Council on Foundations - Commonfund

CCSF

Study of Foundations

2016

STUDY OF INVESTMENT OF ENDOWMENTS FOR PRIVATE AND COMMUNITY FOUNDATIONS®

INVESTMENT RETURNS | PORTFOLIO MANAGEMENT | ASSET ALLOCATION
SPENDING RATE/POLICY | DEBT | FEES & EXPENSES | LIQUIDITY
INVESTMENT OFFICE | CONSULTANTS | INVESTMENT COMMITTEE/BOARD

COUNCIL on FOUNDATIONS | commonfund INSTITUTE

2016
Council on Foundations-Commonfund
Study of Investment of Endowments for Private and Community Foundations®

Annual report of the Council on Foundations and Commonfund Institute on investment and governance policies and practices of private and community foundations.

Council on Foundations - Commonfund

CCSF

WELCOME

July 2017

It is our pleasure to share with you the 2016 Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations® (CCSF), marking the fifth year of collaboration between the Council on Foundations and Commonfund Institute. As in past years, our goal is to provide you with an authoritative and comprehensive annual survey of foundation investment and governance practices for the benefit of trustees and staff, as well as for the larger community of grantees, policymakers and stakeholders.

The CCSF builds on Commonfund Institute's previous foundation research, which covered the fiscal years from 2002 through 2011. With the advent of the CCSF in 2012, the Institute and the Council embarked on a new and rewarding research relationship—first covering private foundations before enhancing and expanding the Study two years ago by adding community foundations, which were previously the subject of a separate series of Commonfund Institute reports. The result is a single, comprehensive source of information on both private and community foundations.

It is important to note that this report contains data on community foundation *endowment* funds only; the data do not reflect the activity of the many different types of *non-endowed* funds that community foundations hold.

We wish to express our gratitude to the professionals and volunteers at participating foundations for their invaluable contributions of time and knowledge. Both the Council on Foundations and Commonfund Institute hope that this Study will serve as a valuable tool for foundation boards and senior staff as they make decisions shaping the future of their institutions. As always, we welcome your comments and look forward to being of service to you in the future.

Vikki Spruill
President and Chief Executive Officer
Council on Foundations

William F. Jarvis
Executive Director
Commonfund Institute

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2016 Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations®

The 203 private and community foundations participating in the 2016 Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF) represent $96.3 billion in assets. One hundred twenty-three private foundations and 80 community foundations make up the Study, which covers the 2016 fiscal year (January 1–December 31, 2016). As noted in our Welcome Letter, this report contains data on community foundation *endowment* funds only; the data do not reflect the activity of the many different types of *non-endowed* funds that community foundations hold.

Investment results for foundations of both types improved markedly in FY2016 compared with FY2015. Private foundations participating in the Study reported an average return of 6.4 percent for FY2016, up from 0.0 percent last year. Participating community foundations reported an average return of 7.3 percent this year, well ahead of -1.8 percent a year ago. (All returns are reported net of fees.)

While lagging their community foundation counterparts overall, private foundations generated higher returns in two of three size categories. Among the largest foundations, private foundations generated an average return of 6.7 percent. Community foundations of the same size produced an average return of 6.3 percent. Among foundations with assets between $101 and $500 million, private foundations returned an average of 7.5 percent while similarly sized community foundations returned 7.3 percent. Among foundations with assets under $101 million, however, community foundations distanced themselves from private foundations with an average return of 7.5 percent versus 4.7 percent for private foundations.

Community foundations' better overall performance can be attributed in large part to their higher allocation to U.S. equities, the best-performing asset class in 2016, which posted strong gains in the last two months of the year following Donald Trump's election to the presidency. In addition, community foundations' allocation to this asset class generated slightly better returns on average than that of private foundations. Private foundations reported higher allocations to alternative strategies as a whole. While these may also benefit should the economy continue to

strengthen, because the reporting of alternative strategies' results typically lags that of public market securities, more time will be required to determine whether that potential is realized.

Private foundations reported the highest average annualized returns for the trailing three-, five- and 10-year periods, although the performance advantage over community foundations diminished with time. Over the trailing three-year period, private foundations reported an average annualized return of 4.0 percent, 80 basis points (0.8 percentage points) ahead of community foundations. For the trailing five years, the return spread narrowed to 30 basis points, at 7.6 percent versus 7.3 percent. For the trailing 10-year period, the spread was just 10 basis points, at 4.7 percent for private foundations and 4.6 percent for community foundations. This pattern of convergence over time is not uncommon, and highlights the challenge that endowed institutions face in attempting to achieve their long-term investment goals.

Last year, four of the five primary investment strategies generated negative returns for participating private and community foundations, the only exception being a return of 0.0 percent for short-term securities/cash. This year, all five strategies produced positive returns, led by U.S. equities at 11.8 percent for private foundations and 12.4 percent for community foundations. Alternative strategies returned 5.6 percent for private foundations and 5.1 percent for community foundations. Non-U.S. equities returned 4.8 percent for private foundations and 4.1 percent for community foundations. Fixed income generated a 3.8 percent return for private foundations versus 3.7 percent for community foundations. Short-term securities/cash returned 0.8 percent and 0.3 percent for private and community foundations, respectively.

Within the broad category of alternative assets, the strongest return came from energy and natural resources, at 12.9 percent for private foundations and 10.4 percent for community foundations, representing a dramatic turnaround in this volatile sector from last year's -13.3 percent for private foundations and -7.5 percent for community foundations. The rebound in commodities and managed futures, another volatile group, was also significant, with returns this year at 10.0 percent for private foundations, up from -22.5 percent in FY2015. (Last year, too few community foundations reported on this allocation for the results to be statistically usable.) Returns on marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives), which generally represent foundations' largest alternatives allocation, swung from negative last year to positive this year, returning 2.5 percent for private foundations and 3.4 percent for community foundations. Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity) returned 6.9 percent among private foundations and 4.8 percent among their community counterparts. Last year's leader, venture capital, produced lower returns this year, at 2.9 percent for private foundations and 1.9 percent for community foundations. The return on private equity real estate (non-campus) was also lower, at 7.5 percent for private foundations and 6.3 percent for community foundations. Finally, distressed debt returned 3.4 percent for private foundations and 1.5 percent for community foundations.

Asset Allocation

At December 31, 2016, participating institutions' asset allocations—and comparable FY2015 allocations—were:

	Private		Community	
numbers in percent	'15	'16	'15	'16
U.S. equities	24	24	33	33
Fixed income	9	8	16	14
Non-U.S. equities	18	19	22	22
Alternative strategies	45	45	25	25
Short-term securities/ cash/other	4	4	4	6

Spending

Foundations, both private and public, are subject to specific state laws governing investment and spending of endowed funds. Virtually all of the states and the District of Columbia have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets forth requirements that foundations must observe when investing and spending, among other matters. Community foundations, in particular, establish prudent spending policies informed by the requirements of UPMIFA.

The effective spending rate—derived by dividing the amount spent on mission by the market value of the foundation's asset pool at the beginning of the year—averaged 5.8 percent for private foundations, up from 5.4 percent in FY2015, and 4.7 percent for community foundations, down modestly from last year's 4.8 percent. It is important to remember that because foundations frequently use a smoothing formula to ameliorate volatility in their grantmaking, the effective rate will usually decline in strongly rising markets and, conversely, rise in falling markets.

Viewing effective spending rates by foundation size and type, the highest rate, at 6.0 percent, was found among private foundations with assets between $101 and $500 million. The lowest, at 4.7 percent, was reported by community foundations with assets under $101 million. Across all three size categories, private foundations reported a higher effective spending rate than community foundations: the spread was 0.5 percentage points among foundations with assets over $500 million; 1.2 percentage points among foundations with assets between $101 and $500 million; and one percentage point among foundations with assets under $101 million.

Overall, 44 percent of private foundations and 22 percent of community foundations reported an increase in their effective spending rate in FY2016—by 0.7 percent for the former and 0.4 percent for the latter. Twenty-five percent of private foundations and 17 percent of community foundations reported a decrease in their effective spending rates; the rate decreased by 0.6 percent among private foundations and 0.5 percent among community foundations.

Forty-three percent of private foundations and 59 percent of community foundations reported an increase in actual spending dollars for FY2016. Forty-six percent of private foundations and 12 percent of community foundations reported a decrease.

Debt

For FY2016, 8.9 percent of participating foundations reported having debt—a total of 18 institutions overall, comprising nine private foundations and nine community foundations. Average debt among Study participants in FY2016 rose to $18.8 million from $11.0 million in FY2015, nearly returning to the $17.9 million reported for FY2014. Median debt levels declined, however, falling to $3.2 million from $3.4 million a year ago.

The average debt level reported by private and community foundations diverged this year. Due to shifts in the group of Study participants from FY2015 to FY2016, the average debt level among private foundations more than tripled to $34.0 million compared with $10.8 million in FY2015. Among community foundations, it declined by a similar factor, falling to $3.6 million compared with $11.3 million a year ago. Median debt levels also rose for foundations of both types—to $20.9 million from $9.9 million for private foundations—and to $1.6 million from $0.6 million for community foundations. A matched sample of foundations participating in the FY2015 and FY2016 Studies revealed that new participants this year carried significant amounts of debt, a factor which had the effect of sharply increasing average debt levels overall for FY2016. (Please refer to Chapter 4, beginning on page 39, for additional discussion.)

Resources, Management and Governance

The number of professional staff devoted to the investment function remained steady this year for private foundations, at an average of 1.3 full-time equivalents (FTEs), but rose to an average of 0.9 FTE, from 0.8 in FY2015 and 0.6 in FY2014, for community foundations. Staff size was correlated with foundation size. The highest number of FTEs, at an average of 4.8, was found among private foundations with assets over $500 million. Community foundations in this size cohort averaged 1.6 FTEs. All other sizes and types of foundation had less than one full-time equivalent staff person devoted to the investment function, with the lowest average number, at 0.5 FTE, found among private foundations with assets under $101 million.

Among Study respondents overall, 16 percent of private foundations reported having a CIO, down from last year's 20 percent, while 10 percent of community foundations reported having a CIO, double that of a year ago.

Sixty-seven percent of private foundations responded that investment oversight is the responsibility of the investment committee, essentially unchanged from last year's 68 percent. Eighty-four percent of community foundations assigned this responsibility to the investment committee, also one percentage point lower than FY2015.

More than four-fifths of foundations—85 percent of private foundations and 84 percent of community foundations—reported using a consultant in FY2016. This compares with 81 percent of private foundations and 82 percent of community foundations in FY2015.

With outsourcing of the investment function becoming more common over the last decade, a little more than one-third of private foundations and nearly 40 percent of community foundations said they had substantially outsourced the investment function for FY2016. Another 3 percent of private foundations and 5 percent of community foundations said they were considering substantially outsourcing the function.

Ninety-seven percent of private foundations and 99 percent of community foundations reported having a conflict of interest policy. Comparable figures from last year's Study were 94 percent and 96 percent, respectively. Ninety-two percent of private foundations and 96 percent of community foundations said that their policy applies to senior staff members. A lower proportion apply it to the board and investment committee—60 percent for private foundations and 88 percent for community foundations.

HOW TO READ THIS REPORT

This Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations is the product of a collaboration between the Council on Foundations and Commonfund Institute. Our purpose is to provide a timely and reliable reference resource for those responsible for investment, financial and governance decisions at private and community foundations throughout the country. This section of the report explains the structure of the Study and provides answers to commonly asked questions, with the aim of helping readers and their organizations to obtain the greatest benefit from the Study.

BACKGROUND

From FY2002 to FY2011, Commonfund Institute published the Commonfund Benchmarks Study *Foundations Report*, an annual survey of independent and community foundations.[1] In its current form, this Study commenced publication in FY2012 as the Council on Foundations-Commonfund Study of Investments for Private Foundations (CCSF). During that period, community foundations continued to be covered in a separate Commonfund Benchmarks Study report. With the 2014 CCSF, we enhanced the Report by offering a single, comprehensive Study of private and community foundations, thus reflecting our two organizations' joint vision of sharing information across foundation types. We acknowledge, however, that the many differences in policies and regulations at community and private foundations prevent strict one-on-one comparisons. The CCSF's format is built on data gathered from the 203 foundations that participated in this year's report. The data are presented in the tables and charts appearing throughout the report, and an accompanying narrative interprets and analyzes the data presented in the tables.

ACCESS AND NAVIGATION

The CCSF is delivered as an Adobe Acrobat file in pdf format. Readers who want to take full advantage of the pdf should download and install the free program Adobe Acrobat Reader (available from www.adobe.com). All items in the document's Table of Contents can be reached by clicking on the chapter, subhead or page. This is also true of the figures listed on pages iii and iv. In addition, by opening the "Bookmarks" tab in Acrobat Reader, an internal table of contents is revealed, permitting you to easily navigate back and forth and jump from one section directly to another.

1 The early *Foundations Reports* included operating charities; beginning in 2007, the Institute began publishing a separate survey of these organizations as the Commonfund Benchmarks Study *Operating Charities Report.*

TABLES

The tables in the main body of the report generally display data in two primary ways for both types of institution—private foundations and community foundations. The first is the total number of institutions responding to a particular question. The second breaks this total number of respondents into three cohorts, segmented according to the size of their foundation assets. The three size cohorts are institutions with total endowed assets:

Over $500 million

Between $101 million and $500 million

Under $101 million

Each size cohort is assigned its own color, which remains consistent throughout the report. The purpose of this color coding is to assist readers in locating the size category relevant to their own institutions and finding the appropriate benchmark data.

