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National Foundation Study Shows Investment Returns Rose in 2017; Spending Rates Mixed, Gift-Giving Increased for Community Foundations

Data from the Council on Foundations-Commonfund Study Position Private and Community Foundations for Future Mission Support

New York, NY, August 9, 2018 — Data gathered in the **2017 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®** (CCSF) show that participating private and community foundations realized significantly higher investment returns for the 2017 fiscal year (January 1 – December 31, 2017) than they did in FY2016.

Participating private foundations reported an average FY2017 return of 15.0 percent compared with 6.4 percent in FY2016. Participating community foundations reported an average return of 15.1 percent for FY2017, up from 7.3 percent in FY2016. (All return data are reported net of fees.)

The improvement in investment returns was even sharper when compared to FY2015, when private foundations reported an average return of 0.0 percent, while participating community foundations reported a -1.8 percent average return.

FY2017 returns were the highest since FY2013, when private foundations reported an average return of 15.6 percent and community foundations reported an average return of 15.2 percent.

The effective spending rate in FY2017 rose moderately to 4.8 percent from last year's 4.7 percent for community foundations. Among private foundations, the effective spending rate declined to 5.7 percent from 5.8 percent in FY2016.

With the economy and stock market performing well throughout the year, 49 percent of participating community foundations reported that gifts and donations rose in FY2017, up from 34 percent reporting higher gifts in FY2016. Twenty-two percent of community foundations reported a decline in gifts, about half of the 40 percent reporting a decline in FY2016. (There is concern that gifts and donations to nonprofit institutions may be at some degree of risk in the wake of the enactment of the Tax Cuts and Jobs Act, which places limits on itemized deductions. However, this concern did not affect 2017 as the legislation was not signed into law until December 22 of that year.)

"We are gratified with stronger investment performance in FY2017, but perhaps most reassuring is the increase in trailing 10-year average annual returns. For private foundations, the good return this year boosted trailing 10-year returns to an annual average of 5.5 percent compared to last year's 4.7 percent. For community foundations, the 10-year average annual return rose to 5.3 percent from 4.6 percent in FY2016. Even in the mid-5 percent range, returns are usually not sufficient to maintain the corpus of foundations' endowments after spending, inflation and costs, but they offer some breathing room compared to last year," said **Gene Cochrane, Interim President and CEO of the Council on Foundations,** and **Mark Anson, CEO and Chief Investment Officer of Commonfund,** in a joint statement. "Based on last year's data, private foundations' effective spending rate was significantly higher than their annual 10-year return while community foundations' 10-year return and spending were more closely aligned. We must hope for continued good results from the global financial markets for foundations of both types to support their operations and fulfill their missions over the long term," Cochrane and Anson added.

With 224 participating foundations representing combined assets of $104.5 billion, the Study is believed to be the most comprehensive annual survey of its kind. This is the sixth 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.

FY2017 INVESTMENT RETURNS TOP THE TRAILING 10-YEAR AVERAGE

Longer-Term Returns Rise Across All Time Periods

As noted, FY2017 returns were the highest in four years for both private and community foundations. Given the lower relative returns realized in fiscal years 2014, ’15 and ’16, returns were higher this year for trailing three-, five- and 10-year periods for foundations of both types. The sharpest contrast was found in trailing three-year results, as private foundation returns rose to an average of 7.0 percent versus 4.0 percent a year ago; for community foundations, three-year average returns rose to 6.8 percent from 3.2 percent last year. Among private foundations, trailing five-year returns averaged 8.6 compared with last year’s 7.6 percent; among community foundations, respective returns were 7.9 percent and 7.3 percent. As previously noted, trailing 10-year returns rose to 5.5 percent for private foundations, up from 4.7 percent last year; for community foundations, 10-year average annual returns rose to 5.3 percent from 4.6 percent in FY2016.

Return data by asset class show that non-U.S. equities generated the highest return for foundations of both types, followed by U.S. equities, alternative strategies, fixed income and short-term securities/cash.

