing their spending in dollars in 2018, the highest rate for the Study. The lowest rate of increase, 47 percent, was reported by community foundations in the same size cohort. In terms of decreased spending in dollars, 38 percent of private foundations with assets over $500 million reported a decrease as did 37 percent of private foundations with assets between $101 and $500 million. Just 8 percent of community foundations with assets over $500 million reported decreased spending in dollars. (We caution, however, that the number of community foundations with assets over $500 million was small and the data, therefore, should only be viewed as directional.)

Foundations Express Lower Long-term Return Objectives

Eighty-two percent of private foundations and 76 percent of community foundations reported having long-term return objectives. Of those, private foundations reported an average long-term return objective of 7.3 percent, slightly below last year's 7.5 percent. Community foundations reported an average long-term return objective of 6.8 percent, a more noticeable decline compared with last year's 7.3 percent.

RETURN DATA BY ASSET CLASS

Investment Returns: Last Year's Leading Asset Class Is this Year's Laggard

While returns were positive for all the major asset classes/strategies included in the Study last year, this year just fixed income and short-term securities/cash generated flat or modestly positive returns. When the data are viewed by type of organization, private foundations generally outperformed community foundations on a relative basis, although returns were negative overall, especially for U.S. equities and non-U.S. equities.

Average Return by Asset Class for 2018

numbers in percent (%)	Total Institutions	
	Private	Community
	161	75
Average 2018 total return	-3.5	-5.3
U.S. equities	-4.9	-6.0
Fixed income	0.4	0.0
Non-U.S. equities	-13.2	-13.4
Alternative strategies	Not surveyed	
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	9.5	10.6
Private credit	3.0	4.1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives	-2.1	-2.5
Venture capital	13.3	9.6
Private real estate	5.6	4.2
Energy and natural resources	1.5	-1.5
Commodities and managed futures	-8.9	-6.1
Distressed debt	5.4	6.4
Short-term securities/cash/other	1.2	0.3

The best returns could be found among the overall category of alternative strategies. Venture capital generated a 13.3 percent return for private foundations and a 9.6 return for community foundations. Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity) produced a 9.5 percent return for private foundations and a 10.6 percent gain for their community counterparts. Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)—historically foundations' largest single alternative strategies allocation— returned -2.1 percent for private foundations and -2.5 percent for community foundations. Private equity real estate and distressed were also sources of returns in the range of 4.2 percent to 6.4 percent. Commodities and managed futures were weak, however, returning -8.9 percent for private foundations and -6.1 percent for community foundations.

Asset Allocation Shows Little Year-Over-Year Change

As of December 31, 2018, participating foundations' asset allocations, and their comparable 2017 allocations, were:

Asset Allocations* for 2017 and 2018

numbers in percent (%)	Total Institutions			
	Private Foundations		Community Foundations	
	143	161	81	75
	'17	'18	'17	'18
U.S. equities	24	24	29	30
Fixed Income	9	9	14	17
Non-U.S. equities	21	17	24	23
Alternative strategies	43	46	27	26
Short-term securities/cash/other	3	4	6	4

*dollar-weighted

Once again this year, changes at the level of the five major allocation categories were minimal. The greatest change occurred in private foundations' allocations to non-U.S. equities and alternative strategies, with the former declining by four percentage points and the latter increasing by three percentage points year over year. It cannot be discerned whether the change was the result of market action or conscious decisions by investment committees. Community foundations' fixed income allocation increased by three percentage points, rising to 17 percent.

Among alternative strategy allocations, the most dramatic year-over-year change occurred in venture capital, which rose to an allocation of 10 percent among private foundations from last year's 4 percent and to 1 percent from 3 percent among community foundations. The private equity allocation among private foundations nearly doubled to 9 percent from 5 percent in 2017 while rising a more modest one percentage point, to 5 percent, among community foundations. Foundations' largest alternatives allocation, to the category of marketable alternatives, grew to 15 percent from 13 percent for both private and community foundations.

Tax Act May Be Impacting Gifts to Community Foundations

Fifty-five percent of community foundations reported an increase in gifts and donations, up from last year's 49 percent. While that bodes well for gift-giving, it was offset by the 36 percent of community foundations reporting a decrease, a significant rise compared with last year's 22 percent. Community foundations with assets over $500 million reported the greatest slippage in gifts, as just 30 percent reported an increase versus 54 percent in 2017. Among this size cohort, 40 percent reported a decline in gifts, nearly triple the 8 percent that reported a decline a year ago. (We caution, however, that the sample in this size/type category was small and the data should only be taken as directional.) Community foundations in the other two size categories reported increases in gifts and donations at a higher rate than last year but also reported decreases in gift-giving at a higher rate. The level of gifts to charitable organizations has been under discussion since the December 2017 enactment of the Tax Cuts and Jobs Act, which doubled the standard deduction and thus effectively eliminated the charitable deduction for taxpayers who will no longer itemize their tax returns. This change was projected to diminish giving to nonprofit organizations and, indeed, one major national survey found a decline in charitable giving during 2018 but further data points are required to determine if this is the beginning of a trend.

About the Council on Foundations

An active philanthropic network, the Council on Foundations (www.cof.org), founded in 1949, is a nonprofit leadership association of grantmaking foundations and corporations. It provides the opportunity, leadership, and tools needed by philanthropic organizations to expand, enhance, and sustain their ability to advance the common good. With members from all foundation types and sizes, the Council empowers professionals in philanthropy to meet today's toughest challenges and advances a culture of charitable giving in the U.S. and globally.

About Commonfund

Commonfund was founded in 1971 as an independent asset management firm focused on not-for-profit institutions. Today, we are one of North America's leading investment firms, managing $25.3 billion in assets for some 1,300 institutional clients, including educational endowments, foundations and philanthropic organizations, hospitals and healthcare organizations and pension plans. Our only business is investment management, and we are active in all sectors of the global capital markets, both public and private.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term 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. In addition to teaming with the Council on Foundations to produce the CCSF, Commonfund also produces the Commonfund Benchmarks Study® series of research reports. Commonfund Institute also provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research and publications, including the Commonfund Higher Education Price Index® (HEPI); and events such as the Investment Stewardship Academy and the annual Commonfund Forum.

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