Supplemental data is provided in Appendix II, where additional figures provide readers with another data set for further analysis. For example, while asset allocation data in the main body of the report is presented on a dollar-weighted basis, Appendix II also presents asset allocation data calculated on an equal-weighted basis. Other tables in the text provide comparative data from other types of nonprofit institution.

CCSF LEADERS

Chapter 1 offers four tables (1.3 through 1.5 and 1.5A/EW) that present investment return data for foundations whose one-year FY2016 return ranks them in the top decile and top quartile of all Study participants. The top decile refers to the 10 percent of Study participants with the highest one-year return for FY2016; the top quartile are those institutions whose one-year FY2016 return places them in the top 25 percent of all Study respondents.

RESEARCH PROCESS AND METHODOLOGY

Data gathering took place in the first and second quarters of calendar 2017 using an online survey instrument.

This process was supported by extensive telephone contact, a research technique that ensures greater integrity in the data-gathering process. The respondents were the individuals most knowledgeable about investment matters at

participating institutions, and their answers to our questions provided both the quantitative data and qualitative commentary that form the basis of this report. An asset allocation worksheet also was completed by all Study participants.

The distribution of the 203 institutions across size and type was designed to produce data that are statistically representative throughout the full sample. This aspect of the research design is crucial in that it underlies the ability to benchmark a particular institution against true peers. Of significance for the stability of the data, 79 percent of private foundations and 81 percent of community foundations participating in this year's CCSF also participated in last year's Study.

The CCSF is still a relatively new Study, and has now been modified to combine private and community foundations in one report. We therefore continue to exercise care in making year-over-year comparisons. In certain instances where longer-term information patterns provide insight, the data are trended back to earlier Commonfund Benchmarks Studies.

Given the turbulent market and economic environment that has prevailed in the past decade, apparent changes in the demographics of Study participants can be misleading. Changes from year to year can reflect fluctuations in portfolio values and lead to the reclassification of institutions into larger or smaller size categories. The research team has prepared a matched sample of data from this Study and last year's to identify those areas where findings may reflect significant migrations across size categories and/or new participants coming into the Study universe and, where relevant, these have been noted. Any trend information presented in this report, however, should be interpreted only directionally as an indication of change.

GLOSSARY

A glossary of frequently used terms may be found in Appendix V.

FREQUENTLY ASKED QUESTIONS

How does this Study calculate three-, five- and 10-year investment returns for participating institutions?

We don't. Each year we ask our Study participants to provide their own three-, five- and 10-year annualized returns, and we report average responses. In short, these returns are reported, not derived.

Of the 203 institutions participating in the Study, there are 21 institutions in the "top decile," comprising 13 private foundations and eight community foundations. In the top quartile, there are 51 institutions, comprising 31 private foundations and 20 community foundations. Those figures are not precisely 10 percent and 25 percent of the Study universe. Why is that?

In some years, institutions may be "tied," meaning that they report the same return—a circumstance that expands the Leaders somewhat beyond 10 percent and 25 percent (top decile and top quartile, respectively). This year, "ties" have a minimal effect on the composition of CCSF Leaders. Ten percent of 203 is 20.3 and there are 21 institutions in the top decile; a "tie" in returns accounts for the one additional institution. The same is true for the top quartile; 25 percent of 203 is 50.8 and there are 51 institutions in that cohort.

What is "dollar-weighted"?

Dollar-weighted means that individual responses are weighted according to size or asset base when calculating average results—meaning that responses from large participants have a greater impact on average results than those of smaller participants. By contrast, when overall results are calculated on an "equal-weighted" basis, each response has an equal impact on the average, regardless of the size of the respondent. Unless otherwise noted, asset allocation figures in this Study are dollar-weighted. Selected tables showing equal-weighted data may be found in Appendix II.

Why do the bases (or number of respondents) change between Figures?

Charts and tables contain one of two labels: "Total Institutions" or "Responding Institutions." The Total Institutions label indicates that the figure depicts responses from the full set of 203 Study participants. Responding Institutions indicates that the responses come from a sub-set of participants. For example, Chapter 3's Figure 3.8, which depicts participating foundations' allocations to various alternative investment strategies, carries the Responding Institutions label because only 170 of the 203 Study participants reported using alternative strategies.

Are all the data reported as averages?

Most, but not all. The majority of the figures and most of the related commentary present data as the average value (the arithmetic mean, calculated by adding all the observations and dividing by the number of observations). However, some commentary and a few Figures present median data. As differentiated from the mean or average, the median is the middle value, or data point in the middle. That is, half of the data points are above the median and half below. The median can be useful in presenting data that have extremely high or low points that can skew the average and make it a misleading indicator.

For community foundations, what assets are included as "endowed assets"?

For purposes of this Study, endowed assets comprise the long-term investable asset pool. All funds, whatever their source, that are invested and spent in the same manner as the foundation's long-term investable asset pool are included in the definition of endowed assets.

How are historical trends for community foundations determined if this is only the third year they are included in this report?

As noted above, historical trends for community foundations are derived from the Commonfund Benchmarks Studies data series. We have conducted matched sample evaluations of all data in order to ensure that year-to-year trends are accurately presented.

How is "community foundations" defined in the body of the Study?

All of the data included in the "community foundations" results are from foundations that are public charities. The majority of these foundations (73 of 80 foundations, representing 96 percent of the assets held by foundations in this category) classify themselves as community foundations and/or meet the Council on Foundations' definition of Community Foundations (see community foundation in the glossary on page 75). Data from the small number of other public foundations that participated in the survey were included in the community foundations category because they are also defined as public charities and they share many of the same operating characteristics as community foundations.

ACKNOWLEDGMENTS

Commonfund Institute wishes to thank England Associates, Inc. *for their significant contributions to this* Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF).

Our research partner since the inception of the Commonfund Benchmarks Studies initiative in 2000, they have provided leadership and project management throughout the Studies' design, development, fielding and analysis.

Beginning with this year's CCSF, England Associates assumed full responsibility for the research design, fielding and the interviewing of the participating institutions for the Study; we wish to thank them for the professionalism and expertise that they have brought to this year's research.

An independent proprietary research firm serving the needs of financial services clients for custom strategic and market research, England Associates and its entire team have our thanks for their continued vision and efforts in creating this valuable tool for our participating institutions.

We are also indebted to the 203 participating institutions, many of them providing data for most or all previous Studies. The interviews that we conducted with them provide the foundation of the 2016 CCSF.

Chapter 1

The Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations

Two hundred three foundations, representing $96.3 billion in assets, participated in this year's Council on Foundations-Commonfund Study of Investment of Endowments for Private and Community Foundations® (CCSF). In this report, participating foundations are segmented both by type and into three cohorts based on asset size to facilitate analysis and comparison. The size categories and the number of foundations in each are shown in Figure 1.1, while the composition of participating foundations by type—private, family and community—is shown in Figure 1.2.

Figure 1.1 CCSF Institutions by Size

		Total Institutions		Private		Community	
		'15	'16	'15	'16	'15	'16
Large	Total assets over $500 million	36	33	24	21	12	12
Mid-size	Total assets between $101–$500 million	97	87	63	63	34	24
Small	Total assets under $101 million	95	83	43	39	52	44
Total Institutions		228	203	130	123	98	80

Figure 1.2 CCSF Institutions by Type♦

number of institutions	'15	'16
Private foundations (independent)	89	82
Private foundations (family)	41	41
Community foundations	98	80
Total Institutions	228	203

♦*all family foundations participating in this study qualify as private foundations and hereafter are not separated out as a category but are included with all other participating private foundations*

Seventy-nine percent of private foundations and 81 percent of community foundations participating in this year's CCSF also participated in last year's Study. In preparing this report, we have examined a matched sample of FY2015 and FY2016 data and highlight instances where the composition of respondents to a particular question is sufficiently different to warrant caution in drawing conclusions regarding trends.

Where data for fiscal years prior to FY2012 are cited, they are derived from the predecessor Commonfund Benchmarks Study® *Foundations Reports* and have been recalculated to include the relevant foundation type in order to present an accurate comparison. These numbers may therefore differ from those published in previous Commonfund Benchmarks Studies.

It is important to note that, for purposes of this Report, we have included information and data for community foundation *endowment* funds only; the results herein do not, therefore, 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.

Foundations, both private and public, are subject to specific state laws governing investment and spending of endowed funds. Virtually all of the states and the District of Columbia have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets forth requirements that foundations must observe when investing and spending, among other matters. Community foundations, in particular, establish prudent spending policies informed by the requirements of UPMIFA.

CCSF LEADERS

Each year, we offer an analysis of those participants whose fiscal year returns placed them in the top decile (top 10 percent) and top quartile (top 25 percent) of all Study participants. We designate these institutions as the "CCSF Leaders." For this year's Study, 21 foundations make up the top decile, segmenting into 13 private foundations and eight community foundations. Fifty-one foundations are in the top quartile, composed of 31 private foundations and 20 community foundations.

In most years, larger institutions, which frequently have greater resources and more expert investment staff, tend to be disproportionately represented in the top decile. This year, however, no foundation, private or community, with assets over $500 million qualified for the top decile. Among the two smaller size cohorts, institutions with assets between $101 and $500 million dominated the private foundation top decile, at 92 percent of the group, while the community foundations top decile was dominated by institutions with assets under $101 million, at 88 percent.

Similar patterns held for the top quartile, with the largest foundations again being under-represented. Private foundations with assets over $500 million made up 16 percent of the Study population overall, but just 10 percent of the

Figure 1.3 Top Decile and Top Quartile Performers

numbers in percent (%)	Total Institutions		Top Decile		Top Quartile	
	Private	Community	Private	Community	Private	Community
	123	80	13	8	31	20
Over $500 million	16	15	0	0	10	5
$101–$500 million	52	30	92	12	71	40
Under $101 million	32	55	8	88	19	55

Figure 1.4 Average Net Returns for Top Decile and Top Quartile Performers

numbers in percent (%)	Total Institutions		Top Decile		Top Quartile	
	Private	Community	Private	Community	Private	Community
	123	80	13	8	31	20
FY2016 net annual total return	6.4	7.3	13.2	♦	10.4	9.5
3-year net annualized return	4.0	3.2	6.9	♦	5.5	3.7
5-year net annualized return	7.6	7.3	9.4	♦	8.9	8.0
10-year net annualized return	4.7	4.6	5.7	♦	5.4	5.4

♦ *sample size too small to analyze*

top quartile. Similar figures for community foundations were 15 percent and 5 percent, respectively. Institutions with assets between $101 and $500 million dominated the private foundation top quartile, at 71 percent of the group, while the community foundations top quartile was again composed mainly of institutions with assets under $101 million, at 55 percent.

The return spread between all participating foundations and the top decile/top quartile was greater this year than in FY2015. Private foundations overall reported a 6.4 percent return for FY2016, while private foundations in the top decile reported a 13.2 percent return and those in the top quartile realized a return of 10.4 percent. All participating community foundations reported a return of 7.3 percent for the year, while those in the top quartile reported a 9.5 percent return (the number of community foundation data points in the top decile was too small to analyze).

Looking at longer-term return data, the difference between the Study population as a whole and top decile and top quartile performers tends to narrow over time. For instance, while the top decile of private foundations outperformed all participating private foundations by 680 basis points in FY2016, for the trailing three-, five- and 10-year periods, this gap narrowed to 290, 180 and 100 basis points, respectively. A similar pattern held among the top quartile. For the longest period, 10 years, the gap between the Study universe and the top quartile among private foundations was 70 basis points; among community foundations, the 10-year spread was 80 basis points.

Turning to asset allocation, CCSF Leaders clearly benefited from their larger allocations to the year's best-performing asset class, U.S. equities. Among all participating institutions, private foundations reported an average allocation of 24 percent to this asset class, while among top decile private foundations it rose to 36 percent. This allocation was even higher among top quartile private foundations, at 38 percent. Community foundations overall reported an average U.S. equities allocation of 33 percent, while among their top quartile counterparts the allocation was 39 percent (the number of community foundation data points in the top decile was too small to analyze).

CCSF Leaders reported smaller allocations to alternative strategies than the Study population at large. Private foundations in the top quartile reported an alternative strategies allocation about half that of private foundations in general. With some exceptions, as noted in Figure 1.5, differences in asset allocation were not as pronounced in fixed income and non-U.S. equities. In fixed income, for example, private foundations overall reported an allocation of 8 percent; that rose to just 9 percent among top decile private foundations but expanded to 14 percent among top quartile private foundations.

Figure 1.5 Asset Allocations♦ for Top Decile and Top Quartile Performers

numbers in percent (%)	Total Institutions		Top Decile		Top Quartile	
	Private	Community	Private	Community	Private	Community
	123	80	13	8	31	20
U.S. equities	24	33	36	♦♦	38	39
Fixed income	8	14	9	♦♦	14	13
Non-U.S. equities	19	22	15	♦♦	20	22
Alternative strategies	45	25	33	♦♦	22	22
Short-term securities/cash/other	4	6	7	♦♦	6	4

♦ *dollar-weighted*
♦♦ *sample size too small to analyze*

Chapter 2
Returns and Investment Objectives

GLOBAL INVESTMENT ENVIRONMENT

The 2016 investment environment—and the investment returns it produced—contrasted sharply with 2015. This year saw a 640-basis-point improvement in returns reported by private foundations and community foundation returns that were better by 910 basis points. Two thousand sixteen foundation returns were the highest in three years, but still below the double-digit advances reported in the CCSF for fiscal years 2012 and 2013.