	Private Foundations		Community Foundations	
	FY2017	FY2016	FY2017	FY2016
U.S. equities	20.5%	11.8%	18.7%	12.4%
Fixed income	4.1	3.8	4.1	3.7
Non-U.S. equities	26.4	4.8	26.1	4.1
Alternative strategies	9.7	5.6	8.6	5.1
Short-term securities/cash	0.6	0.8	0.5	0.3

Investment Results by Type of Foundation Close to Parity

On average, community foundations captured 10 additional basis points of return in FY2017 compared to their private foundation counterparts. Private foundations reported an average return of 15.0 percent for the year, while community foundations realized an average return of 15.1 percent. By comparison, last year private foundation returns averaged 6.4 percent, while community foundations reported an average return of 7.3 percent. Both years represented a departure from the trend of the previous three years, when private foundations secured the higher returns. This may be attributed, at least in part, to community foundations’ significantly larger allocation to U.S. equities, which have delivered strong returns over the past two years.

Average One-, Three-, Five- and 10-Year Net Returns

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	143	81	23	13	83	25	37	43
FY2017 net annual total return	15.0	15.1	14.3	15.4	15.2	15.5	14.8	14.8
3-year net annualized return	7.0	6.8	7.3	7.0	7.1	6.7	6.5	6.8
5-year net annualized return	8.6	7.9	8.9	8.4	8.6	7.8	8.3	7.9
10-year net annualized return	5.5	5.3	5.3	5.5	5.6	4.9	5.1	5.5

When FY2017 CCSF data are analyzed by both size and type of participating foundation, private and community foundation returns in the cohort having assets between $101 and $500 million varied by just 30 basis points, while both types of foundations with assets under $101 million returned the same 14.8 percent. While returns were comparable in these two type/size cohorts, among foundations with assets over $500 million, community foundations outperformed private foundations by 110 basis points, returning 15.4 percent versus 14.3 percent.

Over the trailing three-year period, returns among the largest participating private and community foundations narrowed to just 30 basis points, with private foundations having the slight edge. In the size cohort of $101 to $500 million, private foundations reported an average three-year return of 7.1 percent, 40 basis points ahead of their community foundation counterparts. Among foundations with assets under $101 million, for the same period, community foundations reported an average annual return that was 30 basis points higher. Over the trailing five-year period, the greatest disparity was found among institutions with assets between $101 and $500 million, where private foundations outperformed, returning an average of 8.6 percent annually versus community foundations' 7.8 percent. Private foundations also reported higher returns among the other two size cohorts for this period.

Over the trailing 10 years, the greatest spread in return was a 70-basis-point edge for private foundations over community foundations, also in the cohort of institutions with assets between $101 and $500 million. Community foundations outperformed in the other two size cohorts, by 20 basis points annually among foundations with assets over $500 million and by 40 basis points annually among foundations with assets under $101 million.

PRIVATE FOUNDATIONS' EFFECTIVE SPENDING RATE MIXED, WHILE SPENDING IN DOLLARS GROWS

Mission Spending

As noted, the effective spending rate in FY2017 was mixed, rising moderately to 4.8 percent from last year's 4.7 percent for community foundations but declining to 5.7 percent from 5.8 percent in FY2016 among private foundations. (It should be noted that the effective spending rate often declines in years when investment returns are strong, while rising in years when the investment environment is less positive.) Among private foundations with assets over $500 million, spending was unchanged, at an effective rate of 5.3 percent, but it was sharply higher for community foundations—5.5 percent versus last year's 4.8 percent. Private foundations' effective spending rates declined in the under $101 million cohort; among community foundations with assets between $101 and $500 million, it dropped to 4.5 percent from 4.8 percent in FY2016; it showed no change among community foundations with assets under $101 million.