On balance, FY2016 was a year of returns at the higher end of expectations, and was dominated in large part by the U.S. With a 12.0 percent return for the S&P 500 Index and 12.7 percent for the Russell 3000 Index, U.S. equities were the broad asset class that led the way in FY2016, as shown in the table that follows this analysis. U.S. fixed income, as exemplified by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 2.7 percent, trailing its three-year average. The year's highest return, at 15.2 percent, came from distressed debt, helped in part by the fact that a feared U.S. economic downturn failed to materialize and, as the year progressed, by a moderate recovery in energy and energy-related industries. The reversal that may hold mid- to longer-term implications came from international developed and emerging markets, which generated returns that were higher than FY2015 and were also above their three-year trailing average. Based on a private equity and venture capital benchmark and two leading private real estate indices (referenced in the accompanying table),[2] alternative strategies produced returns in the mid-single-digit range, which did not keep pace with their three-year trailing average, in part because their lagged pricing did not permit the strong fourth-quarter market environment to be reflected in their long-term return figures. The greatest year-over-year turnaround was found in the volatile commodities sector, which, based on the Bloomberg Commodity Index, returned 11.8 percent, compared with -19.6 percent in FY2015.

2 The indices are the Burgiss Private IQ—VC & PE; the Dow Jones Wilshire Real Estate Securities Index; and the NCREIF National Index.

The year was punctuated by headline-grabbing events. The idea that 2016 would end as a positive one for investors would not have been anticipated when markets opened with the worst-ever calendar year start for U.S. equities. "Risk-off" sentiment prevailed, and the energy sector, weak in 2015, continued to erode, undercut by declining prices for crude oil. Further, data indicated that first-quarter growth in Gross Domestic Product (GDP) would reflect the seasonal pattern of recent years and once again disappoint. Markets were shaken once more in late June when voters in the U.K. elected to withdraw from the European Union. At about the same time on the other side of the Atlantic, a poor employment report for May rattled U.S. investors, who feared a slowing in what had been strong monthly job gains.

Yet, in each instance, markets found their footing. Beginning in mid-February, U.S. stocks rallied and ultimately closed the March quarter with a modest gain for the S&P 500 Index. The "Brexit" referendum and the poor jobs report in the U.S. proved to have only transitory effects as Europe stabilized and U.S. markets once again rebounded. By August, the S&P 500, the widely followed Dow Jones Industrial Average and the NASDAQ Composite Index all reached record highs on the same day. When that enthusiasm seemed to flag—the S&P 500 was lower for nine straight trading days in late October/early November—Donald Trump's surprise victory in the presidential election touched off an end-of-year rally that saw the S&P 500 rise by nearly 4 percent. Financial and industrial stocks benefitted from expectations that the new administration would roll back regulations and boost spending on infrastructure.

As the year progressed, energy companies saw their fortunes improve as well. Production levels were cut as prices declined, eventually bringing supply and demand closer to equilibrium. Compared to other oil-producing countries, the U.S. saw a somewhat stronger recovery owing to its low production costs and more stable pricing environment. Although suppliers to the energy industry continued to experience softness, industrial and transportation users of energy benefited from lower prices and saw their operating margins expand. Consumers were helped, too, by the decline in oil prices, freeing some discretionary spending and further stimulating economic growth.

The increase in first-quarter U.S. GDP did prove to be tepid—just 1.1 percent. But that weakness fueled stronger growth in the remaining three quarters, led by a 3.5 percent increase in the third quarter.

The market rally that followed the election in November showed that fears of a Trump presidency precipitating a market sell-off were misplaced. Overlooked was the fact that corporate profits were already beginning to accelerate and would likely continue to do so regardless of who occupied the White House (a belief confirmed by good earnings reports in the first quarter of 2017). In addition, investors anticipated a lowering of corporate tax rates along with repatriation of U.S. corporations' offshore cash. Small cap stocks generally pay the highest corporate tax rates, and thus rallied on the expectation of forthcoming tax relief (a bounce that did not extend into early 2017). The fourth quarter also saw early signs of a favorable turn in corporate earnings abroad, particularly in developed markets.

Another significant event of the fourth quarter was the Federal Reserve's 25-basis-point increase in the fed funds rate—its first increase since the end of 2015 and only the second increase since the financial crisis. The Fed had already signaled its intention to return to "policy normalization," and it provided further confirmation of its plans by increasing the funds rate by another 25 basis points in March 2017.

In other markets, there were signs that China's structural rate of economic growth continued to decelerate at a pace greater than that reflected in its official GDP statistics, and public markets in China generally continued to lag those of other countries. Japan performed well on a dollar-adjusted basis, benefiting from effective coordination of its monetary and fiscal policies. Geopolitical tensions continued to roil Europe, although the crisis atmosphere associated with the Greek debt situation and the migrant influx did not prevail as it did in 2015 and earnings for a range of European companies began to show improvement.

One-, Three-, Five- and 10-Year Returns for Periods Ending December 31, 2016

numbers in percent (%)

Index	1-Year	3-Year	5-Year	10-Year
S&P 500	12.0	8.9	14.7	7.0
Bloomberg Barclays Aggregate Bond	2.7	3.0	2.2	4.3
Russell 3000	12.7	8.4	14.7	7.1
MSCI ACWI	7.9	3.1	9.4	3.6
MSCI World ex-U.S.	2.8	-1.6	6.1	0.9
MSCI Europe♦	7.2	5.6	10.6	2.9
MSCI Emerging Markets Free Net	11.2	-2.6	1.3	1.8
3-Month Treasury Bill (Average Yield)	0.9	0.7	0.6	2.1
NCREIF	7.9	11.0	10.9	6.9
Wilshire Real Estate Securities	6.6	13.7	11.7	4.5
Burgiss Private IQ–VC & PE♦♦	8.3	9.8	12.7	9.2
HFRI Fund-of-Funds Composite	0.5	1.2	3.4	1.3
Bloomberg Commodity	11.8	-11.3	-8.9	-5.6
HFRI Distressed Debt	15.2	1.4	5.6	3.8

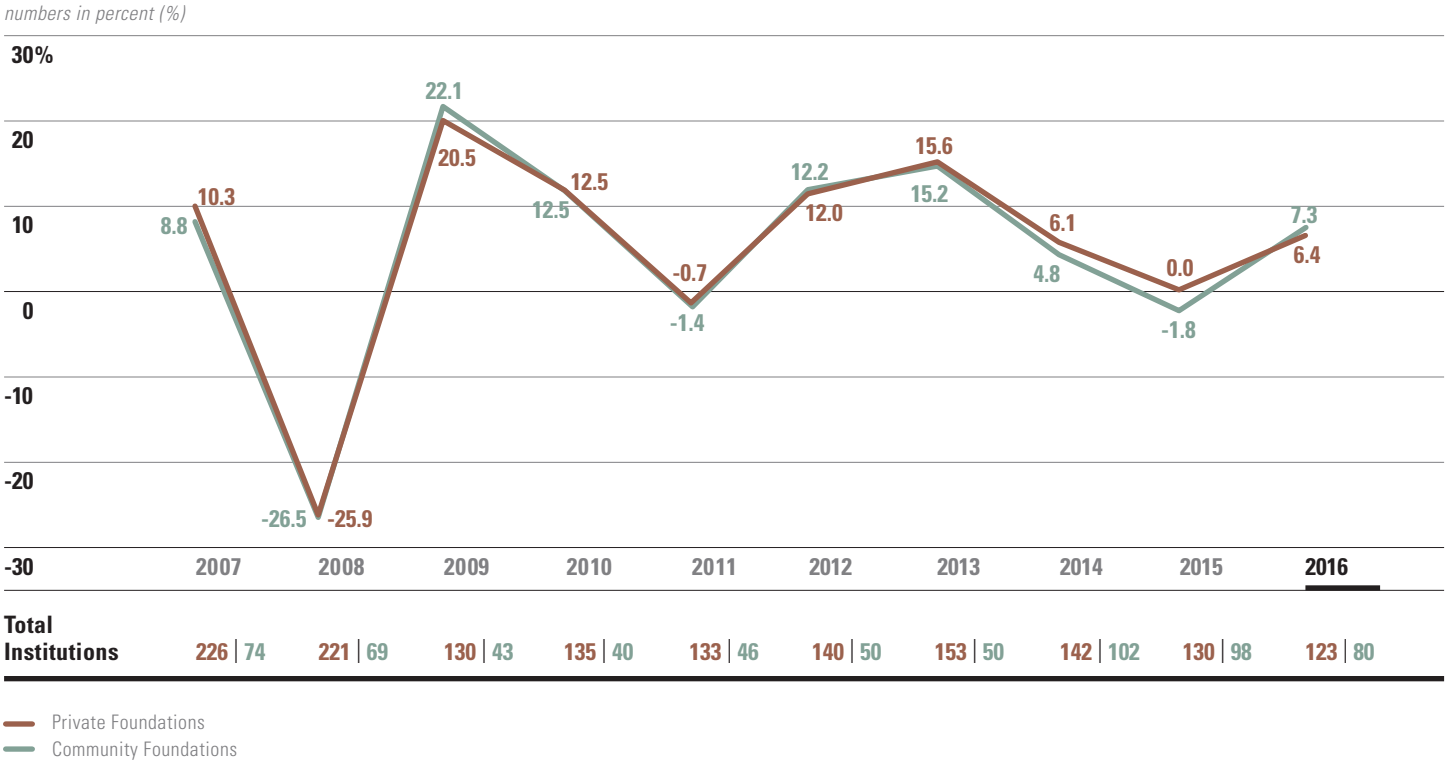
♦local currency
♦♦Venture capital and private equity point-to-point group median IRRs as of 12/31/16. Benchmark returns calculated through Burgiss Private IQ.
Sources: Bloomberg, Burgiss Private IQ, FactSet, HFR, MSCI, RSM US

PRIVATE AND COMMUNITY FOUNDATION RETURNS

Sparked by a strong fourth quarter for U.S. equities and gradual improvement in non-U.S. equities as the year progressed, the positive global economic environment produced much better investment results for foundations in FY2016 compared with the previous year. Community foundations led the way this year with an average annual return of 7.3 percent, a welcome recovery from the -1.8 percent they reported a year ago. Private foundations reported an average return of 6.4 percent in FY2016, up from 0.0 percent turned in for FY2015. Comparable community foundation returns were 4.8 percent for FY2014 and 15.2 percent in FY2013; for private foundations returns were 6.1 percent in FY2014 and 15.6 percent in FY2013. (All returns are net of fees.)

A year ago, private foundations realized higher returns across all size categories than did community foundations. This held true for the two largest size categories this year —but not for foundations with assets under $101 million, where community foundations outperformed, earning 7.5 percent to private foundations' 4.7 percent. (A matched sample confirms this result.) Among foundations with assets over $500 million, private foundations outperformed community foundations by just 40 basis points. Among foundations with assets between $101 and $500 million, the spread of private foundation returns over those for community foundations was an even narrower 20 basis points.

Figure 2.1 Average Annual Total Net Returns for Total Institutions for Fiscal Years 2007-2016♦



♦*Previously published FY2007–2011 numbers were recalculated to show private foundations and community foundations separately.*

Figure 2.2 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
	123	80	21	12	63	24	39	44
FY2016 net annual total return	6.4	7.3	6.7	6.3	7.5	7.3	4.7	7.5
3-year net annualized return	4.0	3.2	4.6	3.2	4.3	3.0	3.2	3.3
5-year net annualized return	7.6	7.3	8.2	7.6	7.9	7.2	6.6	7.4
10-year net annualized return	4.7	4.6	4.9	4.9	4.8	4.2	4.3	4.9

LONGER-TERM RETURNS

As was the case last year, trailing three-year returns were lower across the board. Private foundations secured higher three-year returns than community foundations, except among institutions with assets under $101 million, where they were nearly equal. Five-year returns, however, were higher in FY2016 for private and community foundations in all size cohorts, buoyed by double-digit returns in FY2012 and FY2013. Private foundation returns once again outpaced those of community foundations in the two larger size groupings, but trailed by 80 basis points among foundations with assets under $101 million. For the trailing 10-year period, returns were once again lower across the board than they were a year ago. Private foundations generally saw the larger declines—for example, a year-over-year decline of 90 basis points among those with assets over $500 million and 120 basis points for those with assets under $101 million. By comparison to last year, the greatest decline in 10-year returns among community foundations was 80 basis points, found in those with assets between $101 and $500 million.

As we observed last year, the lower average annualized return for the 10-year period is insufficient to cover annual grantmaking, inflation and investment management costs. This is a cause for concern; the compounding effect of an additional 100 basis points annually would have a material effect over time in making more resources available to foundations in support of their missions.

Figure 2.3 Average 10-Year Annualized Volatility of Net Returns for Fiscal Year 2016

numbers in percent (%)

	Private	Community
Responding Institutions	35	25
Average 10-year annualized volatility of net returns	9.2	9.0

VOLATILITY, SHARPE AND SORTINO RATIOS

In recent years, we have published tables showing estimates of the average volatility of responding institutions' one- and 10-year returns, together with estimated average Sharpe ratios. This year, we requested more detailed information to enable us to present actual volatilities and to calculate the Sharpe and Sortino ratios.[3]

Volatility, a widely used measure of portfolio risk, was employed by Harry Markowitz, the Nobel Prize-winning academic who developed Modern Portfolio Theory, in analyzing the benefits of portfolio diversification. As for the Sharpe and Sortino ratios, both are important measures of investment risk and reward. The Sharpe ratio, as we have calculated it here, measures the investment return earned per unit of risk taken, where risk is measured by the volatility of five-year quarterly returns. The Sortino ratio measures the return earned per unit of downside risk taken, where downside risk is measured by the volatility of five-year quarterly returns with all positive returns set to zero.

For the 10-year volatility measure, responding institutions were asked to provide the 10-year annualized volatility of their endowments' net returns. For the Sharpe and Sortino calculations, institutions were asked for quarterly return data for the five most recent years—20 data points in all. Of the 203 total participating foundations, 60 were able to provide their 10-year volatility and 45—just over 22 percent of the total participant pool, comprising 26 private foundations and 19 community foundations—were able to provide 20 quarters of returns. Because of the relatively small size of the respondent group, it was not possible to present the results by asset size; we believe, however, that this inaugural group represents a solid base upon which to build in the future.

The 10-year annualized volatility of returns averaged 9.2 percent for private foundations and 9.0 percent for community foundations. Given the extreme nature of market fluctuations during the global financial crisis of 2008–09, it should not be surprising that volatility for the 10-year period is significantly higher than for the more recent five-year period, during which market behavior has been less extreme.

3 The Sharpe ratio is calculated as the ratio of an institution's one-year return in excess of the 3-month Treasury bill one-year return and its volatility. The Sortino ratio is calculated as the ratio of an institution's one-year return in excess of the 3-month Treasury bill one-year return and its downside deviation. Each institution's volatility is calculated as the annualized standard deviation using the reported five-year quarterly return series. Downside deviation is calculated as the annualized deviation from zero of the return series where all positive returns are replaced by zero.

Figure 2.4 Sharpe and Sortino Ratios and Volatility for Fiscal Year 2016

	Private	Community
Responding Institutions	26	19
Average Sharpe ratio	1.11	1.04
Average Sortino ratio	4.37	2.39
Average annualized volatility of 5-year quarterly returns (percent %)	5.8	6.7

For private foundations, the average Sharpe ratio for FY2016 was 1.11. The average Sharpe ratio for community foundations was somewhat lower, at 1.04.

Sortino ratios, which averaged 4.37 for private foundations and 2.39 for community foundations, followed a similar pattern.

Average five-year quarterly volatility for private foundations was 5.8 percent; for community foundations it was 6.7 percent. Both figures were significantly lower than the 10-year reported figures of 9.2 percent and 9.0 percent, respectively.

RETURNS BY ASSET CLASS

FY2016 returns were higher than last year across the vast majority of asset classes and strategies for both private and community foundations. The exceptions were found in foundations' sub-allocations under the broad alternative strategies category, although none of the average returns for these allocations was negative. Moreover, the average return for the allocation as a whole was positive, at 5.6 percent for private foundations and 5.1 percent for community foundations. Among the alternative strategies experiencing lower year-over-year returns was the allocation to private equity real estate (non-campus), which for

Figure 2.5 Average Return by Asset Class for Fiscal Year 2016

numbers in percent (%)	Total Institutions	
	Private	Community
	123	80
Average FY2016 total return	6.4	7.3
U.S. equities	11.8	12.4
Fixed income	3.8	3.7
Non-U.S. equities	4.8	4.1
Alternative strategies	5.6	5.1
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	6.9	4.8
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	2.5	3.4
Venture capital	2.9	1.9
Private equity real estate (non-campus)	7.5	6.3
Energy and natural resources	12.9	10.4
Commodities and managed futures	10.0	10.2
Distressed debt	3.4	1.5
Short-term securities/cash	0.8	0.3
Other	5.5	♦

♦ *sample size too small to analyze*

private foundations returned 7.5 percent versus 12.7 percent in FY2015; for community foundations, it returned 6.3 percent against 6.8 percent last year. Another was venture capital, which returned 16.7 percent for private foundations a year ago but just 2.9 percent this year. Private equity returns lagged the year-ago period for private foundations—falling to 6.9 percent from 8.8 percent—but rose for community foundations to 4.8 percent from 3.8 percent.

As noted, the year's highest return was generated by U.S. equities, at 11.8 percent for private foundations and 12.4 percent for community foundations. Non-U.S. equities returned 4.8 percent for private foundations and 4.1 percent for community foundations. Fixed income provided almost the same return for foundations of both types—3.8 percent for private foundations and 3.7 percent for community foundations. Short-term securities/cash returned 0.8 percent and 0.3 percent for private and community foundations, respectively.

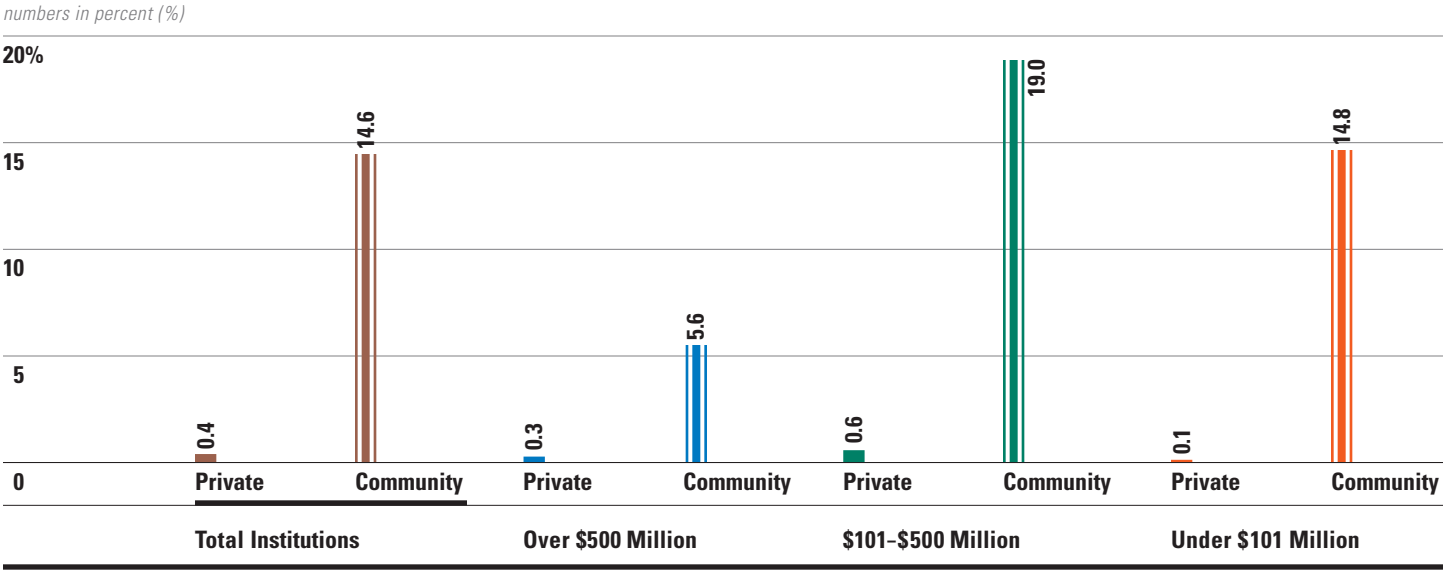
In past CCSF Studies, we have compared the returns reported by foundations to those reported by colleges and universities participating in the annual NACUBO-Commonfund Study of Endowments® (NCSE). We point out, of course, that there is a six-month difference in reporting period—January 1 to December 31 for foundations, but July 1 to June 30 of the following year for educational institutions. The objective is to provide data from one sector of the nonprofit community to broadly inform what is happening in another. Most of the time, the difference in reporting period does not produce a vast difference in returns. This time it did. The colleges and universities participating in the 2016 NCSE reported an overall return of -1.9 percent. Of the five primary asset classes reported upon in both Studies, FY2016 NCSE data showed that returns were higher year over year for two and lower for three. Fixed income produced the highest return, at 3.6 percent, followed by short-term securities/cash/other. The other three asset classes/strategies were negative, led by a -7.8 percent return for non-U.S. equities. U.S. equities were almost unchanged, at a return of -0.2 percent, while alternative strategies returned -1.4 percent.

Figure 2.6 Detailed Average Return by Asset Class for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Average FY2016 total return	6.4	7.3	6.7	6.3	7.5	7.3	4.7	7.5
U.S. equities	11.8	12.4	10.2	♦	13.0	10.9	10.5	13.7
Fixed income	3.8	3.7	2.9	♦	3.9	4.4	4.3	3.5
Non-U.S. equities	4.8	4.1	4.6	♦	5.5	5.3	3.9	3.5
Alternative strategies	5.6	5.1	7.1	♦	6.3	7.7	3.8	4.1
Short-term securities/cash	0.8	0.3	1.2	♦	0.7	0.4	0.7	0.3
Other	5.5	♦	♦	♦	♦	♦	♦	♦

♦ *sample size too small to analyze*

Figure 2.7 Investable Assets That Are Not Part of Endowment



As noted, community foundations participating in the 2016 CCSF reported a return of 7.3 percent and private foundations reported 6.4 percent. And all five asset classes/strategies reported positive returns. Much of the difference can be attributed to strong U.S. equity market returns in the final two months of calendar 2016—a period not included in the NCSE for its fiscal 2016. Non-U.S. equities—both developed and developing markets—did not exhibit the same strength but benefitted from a shift in sentiment as the year progressed, helped by an easing in the crisis atmosphere that surrounded debt woes and migrant problems in the European Union and collapsing natural resource prices in emerging markets.

Over longer time periods, returns for the two types of institution were closer. For the trailing 10 years, 2016 NCSE participants realized an average annualized return of 5.0 percent compared to 4.7 percent for private foundations participating in this year's CCSF and 4.6 percent for participating community foundations.

Data concerning investable assets that are not part of the endowment varied widely between private and community foundations, with private foundations overall reporting that 0.4 percent of their investable assets were not part of the endowment, compared with 14.6 percent reported by community foundations. This pattern continued across private and community foundations in the three size cohorts. This is to be expected, since the latter frequently have donor-advised funds, pass-through funds and other fund types that are usually not invested in the general endowment pool.

LONG-TERM RETURN OBJECTIVES

The Study inquired about participants' return objectives for their long-term investable assets. Seventy-nine percent of private foundations and 72 percent of community foundations reported that they have a long-term return objective. For private foundations, that figure was unchanged year over year; for community foundations, however, it was nine percentage points lower than the FY2015 figure. Seventeen percent of private foundations and 13 percent of community foundations said they do not have long-term return objectives. Both are higher than last year, when the comparable figures were 9 percent and 11 percent, respectively.

Data indicate that foundations may be adjusting their long-term return objectives downward, which would be consistent with a growing consensus that returns in the medium term may be lower than in the past. The average long-term investment objective among both private and community foundations was 7.2 percent this year, unchanged from last year for community foundations but down from 7.6 percent for private foundations. When the data are analyzed across the three size cohorts, private foundations lowered their return objectives more than community foundations in FY2016 compared to FY2015.

Some data points stood out. The average long-term return objective for private foundations with assets over $500 million fell to 6.9 percent from 7.7 percent in FY2015, while among similarly sized community foundations it remained steady at 7.1 percent. Among private foundations within that size category, none had a long-term return objective of 9.0 percent or more in FY2016. This is a significant change from a year ago, when 8 percent had such an objective, and represents a further decline from FY2014, when the proportion with an objective of 9.0 percent or more was 16 percent. In addition, no community foundation in the largest size cohort reported an objective of 9.0 percent or more this year, nor in Studies for FY2015 and FY2014. In the two smaller size cohorts, the proportion of foundations with long-term return objectives of 9.0 percent or more in FY2016 declined among private foundations while rising modestly for community foundations.