Spending in dollar terms rose. Seventy-four percent of private foundations with assets over $500 million reported an increase in spending dollars, up from 60 percent last year; 69 percent of community foundations in the same size category increased spending in dollars compared with 42 percent a year ago. Among the other four size/type cohorts, only community foundations with assets between $101 and $500 million reported a smaller increase in FY2017 spending dollars compared to FY2016.

Foundation Fiduciaries Somewhat More Optimistic about Investment Returns

Foundation fiduciaries appear to be more sanguine when it comes to prospects for future investment returns. On average, private foundations with assets over $500 million increased their long-term investment objective to an average of 7.4 percent compared to 6.9 percent last year. Community foundations in the same size cohort reported a more modest 10-basis-point increase, to an average of 7.2 percent. Across the other size/type cohorts, reported long-term objectives rose in three instances and remained the same in the other.

RETURN DATA BY ASSET CLASS

Investment Returns[1]

As was true last year, returns were positive across all of the size/type cohorts for all of the major asset classes included in the Study. Private foundations consistently secured higher returns from the five primary asset allocations and strategies included in the Study. For their allocation to the best performing asset class, non-U.S. equities, private foundations realized a return of 26.4 percent versus 26.1 percent for community foundations. For the next-best performer, U.S. equities, private foundations captured a 20.5 percent return versus 18.7 percent for community foundations. Other returns were: fixed income, 4.1 percent for both private and community foundations, up from 3.8 percent and 3.7 percent, respectively; alternative strategies, 9.7 percent and 8.6 percent—the largest performance gap this year—up from 5.6 percent for private foundations and 5.1 percent for community foundations, respectively; and short-term securities/cash, with private foundations at 0.6 percent (down from last year's 0.8 percent) and community foundations at 0.5 percent (up from 0.3 percent in FY2016).

2017 COUNCIL ON FOUNDATIONS-COMMONFUND STUDY OF INVESTMENT OF ENDOWMENTS FOR PRIVATE AND COMMUNITY FOUNDATIONS

Average Return by Asset Class for Fiscal Year 2017

numbers in percent (%)	Total Institutions	
	Private	Community
	143	81
Average FY2017 total return	**15.0**	**15.1**
U.S. equities	**20.5**	**18.7**
Fixed income	**4.1**	**4.1**
Non-U.S. equities	**26.4**	**26.1**
Alternative strategies	**9.7**	**8.6**
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	**10.0**	**11.1**
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	**7.7**	**6.7**
Venture capital	**4.6**	**5.5**
Private real estate	**9.2**	**5.8**
Energy and natural resources	**6.7**	**1.9**
Commodities and managed futures	**3.5**	**3.9**
Distressed debt	**4.8**	**4.9**
Short-term securities/cash	**0.6**	**0.5**
Other	**3.1**	**7.0**

[1] Data within this press release is updated as of August 30, 2018 to reflect the correction to the return data by asset class in accordance with the update to the 2017 CCSF on August 30, 2018.

Within the broad category of alternative assets, the strongest return—11.1 percent for community foundations and 10.0 percent for private foundations—came from private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity), which was a measurable increase from last year's 4.8 percent and 6.9 percent returns, respectively. Last year's leader, energy and natural resources, returning 12.9 percent for private foundations in FY2016 and 10.4 for community foundations, saw a decline to 6.7 percent this year for private foundations and 1.9 percent for community foundations. After private equity, this year's next-highest return for private foundations came from private real estate at 9.2 percent (7.5 percent in FY2016). For community foundations, it was marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives), which returned 6.7 percent (3.4 percent a year ago). Those two sub-asset classes swapped positions with marketable alternatives following, at 7.7 percent, for private foundations and private real estate following, at 5.8 percent, for community foundations.

Community foundations reported higher returns from venture capital and commodities and managed futures, but private foundations posted better returns from private real estate and energy and natural resources.