Figure 2.8 Long-Term Return Objectives

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Have return objectives	79	72	80	67	81	83	74	68
Less than 5%	1	0	0	0	1	0	0	0
5.0%–5.9%	10	4	20	0	9	8	5	2
6.0%–6.9%	10	20	10	25	12	17	8	20
7.0%–7.9%	29	27	35	25	27	29	28	27
8.0%–8.9%	26	17	15	17	27	25	31	14
9% and over	3	4	0	0	5	4	2	5
Do not have return objectives	17	13	15	0	16	4	21	21
No answer/uncertain	4	15	5	33	3	13	5	11
Average	7.2	7.2	6.9	7.1	7.2	7.3	7.4	7.2
Median	7.5	7.3	7.5	7.3	7.5	7.5	7.5	7.0

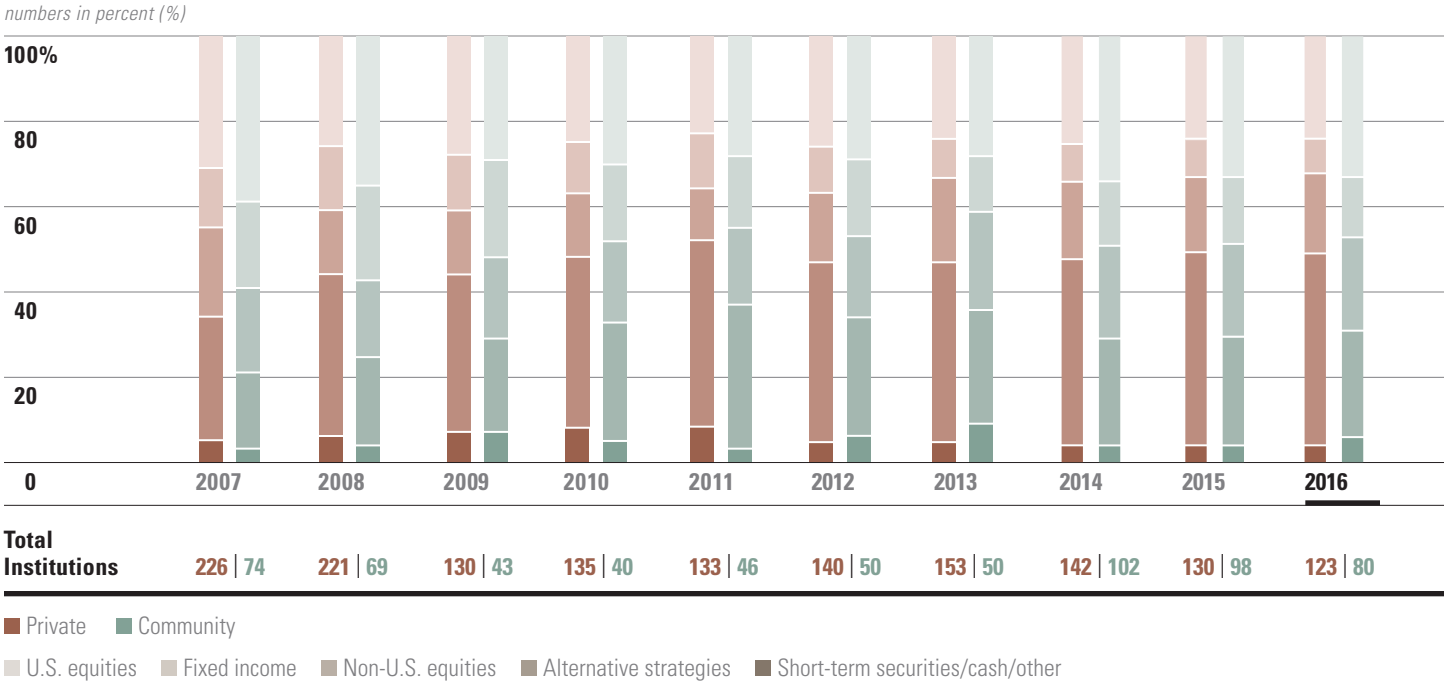
Chapter 3
Asset Allocation, Investment Policies, Restrictions and Responsible Investing Criteria

OVERALL ASSET ALLOCATION

As has been true for the past three years, asset allocations showed relatively little movement in FY2016, but the changes that did occur were somewhat greater than those observed from FY2014 to FY2015, when no asset allocation shift exceeded one percentage point.

Among private and community foundations overall, there were only minor year-over-year shifts in asset allocation, and no change at all in the allocations to U.S. equities and alternative strategies. Among private foundations, these allocations remained at 24 percent and 45 percent, respectively. Community foundations continued to have larger allocations to U.S. equities, unchanged year over year at

Figure 3.1 Asset Allocations♦ for Total Institutions for Fiscal Years 2007-2016♦♦



♦ *dollar-weighted*
♦♦ *Previously published FY2007–2011 numbers were recalculated to show private foundations and community foundations separately.*

Figure 3.2 Asset Allocations♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
U.S. equities	24	33	22	31	30	36	34	36
Fixed income	8	14	6	12	13	16	16	19
Non-U.S. equities	19	22	20	22	18	21	19	23
Alternative strategies	45	25	49	29	33	22	23	16
Short-term securities/cash/other	4	6	3	6	6	5	8	6

♦*dollar-weighted*

33 percent, and smaller allocation to alternative strategies, also unchanged at 25 percent. Community foundations continued to report significantly larger allocations to fixed income, at 14 percent, but for FY2016 there was a reduction of two percentage points compared with FY2015. Private foundations reported a fixed income allocation of 8 percent, one percentage point lower over the course of the year. Private and community foundations' allocations to non-U.S. equities were more similar, at 19 percent for private foundations and 22 percent for community foundations. Among private foundations, the allocation to short-term securities/cash/other was unchanged, at 4 percent, while it rose to 6 percent from 4 percent for community foundations.

When these allocations are analyzed by size of foundation, year-over-year shifts were similarly small. The largest foundations lowered their fixed income allocations by two percentage points, to 6 percent among private foundations and to 12 percent among community foundations. This pattern of moderately smaller fixed income allocations was also observed in the other two size cohorts, with the largest reduction being three percentage points for community foundations with assets under $101 million.

This same size group of community foundations generally reported the greatest year-over-year shifts in asset allocation, with a two-percentage-point increase in their alternative strategies allocation; no other cohort reported a change exceeding one percentage point. These foundations also reported a four-percentage-point decline in their allocation to U.S. equities; a three-percentage-point increase in their allocation to non-U.S. equities; and a two-percentage-point increase in their allocation to short-term securities/cash/other. Looking at private foundations, those with assets under $101 million also increased their allocation to short-term securities/cash/other to 8 percent from last year's 5 percent.

Examining more closely the sub-allocations within the broad category of alternative strategies, private foundations generally reported larger allocations to most of these strategies than did community foundations. Among foundations of both types, allocations were usually correlated with size, with larger foundations having more diversified and substantial alternative strategies allocations than smaller ones.

Figure 3.3 Detailed Asset Allocations♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
U.S. equities	24	33	22	31	30	36	34	36
Fixed income	8	14	6	12	13	16	16	19
Non-U.S. equities	19	22	20	22	18	21	19	23
Alternative strategies	45	25	49	29	33	22	23	16
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	8	4	9	6	6	3	3	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	18	14	18	17	19	11	11	10
Venture capital	7	1	9	0	1	1	1	0
Private equity real estate (non-campus)	3	1	4	0	4	2	2	2
Energy and natural resources	4	2	4	3	2	2	1	2
Commodities and managed futures	1	1	0	1	1	2	1	1
Distressed debt	3	0	4	0	0	0	0	0
Alternatives not broken out	1	2	1	2	0	1	4	0
Short-term securities/cash/other	4	6	3	6	6	5	8	6
Short-term securities/cash	3	3	3	4	3	2	3	2
Other	1	2	0	2	3	2	5	4
Short-term securities/cash not broken out	0	1	0	0	0	1	0	0

♦*dollar-weighted*

The largest single alternatives allocation—and the only allocation in double-digits—across all sizes and for both types of foundation was to marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives). Private foundations consistently had larger allocations to marketable alternative strategies than their community foundation counterparts, but only by one percentage point across size categories, except for foundations with assets between $101 and $500 million, where the difference was eight percentage points. Similarly, private foundations' allocation to private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity) consistently exceeded that of community foundations. Private foundations with assets over $500 million stood out for their 9 percent allocation to venture capital, while no other cohort showed an allocation greater than 1 percent. Private foundations showed larger allocations to private equity real estate (non-campus) in the two larger cohorts.

INVESTMENTS BY ASSET CLASS

In FY2016, private foundations managed a slightly higher proportion of their assets actively, while community foundations increased the proportion of their portfolio managed using index strategies. Private foundations reported managing 78 percent of their assets actively and 22 percent passively. Year-ago figures were 76 percent and 24 percent, respectively. For community foundations, similar responses were 68 percent active and 32 percent passive; respectively, FY2015 figures were 73 percent active and 27 percent passive.

When the active/passive approaches are broken out by size category, private foundations managed the greater share of their assets actively, except for foundations with assets over $500 million, where 79 percent of community foundations' assets were actively managed versus 75 percent of private foundations' assets.

Focusing on the management of specific asset classes and strategies, participating foundations generally relied on active management for their U.S. equity allocation, and private foundations, overall, employed active management more frequently than community foundations. The highest rate of active management usage for U.S. equity, at 79 percent, was found among community foundations with assets over $500 million, although private foundations in the same size cohort managed 78 percent of their U.S. equity allocation actively.

Figure 3.4 Percentage of Portfolio Managed Using Active/Passive Investment Strategies for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	117	66	18	9	62	20	37	37
Actively managed	78	68	75	79	79	69	78	65
Passively managed	22	32	25	21	21	31	22	35

Figure 3.5 U.S. Equity Asset Mix♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	113	67	18	10	59	19	36	38
Type of investment strategy								
Active	74	66	78	79	65	52	64	43
Indexed (passive/enhanced)	26	34	22	21	35	48	36	57

♦ *dollar-weighted*

Figure 3.6 Fixed Income Asset Mix♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	102	62	16	8	55	19	31	35
Type of investment strategy								
U.S. investment grade (active)	64	58	66	♦♦	58	54	76	45
U.S. investment grade (passive)	24	28	28	♦♦	20	23	8	41
U.S. non-investment grade (active or passive)	8	8	5	♦♦	13	14	9	6
Non-U.S. investment grade (active or passive)	2	4	1	♦♦	5	6	5	6
Emerging markets (active or passive)	2	2	0	♦♦	4	3	2	2

♦ *dollar-weighted*
♦♦ *sample size too small to analyze*

Turning to fixed income, 64 percent of private foundations' U.S. investment-grade allocation was managed actively, compared with 58 percent of community foundations' allocation. Foundations of both types allocated 8 percent of their fixed income allocation to U.S. non-investment grade securities (actively or passively managed). Two percent of private foundations' fixed income allocations in non-U.S. investment-grade fixed securities are managed actively or passively versus 4 percent for community foundations. Foundations of both types allocate 2 percent of their fixed income portfolio to emerging markets debt, actively or passively managed. When looking at the fixed income asset mix by size, foundations in the two smaller size categories reported larger allocations to U.S. non-investment grade securities, non-U.S. investment-grade securities and to emerging markets debt.

Foundations generally favored an active approach to their non-U.S. equity allocation. Active MSCI EAFE allocations ranged from 68 percent of community foundations with assets over $500 million to 44 percent of private foundations in the same cohort. The highest passive MSCI EAFE allocation, at 36 percent, came from community foundations with assets under $101 million. Emerging markets allocations ranged from 19 percent among community foundations with assets under $101 million to 32 percent of private foundations with assets over $500 million.

Figure 3.7 Non-U.S. Equity Asset Mix♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	110	66	18	9	58	19	34	38
Type of investment strategy								
Active MSCI EAFE	47	63	44	68	58	62	64	45
Passive/index MSCI EAFE	23	12	24	4	19	17	14	36
Emerging markets	30	25	32	28	23	21	22	19

♦ *dollar-weighted*

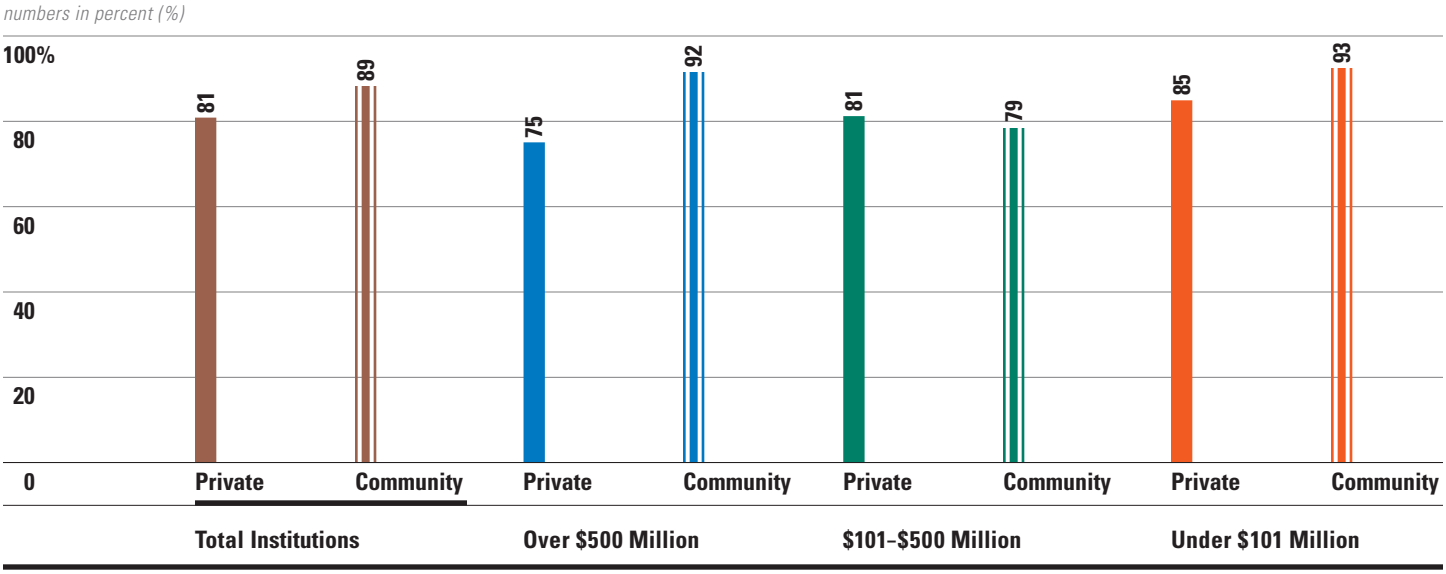
Among alternative investments, marketable alternative strategies consistently claim the largest share of all foundations' allocations, at 41 percent of all private foundations' alternative allocation and 61 percent of that for all community foundations. The smaller marketable alternatives allocation on the part of private foundations likely reflects the longer experience that they have had with alternative investments, resulting in a higher degree of diversification within the alternatives allocation. That said, community foundations appear to be committing to incremental increases to various alternative strategies. For example, community foundations with assets over $500 million reported a larger private equity allocation than did their private counterparts. Across the cohorts, community foundations consistently reported larger allocations to energy and natural resources. And community foundations with assets under $101 million reported a larger allocation to private equity real estate (non-campus). Private foundations, overall, reported larger allocations to venture capital —and significantly larger for private foundations with assets over $500 million. This was also true of the largest foundations' distressed debt allocation.

Figure 3.8 Alternative Strategies Asset Mix♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	107	63	17	10	60	21	30	32
Type of investment strategy								
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	19	18	19	21	17	15	16	8
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	41	61	38	63	58	54	60	64
Venture capital	15	2	18	2	3	4	5	1
Private equity real estate (non-campus)	8	4	8	1	11	8	9	12
Energy and natural resources	9	10	9	10	6	8	4	11
Commodities and managed futures	2	4	1	2	4	8	4	3
Distressed debt	6	1	7	1	1	3	2	1

♦*dollar-weighted*

Figure 3.9 Portfolio Rebalancing for Fiscal Year 2016



PORTFOLIO REBALANCING

Eighty-one percent of private foundations and 89 percent of community foundations reported rebalancing their portfolios in FY2016. Comparable figures in FY2015 were 81 percent and 85 percent, respectively. When viewed by size and type of foundation, three-quarters or more of each category reported rebalancing their portfolios in FY2016. Among foundations with assets over $500 million, 92 percent of community foundations reported rebalancing versus just 75 percent of private foundations—representing the lowest rate of rebalancing among all foundations—while the highest rate, at 93 percent, was found among community foundations with assets under $101 million.

Figure 3.10 Portfolio Rebalancing Frequency♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	107	73	16	11	54	21	37	41
Calendar-based								
Annually	9	5	6	9	11	0	8	7
Semi-annually	3	4	0	9	4	5	3	2
Quarterly	19	23	19	9	17	19	22	29
Monthly	4	5	19	9	2	14	0	0
Other	7	12	13	0	6	14	8	15
Market value-based								
Target- and range-based	93	89	100	91	89	90	95	88
Response to major gifts and other cash flows	25	42	19	45	30	38	22	44
Other	3	3	6	9	2	5	3	0

♦*multiple responses allowed*

Foundations use a combination of calendar-based and market value-based rebalancing techniques. Among those using a calendar-based approach, in a year in which market volatility was relatively low there was some movement away from quarterly and monthly rebalancing. In last year's Study, 29 percent of private foundations and community foundations reported rebalancing quarterly. This year, those figures decline to 19 percent and 23 percent, respectively. Only 5 percent of all community foundations rebalanced monthly in FY2016, down from 15 percent last year. Monthly rebalancing by private foundations remained at 4 percent year over year.

Among foundations using a market value-based approach, the most widely used methodology is target- and range-based, used by 93 percent of private foundations and 89 percent of community foundations. Forty-two percent of community foundations and 25 percent of private foundations rebalanced in response to major gifts or other cash flows. The greater usage of rebalancing in response to major gifts on the part of community foundations doubtless reflects their status as public charities that receive donations on an ongoing basis.

In the aftermath of the global financial crisis, when liquidity concerns remained high, we began inquiring about foundations' use of liquidity categories in their investment pools. This year, 73 percent of community foundations' assets and 57 percent of those of private foundations had liquidity of one month or less. As we observed last year, this circumstance is inversely related to the proportion of these institutions' portfolios allocated to alternative investments. Further reflective of private foundations' greater

Figure 3.11 Percent Allocated to Liquidity Categories in Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	118	65	20	9	61	20	37	36
Liquid (one month or less)	57	73	47	61	56	70	64	77
Semi-liquid (between one month and one year)	25	18	28	19	24	20	24	18
Illiquid (greater than one year)	18	9	25	20	20	10	12	5

allocation to alternative strategies, 18 percent of their portfolios were illiquid (greater than one year), twice that of community foundations.

When the data are viewed by size and type, among foundations with assets under $101 million, 77 percent of the assets held by community foundations and 64 percent of those held by private foundations had liquidity of one month or less, the highest among the cohorts. Among foundations in that size cohort, 5 percent of community foundations' assets were illiquid, as were 12 percent of private foundations' assets.

In recent years, many institutional investors have adopted functional asset allocation categorization terminology to use alongside the traditional asset class categories. While the data show no clear and consistent pattern across foundation types and sizes, in general the most frequently cited categories were "growth assets," "risk reduction" and "inflation protection." On average, "duration" and "opportunistic" were cited less frequently than other categories.

Data from the largest foundations indicated a continued reliance on growth assets. Regarding risk reduction, in last year's Study, 92 percent of community foundations and 88 percent of private foundations with assets over $500 million cited risk reduction among their classifications. This year, those percentages declined to 67 percent and 75 percent, respectively. Foundations' use of investment strategies designed to provide inflation protection was mixed. Foundations with assets between $101 and $500 million cited inflation protection more frequently this year than last; for the other two sizes cohorts, inflation protection was cited less frequently (an exception being community foundations with assets under $101 million).

Figure 3.12 Classifications Used in Constructing Portfolio♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Growth assets	88	86	85	75	90	88	85	89
Risk reduction	83	80	75	67	87	75	79	86
Inflation protection (real assets, TIPS)	65	65	60	67	70	75	59	59
Opportunistic	49	38	55	33	52	42	41	36
Liquidity	57	40	60	42	57	33	54	43
Duration	41	36	55	25	38	33	38	41
Other	7	5	0	0	10	8	5	5
No answer/uncertain	2	1	0	0	2	4	5	0

♦*multiple responses allowed*

Figure 3.13 Employs Risk Limits and Guidelines Within Portfolio

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Employs limits or guidelines	56	56	60	58	54	66	59	50
Employs hard limits	18	16	25	0	9	6	26	27
Employs soft limits	78	62	58	71	91	63	70	59
No answer/uncertain	4	22	17	29	0	31	4	14

Fifty-six percent each of all private and community foundations said they employ risk limits and guidelines in their portfolios. These data are unchanged for private foundations but down from 61 percent of community foundations in FY2015.

Of those foundations employing risk limits and guidelines, 18 percent of private foundations and 16 percent of community foundations said they use hard limits, while the greater proportion, 78 percent of private foundations and 62 percent of community foundations, employ soft limits. Hard limits were used most frequently by foundations of both types in the smallest size category.

In another risk-related question, we asked about the types of risk metrics foundations employed. Of the foundations responding, volatility calculations such as standard deviation were most frequently cited this year (as in last year's Study), being used by 83 percent of private foundations and 84 percent of community foundations.

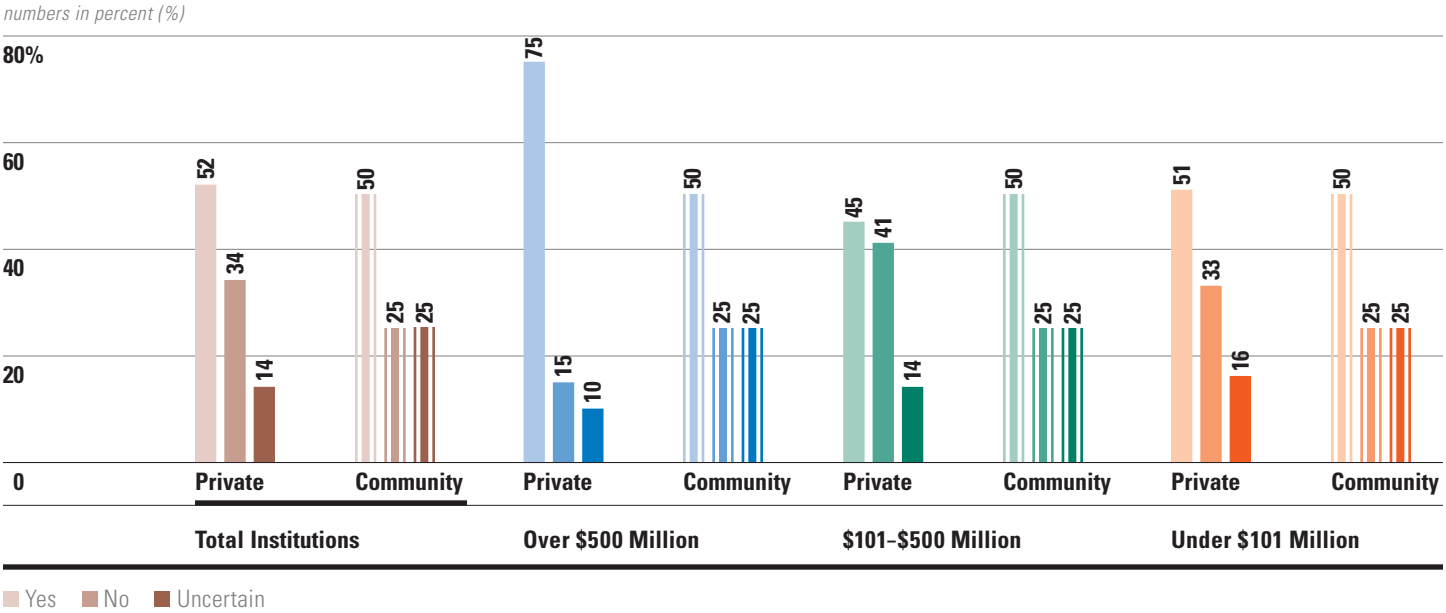
Last year we observed that private foundations tended to use the risk metrics included in Figure 3.14 at a higher rate than community foundations. That was no longer true in FY2016, as the rates at which risk metrics were used varied more widely. In the example cited in the previous paragraph, community foundations used volatility calculations at a slightly higher rate than private foundations; this was true, as well, for the use of VaR calculations. Private foundations reported using Greek letter calculations at a rate just one percentage point higher than community foundations.

Figure 3.14 Types of Metrics Used♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	69	45	12	7	34	16	23	22
Volatility calculations (standard deviation, etc.)	83	84	83	♦♦	82	88	83	77
Greek letter measures of return (alpha, beta, etc.)	57	56	42	♦♦	59	44	61	64
VaR calculations based on time-series returns (top-down)	29	36	25	♦♦	26	44	35	32
VaR calculations based on positions (bottom-up)	23	27	33	♦♦	18	25	26	32
Other	16	13	33	♦♦	9	13	17	18

♦ *multiple responses allowed*
♦♦ *sample size too small to analyze*

Figure 3.15 Applies Stress or Scenario Tests to Portfolio



Private foundations and community foundations, as a group, applied stress or scenario tests to their portfolio at a somewhat greater rate than they did in FY2015. The greatest increases came from the two smaller size cohorts, most dramatically from foundations of both types with assets under $101 million, although private foundations with assets over $500 million increased their frequency of use to 75 percent from 63 percent a year ago.

RESPONSIBLE INVESTING PRACTICES: ESG, SRI AND IMPACT INVESTING

Environmental, social and governance (ESG) investment criteria have received growing attention in the institutional investment environment in recent years. For this year's CCSF, we once again included a suite of questions about foundations' current use of and plans for adopting responsible investing policies and practices (for definitions of the basic types of responsible investing, see the box below).

Three Responsible Investing Practices Defined

Environmental, social and governance (ESG) investing

Integrating ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

Socially responsible investing (SRI)

A portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.

Impact investing

Investment in projects, companies, funds, or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return. Also commonly referred to as mission-related investing or MRI.

Figure 3.16 Currently Required/Permitted Responsible Investing Practices♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Seek to include investments ranking high on ESG criteria								
Yes	15	8	15	17	11	4	23	7
No	83	86	85	66	86	92	77	89
No answer/uncertain	2	6	0	17	3	4	0	4
Exclude or screen out investments inconsistent with institution's mission								
Yes	17	14	30	25	10	13	23	12
No	80	75	65	58	87	79	77	77
No answer/uncertain	3	11	5	17	3	8	0	11
Allocate portion of endowment to investments that further institution's mission								
Yes	25	20	30	33	27	21	18	16
No	72	71	70	50	70	75	77	75
No answer/uncertain	3	9	0	17	3	4	5	9

♦*multiple responses allowed*

Among private foundations, 15 percent said that they seek to include investments ranking high on ESG criteria; 17 percent exclude or screen out investments inconsistent with the institution's mission; and 25 percent allocated a portion of the endowment to investments furthering the institution's mission. Year over year, the first two figures are unchanged, and the third is down from last year's 28 percent. Among community foundations, 8 percent said that they seek to include investments ranking high on ESG criteria (10 percent last year); 14 percent exclude or screen out investments inconsistent with the institution's mission (18 percent last year); and 20 percent allocated a portion of the endowment to investments furthering the institution's mission (unchanged from a year ago).