Asset Allocation

As of December 31, 2017, participating institutions' asset allocations, and their comparable FY2016 allocations, were:

	Private Foundations		Community Foundations	
	FY2017	FY2016	FY2017	FY2016
U.S. equities	24 %	24 %	29 %	33 %
Fixed income	9	8	14	14
Non-U.S. equities	21	19	24	22
Alternative strategies	43	45	27	25
Short-term securities/cash/other	3	4	6	6

In a historically low volatility market environment, asset allocations for both types of foundation remained remarkably stable from year to year, with little change at the level of the five major allocation categories. Two-percentage-point increases for non-U.S. equities were reported by foundations of both types. While community foundations increased their allocation to alternatives by a similar two percentage points, private foundations made an equally sized decrease in their alternatives allocation.

Detailed Asset Allocations♦ for Fiscal Year 2017

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	143	81	23	13	83	25	37	43
U.S. equities	24	29	22	26	31	35	32	36
Fixed income	9	14	7	12	13	17	16	18
Non-U.S. equities	21	24	21	24	21	23	22	25
Alternative strategies	43	27	48	31	30	21	24	16
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	5	4	6	5	5	3	3	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	13	13	12	15	15	11	14	7
Venture capital	4	3	6	4	2	1	2	0
Private real estate	3	1	3	1	2	2	3	2
Energy and natural resources	3	2	3	3	1	1	1	1
Commodities and managed futures	1	1	1	0	1	1	1	1
Distressed debt	2	1	2	1	0	1	0	0
Alternatives not broken out	12	2	15	2	4	1	0	4
Short-term securities/cash/other	3	6	2	7	5	4	6	5
Short-term securities/cash	3	3	3	5	3	2	3	2
Other	0	3	-1	2	2	2	3	3

♦ *dollar-weighted*

Among alternative strategies, marketable alternative strategies showed the most change across the size cohorts, in most cases shrinking in size from two to six percentage points. The allocation to venture capital shrunk to 6 percent from 9 percent among private foundations with assets over $500 million, but grew from zero to 4 percent among community foundations in the same size cohort. Private equity allocations were relatively stable, except for a three-percentage-point decline among private foundations with assets over $500 million.

RESEARCH PROCESS AND METHODOLOGY

The 2017 CCSF is the sixth annual report produced jointly by the Council on Foundations and Commonfund Institute. The Study segments participating private and community foundations by size into the following categories:

- Foundations with endowment assets over $500 million
- Those with endowment assets between $101 and $500 million
- Those with endowment assets under $101 million

NOTE: *For purposes of this Report, we have included information and data for community foundation endowment funds only. The results of the research do not reflect the activity of the many different types of funds that community foundations hold that are non-endowed, such as non-endowed designated, field-of-interest, agency, scholarship and donor-advised funds, temporary project funds and pass-through funds.*

The design of the 2017 Council on Foundations – Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF) took place in the winter of 2017. Web-enabled questionnaires and field interviews with the participating institutions followed in the first and second calendar quarters of 2018.

Online survey responses were supported by extensive telephone contact, a research technique that assures greater integrity in the data gathering process. Respondents were the individuals most knowledgeable about investment matters at participating institutions.

Data from the Study's research population were segmented by private foundations and community foundations to permit analysis of the policies and practices of these two differing foundation types. Data were also segmented into three size categories to compare and contrast the policies and practices of foundations of differing sizes as well as the investment results they produce, where applicable. As noted, the size categories were: institutions with endowment assets over $500 million; institutions with endowment assets between $101 and $500 million; and institutions with endowment assets under $101 million.

The Study gathered data from 224 private and community foundations, with 143 private foundations and 81 community foundations participating.

The sixth annual CCSF will be made available to all participating foundations. The report will also include a comprehensive written analysis setting the data in the context of the FY2017 financial environment and trends that shaped financial markets during the year.

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 billion in assets for some 1,400 institutional clients, including educational endowments, foundations and philanthropic organizations, hospitals and healthcare organizations and pension plans. Our primary 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 Institute 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 governance; proprietary and third-party research and publications, including the Commonfund Higher Education Price Index® (HEPI); and events such as the Commonfund Institute® and the annual Commonfund Forum.

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