Figure 3.17 Responsible Investing Practices by Overall Strategy♦

numbers in percent (%)

	Private	Community
Responding Institutions	44	23
Percentage of endowment invested according to strategy		
ESG	20	40
SRI	48	23
Impact investing/MRI	4	1

♦*multiple responses allowed*

Of the private foundations that currently require/permit responsible investing practices, 20 percent of their endowment assets are invested according to ESG criteria, down from 27 percent a year ago; 48 percent are invested consistent with SRI principles, versus 57 percent last year; and 4 percent are invested based on impact investing, also known as mission-related investing or MRI, down from 11 percent in FY2015. Among community foundations, 40 percent of endowment assets are invested according to ESG criteria, a major increase from last year's 3 percent; 23 percent are invested consistent with SRI principles, a decline from last year's 28 percent; and 1 percent are invested to further MRI, also a decline compared to last year's 6 percent.

In a question introduced in FY2014, we asked if community foundations which sponsor donor-advised funds had offered the option of using the following responsible investing practices:

Seek to include investments ranking high on ESG criteria

Exclude or screen out investments that are inconsistent with the institution's mission

Allocate a portion of the endowment to investments furthering the institution's mission

Thirteen percent of all community foundations said they offer donor-advised funds that seek to include investments ranking high on ESG criteria, down from last year's 18 percent; 15 percent said they offer funds that exclude or screen out investments that are inconsistent with the institution's mission, also lower compared with last year's 21 percent; 9 percent of all community foundations said they offer funds that allocate a portion of the endowment to investments furthering the institution's mission versus the 20 percent that did so a year ago. When the data are viewed by size of institution, community foundations with assets over $500 million offered the first two options with the greatest frequency; community foundations with assets between $101 and $500 million offered the third option most frequently.

Figure 3.18 Responsible Investing Practices Made Available to Community Foundations' Donor-Advised Funds♦

numbers in percent (%)	Total Institutions	Over $500 Million	$101–$500 Million	Under $101 Million
	80	12	24	44
Seek to include investments ranking high on ESG criteria	13	25	17	7
Exclude or screen out investments inconsistent with institution's mission	15	33	21	7
Allocate portion of endowment to investments to further institution's mission	9	8	13	7

♦*multiple responses allowed*

In another governance-related area, we asked if foundations' boards had explicitly decided to exclude responsible investing considerations from portfolio decisions. Eighteen percent of private foundations and 12 percent of community foundations said they had made such a decision, up from 13 and 11 percent, respectively, in FY2015 (and well above 8 and 6 percent, respectively, in FY2014). Most foundations said that no such decision had been made —this response coming from 72 percent of private and 75 percent of community foundations.

When viewed by size and type of foundations, the boards of private foundations with assets over $500 million were most likely to exclude responsible investing practices, at 25 percent of respondents. No community foundation in this size cohort reported that their board had made such a decision. The "yes/no" decision was more consistent across the other two size cohorts, with 71 percent or more of these foundations saying their board had not made such a decision.

Figure 3.19 Board Has Decided to Exclude Responsible Investing Considerations

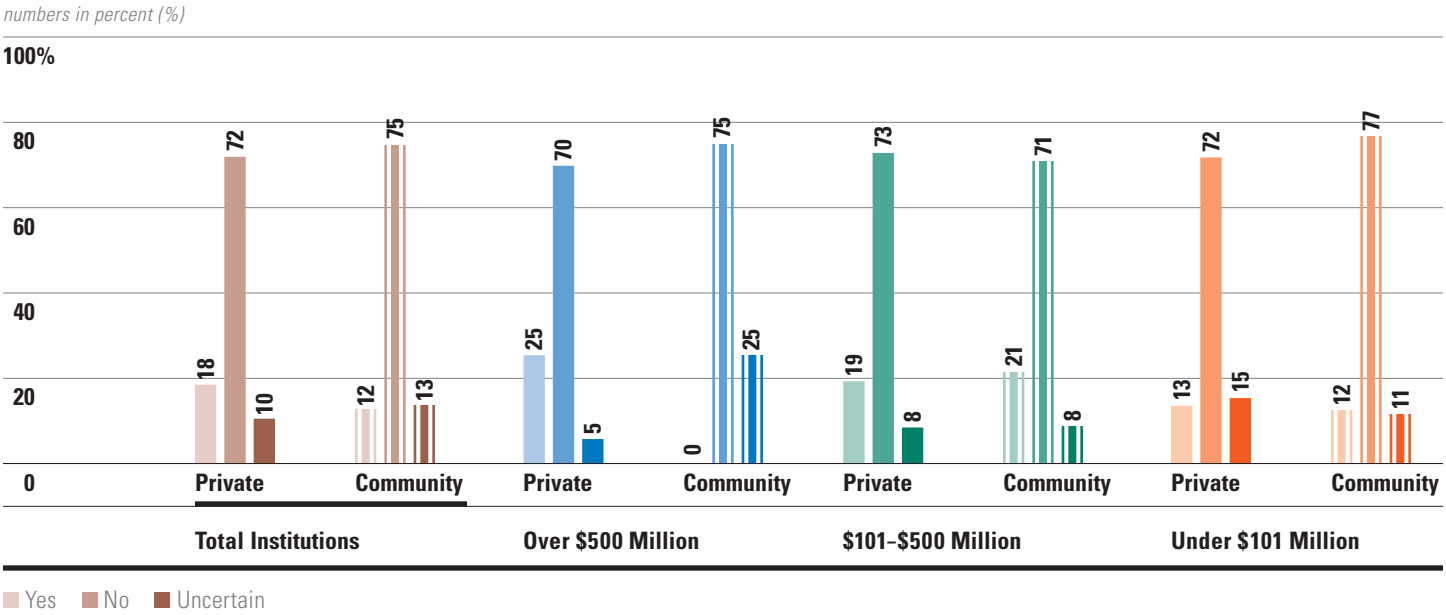
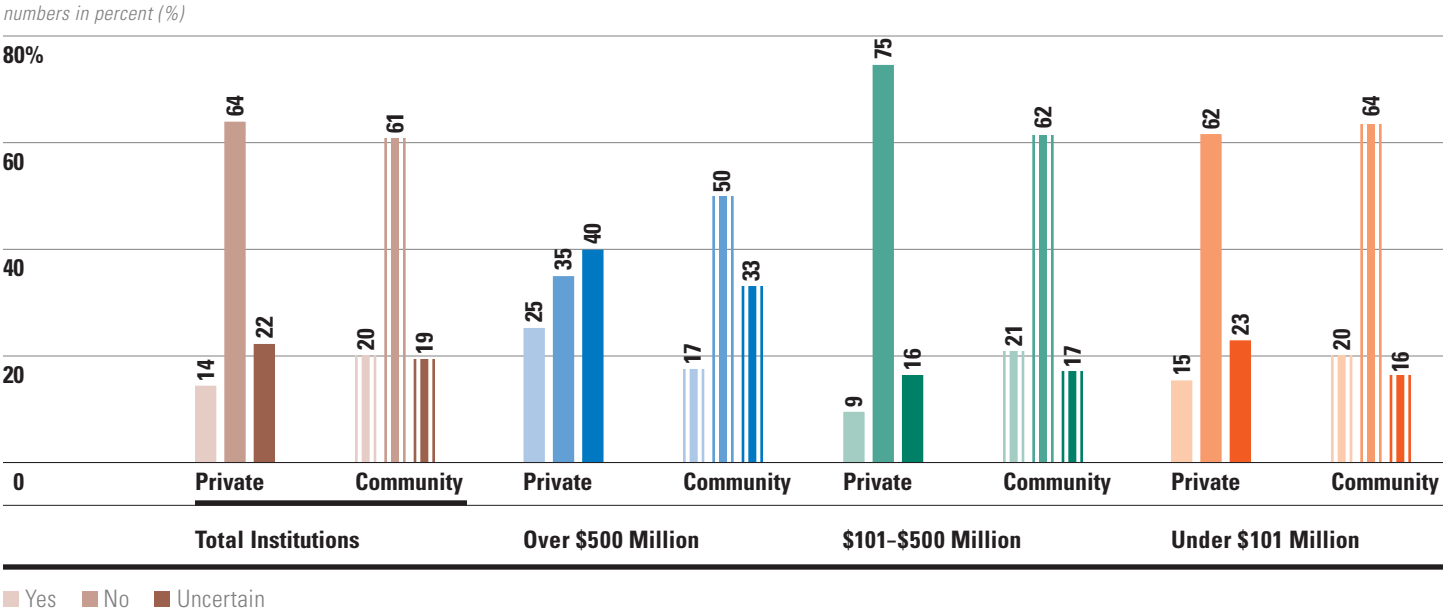


Figure 3.20 Considering Changing Investment Policy to Include ESG Integration



Some foundations' boards are in the process of considering ESG integration. Fourteen percent of private foundation boards are contemplating this decision, up from 12 percent last year; 20 percent of community foundation boards are doing so, up from 16 percent a year ago. Sixty-four percent and 61 percent, respectively, said they are not considering a change in policy, both figures being lower than those reported a year ago.

Viewed by size and type of foundation, 25 percent of private foundations with assets over $500 million said they were considering a change in investment policy, a rate that fell to 9 percent among private foundations with assets between $101 and $500 million. Seventeen percent of the largest community foundations said they were considering a change, more than double last year's 8 percent.

Asked if their managers integrate responsible investing in their decision-making, 18 percent of private foundations said that they did, as did 9 percent of community foundations. Comparable year-ago figures were 14 percent and 6 percent, respectively. Thirteen percent each of private and community foundations said that their managers exclude undesirable investments that are inconsistent with the institution's mission; last year, 15 percent of private foundations said their managers did so, as did 11 percent of community foundations.

Figure 3.21 Managers Integrate Responsible Investing in Decision-Making

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Managers include investments ranking higher on ESG	18	9	30	17	14	8	18	7
Managers exclude undesirable investments inconsistent with institution's mission	13	13	20	8	8	8	18	16

Figure 3.22 Managers Vote Proxies Consistent with Responsible Investing Criteria♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Votes proxies consistent with:								
ESG policy	7	9	5	17	6	13	10	5
SRI policy	8	8	10	8	3	13	15	5
Other responsible investing criteria	14	8	15	17	10	4	21	7

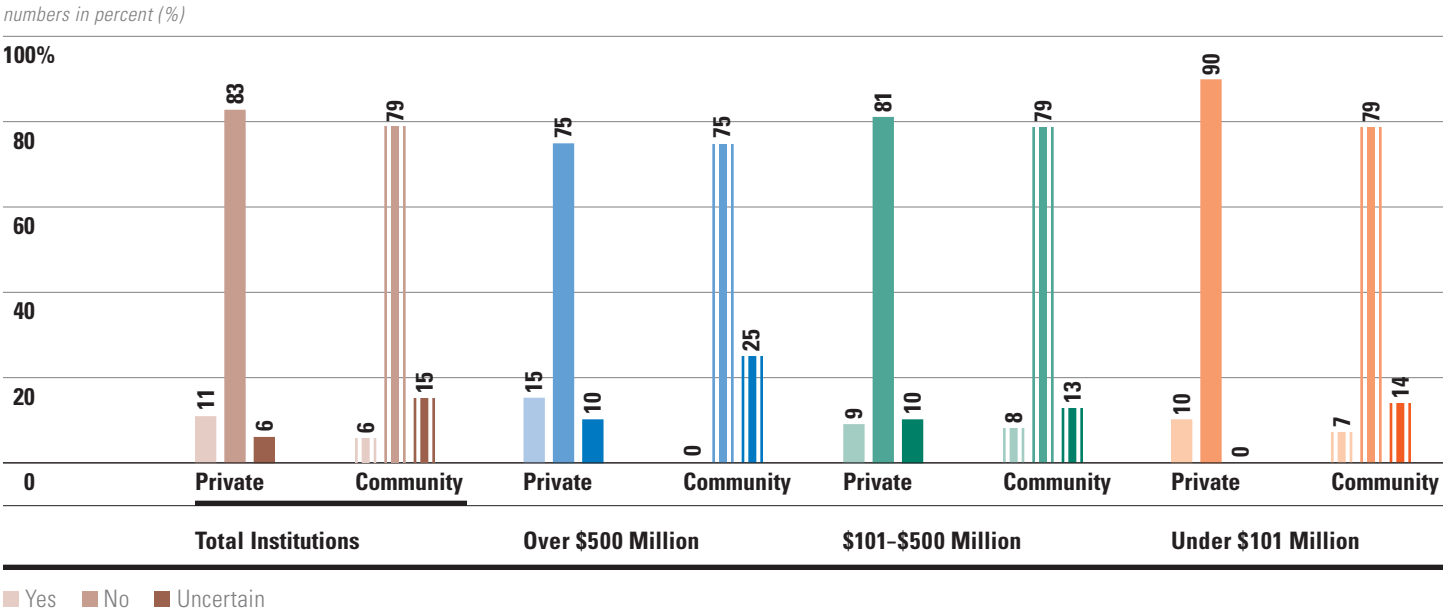
♦*multiple responses allowed*

Asked if their managers vote proxies consistent with responsible investing criteria, 7 percent of private foundations and 9 percent of community foundations said their managers vote proxies consistent with their ESG policy, while 8 percent of private and community foundations alike said they vote proxies consistent with their SRI policy. Fourteen percent of private foundations and 8 percent of community foundations said their managers vote proxies consistent with other responsible investing criteria.

For most participating foundations, proxy voting was not essential in hiring an investment manager. Only 11 percent of private foundations and 6 percent of community foundations said that proxy voting was an essential consideration in hiring, both responses being slightly higher than they were in FY2015. Eighty-three percent of private foundations and 79 percent of community foundations said it was not essential.

When responses are viewed by size, 15 percent of private foundations with assets over $500 million said proxy voting was essential in hiring a manager, the highest rate among the cohorts. Ninety percent of private foundations with assets under $101 million said it was not essential.

Figure 3.23 Proxy Voting Was Essential in Hiring Manager



As in other recent Studies, foundations offered a range of comments on various aspects of responsible investing. Among these comments were the following:

The fund has moved from 0 percent ESG or SRI managers to 38 percent of assets under such management in the last seven years and will continue to add such managers as changes are made. [Our] goal is to reach 100 percent. Up to 5 percent of [the] corpus has been set aside to do impact investing; still trying to find a hyperlocal investment. *Private foundation in the Southwest*

The foundation adopted an ESG policy in 2014. During 2016, it completed transitioning 100 percent of its investments to a values-aligned portfolio in which all of its investment decisions are based on financial returns and adherence to the ESG policy. *Private foundation in the Southeast*

Progress in the area of responsible investing remains uneven, however.

We offer donors the opportunity to invest in a separate SRI mutual fund; however, that fund is less than 1 percent of our total endowment…We do not specifically ask our managers in our main pool to consider SRI or ESG factors… *Community foundation in the Northeast*

Responsible investing practices are not specifically addressed in our written investment policy statement. However, the investment committee does consider such matters when making decisions. *Community foundation in the Midwest*

Our investment policy statement does not specifically address these areas, but we are monitoring them. *Private foundation in the Southeast*

As has been the case in recent years, several foundations said that pending decisions relating to SRI/ESG policies are under active consideration.

This is a topic that will be revisited by the board during the next three years. *Private foundation in the Northeast*

[We have] talked often about divesting from investments in fossil fuels, but have not yet made a decision. *Private foundation in the Northeast*

We are currently gathering information in regard to ESG, and specifically impact investing, in conjunction with our grants department. *Community foundation in the Southeast*

Impact investing is drawing attention from a number of foundations.

We have a separate impact investing committee, which makes decisions for that portion of the endowment. *Community foundation in the Southwest*

[We have made] significant commitments to impact investments, and have a goal of directing 10 percent of the endowment to this area. *Community foundation in the Northwest*

[We are] raising a separate impact investing pool and not using endowment capital to fund it. *Community foundation on the West Coast*

We are in the process of developing specific policies and guidelines to follow related to impact investing. *Community foundation on the West Coast*

Voting of proxies also elicited some comment.

We hired a firm to vote our proxies according to SRI policies but this only applies to our separately managed accounts. *Community foundation on the West Coast*

Managers vote their own proxies based on their own proxy policies. Some of the managers include ESG criteria in the portfolio construction process. Separate accounts exclude tobacco and firearms, as directed by our foundation. *Community foundation on the West Coast*

Neither we nor our investment managers vote proxies. This should be an option. *Community foundation in t he Southeast*

Viewpoint
Increased Responsibility

Introduction

In recent years, growing attention has been paid to the use by endowed institutions of so-called responsible investing practices. The three main practices—environmental, social and governance (ESG) investing; socially responsible investing (SRI); and impact investing (also known as mission-related investing or MRI)—are defined in the box on page 34.

Of the three practices, SRI has the longest pedigree, tracing its beginning to religious groups and abolitionists who, in the late 18th century, forbade their institutions from investing their endowments in businesses related to the trade in enslaved human beings. To this day, SRI is most frequently practiced (though not exclusively) by private, faith-based institutions rather than by public ones; for example, the 2016 NACUBO-Commonfund Study of Endowments shows that among institutions of higher education, SRI is practiced by 32 percent of private colleges and universities but just 18 percent of all public institutions and their supporting institution-related foundations (IRFs).

Among foundations, a similar division appears to exist between private and community (or public) foundations. In the pages that follow, we trace changes in the use of responsible investing practices by these two types of foundation, as illustrated by trends in a matched sample of foundations drawn from the last three years' CCSF reports.

A surprising degree of looseness, and even disagreement, can still be found with respect to definitions of the various responsible investing practices. The definitions we supply on page 34 were created in concert with a panel of experts for two targeted studies of responsible investing practices that we conducted in 2014 and 2016,[4] and we have been careful to continue to use these definitions in our surveys to ensure that the questions are asked in a uniform way. This practice, together with the use of a matched sample of the same institutions from year to year, enables us to observe trends in the sector that might otherwise be obscured by definitional vagueness.

4 The 2014 Commonfund Study of Responsible Investing (for colleges and universities) and the 2016 Council on Foundations-Commonfund Study of Responsible Investing (for private and community foundations). Both can be downloaded at www.commonfund.org.

Environmental, Social and Governance Investing

As far back as 2012, our research contained questions relating to ESG investing. In both the 2012 and 2013 CCSF, private foundations were asked whether they used ESG criteria for their portfolios. Their responses, as shown in the table below, indicated that a small but growing number did use these criteria, and that the practice was not limited to the largest foundations.

Among the three criteria, social issues were most frequently cited overall, with environmental and governance issues cited less frequently. Taken as a whole, if the "None" and "No answer/uncertain" responses are interpreted conservatively to mean that the institution did not use any of the three criteria, it can be inferred that 17 percent of private foundations used at least one of the ESG criteria in FY2012 and FY2013.

Among community foundations in the same period, the overall use of ESG criteria was less frequent than that of private foundations in FY2012, but very close to that of private foundations in FY2013. Again, among the Total Institutions group of community foundations, if the "None" and "No answer/uncertain" responses are interpreted to mean that the institution did not use any of the three criteria, it can be inferred that 10 percent of community foundations used at least one of the criteria in FY2012 and 16 percent did so in FY2013. The latter number is very close to that for private foundations.

Private Foundations Using Environmental, Social and Governance (ESG) Criteria for Portfolio♦ for Fiscal Years 2012 and 2013

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	'12	'13	'12	'13	'12	'13	'12	'13
	140	153	18	26	71	83	51	44
Environmental	5	7	6	8	4	6	6	7
Social	11	13	17	19	10	10	10	16
Governance	6	6	0	4	8	7	4	5
Other	4	3	0	4	4	4	6	2
None	79	80	67	65	85	87	76	77
No answer/uncertain	4	3	11	12	0	1	8	2
Inferred rate of usage	17	17	22	23	15	12	16	21

♦*multiple responses allowed*

Community Foundations Using Environmental, Social and Governance (ESG) Criteria for Portfolio♦ for Fiscal Years 2012 and 2013

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	'12	'13	'12	'13	'12	'13	'12	'13
	50	50	12	12	23	28	15	10
Environmental	2	6	0	0	4	11	0	0
Social	6	14	8	17	9	14	0	10
Governance	4	6	0	0	4	11	7	0
Other	2	4	0	0	0	4	7	10
None	84	72	92	75	78	75	86	60
No answer/uncertain	6	12	0	8	13	11	0	20
Inferred rate of usage	10	16	8	17	9	14	14	20

♦ *multiple responses allowed*

Among private foundations, the largest cohort had a higher degree of ESG usage, with 22 to 23 percent implying that they used at least one of the criteria. Community foundations of comparable size had a somewhat lower rate of ESG adoption, with 17 percent of large institutions implying that they used at least one of the practices in FY2013. Significantly, the implied degree of ESG adoption increased in nearly every size cohort for both private and community foundations from FY2012 to FY2013.

Three Responsible Investing Practices Defined

Environmental, social and governance (ESG) investing

Integrating ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

Socially responsible investing (SRI)

A portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.

Impact investing

Investment in projects, companies, funds, or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return. Also commonly referred to as mission-related investing or MRI.

Private Foundations Whose Investment Policy Statement Requires or Permits Inclusion of Investments Ranking High on ESG Criteria♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	83			14			42			27		
Yes	13	16	17	7	7	7	14	17	14	15	19	26
No	84	84	82	93	93	93	86	83	83	78	81	74
No answer/uncertain	3	0	1	0	0	0	0	0	3	7	0	0

♦*matched sample of private foundations participating in fiscal years 2014, 2015 and 2016*

A Look at Three Years of ESG

Beginning in FY2014, we began to inquire more systematically about responsible investing practices, asking whether any of the three practices were permitted or required by the institution's investment policy statement. Continuing our analysis of ESG investing, if we examine a matched sample of the 83 private foundations that participated in the CCSF in fiscal years 2014, 2015 and 2016 we can see that asking the question in this more restrictive way yielded a lower rate of reported use than in FY2012 and FY2013. Also, while a consistent, but small, group of large and medium-sized foundations reported having an ESG policy, ESG usage increased by three-quarters among smaller private foundations with assets under $101 million over the three-year period, from 15 to 26 percent.

For community foundations, the picture is almost exactly the opposite. While caution should be exercised when dealing with the small number of institutions in our sample, it seems clear that ESG integration is practiced more frequently by larger community foundations and there does not seem to be a trend of increased adoption of ESG practices by medium-sized and smaller community foundations in the three-year period under study.

One possible clue to the increase in ESG investing among smaller private foundations may lie in the growing number of investment management firms that have integrated ESG criteria into their security analysis process. A significant number of data providers have begun offering databases by means of which analysts can draw quantitative conclusions about the relative environmental, social and governance rankings of the various companies that are candidates for investment. In this sense, ESG investing is increasingly becoming a part of standard security analysis and it may only be a matter of time before smaller community foundations, too, are employing ESG analysis in their investment process. For the moment, however, it appears that while ESG investing is growing among smaller private foundations and larger community foundations, among other cohorts in the Study it remains comparatively rare.

Community Foundations Whose Investment Policy Statement Requires or Permits Inclusion of Investments Ranking High on ESG Criteria♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	45			8			18			19		
Yes	4	6	6	12	25	25	6	5	5	0	0	0
No	87	87	87	88	62	75	83	89	89	89	95	89
No answer/uncertain	9	7	7	0	13	0	11	6	6	11	5	11

♦*matched sample of community foundations participating in fiscal years 2014, 2015 and 2016*

Private Foundations Whose Investment Policy Statement Requires or Permits Exclusion or Screening Out of Investments Inconsistent with the Institution's Mission♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	83			14			42			27		
Yes	18	21	20	36	36	36	10	10	9	22	30	30
No	81	78	76	64	64	57	90	88	86	74	70	70
No answer/uncertain	1	1	4	0	0	7	0	2	5	4	0	0

♦*matched sample of private foundations participating in fiscal years 2014, 2015 and 2016*

Community Foundations Whose Investment Policy Statement Requires or Permits Exclusion or Screening Out of Investments Inconsistent with the Institution's Mission♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	45			8			18			19		
Yes	15	18	16	37	0	37	6	17	11	16	26	10
No	76	75	73	63	87	63	83	78	78	74	69	74
No answer/uncertain	9	7	11	0	13	0	11	5	11	10	5	16

♦*matched sample of community foundations participating in fiscal years 2014, 2015 and 2016*

Socially Responsible Investing

Turning now to the use of SRI practices by private and community foundations, between 15 and 21 percent of both private and community foundations overall have reported employing SRI screening in the last three years. For private foundations, SRI screening is frequently an expression of the values of the founder or the family; among community foundations those using SRI screens are often faith-based public charities whose donors and members would expect and support expression of the community's values through the institution's investment program.

Again, while caution must be used in interpreting small data samples, among both private and community foundations the use of SRI screens appears more prevalent in the largest size group, where more than one-third of institutions report using this practice. Among smaller foundations of both types it is harder to discern a pattern, but an increase in SRI usage can be observed in the cohort of small private foundations between 2014 and 2016.

Private Foundations Whose Investment Policy Statement Requires or Permits Allocating a Portion of the Endowment to Investments Furthering the Institutions Mission♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	83			14			42			27		
Yes	19	25	24	21	21	21	24	29	31	11	22	15
No	78	74	72	79	79	79	76	69	64	82	78	81
No answer/uncertain	3	1	4	0	0	0	0	2	5	7	0	4

♦*matched sample of private foundations participating in fiscal years 2014, 2015 and 2016*

Community Foundations Whose Investment Policy Statement Requires or Permits Allocating a Portion of the Endowment to Investments Furthering the Institutions Mission♦ for Fiscal Years 2014-2016

numbers in percent (%)	Total Institutions			Over $500 Million			$101–$500 Million			Under $101 Million		
	'14	'15	'16	'14	'15	'16	'14	'15	'16	'14	'15	'16
Responding Institutions	45			8			18			19		
Yes	16	15	24	37	37	50	5	11	22	16	10	16
No	82	76	69	63	50	50	89	83	72	84	79	74
No answer/uncertain	2	9	7	0	13	0	6	6	6	0	11	10

♦*matched sample of community foundations participating in fiscal years 2014, 2015 and 2016*

Impact Investing

Turning now to the third responsible investing category, we find that there has been an overall increase in the use of impact investing by both private and community foundations over the last three years. This expansion is particularly notable among private foundations with assets above $101 million, where between one-fifth and nearly one-third of institutions now use some type of impact investing practice.

Among community foundations, impact investing is primarily found in the largest size cohort, where those institutions with assets over $500 million practice impact investing at a higher rate than their private foundation peers.

The prevalence of larger foundations in impact investing should not be surprising. By its nature, impact investing requires detailed analysis and record-keeping to ascertain whether and to what degree the investment is meeting its non-financial, mission-related goal. Private and community foundations that are successful at impact investing frequently employ specialist staff or outside consultants to assist in these measurements, and financial resources are required to build and maintain this capability.

Conclusion

The growth of responsible investing practices over the last several years has not been uniform among the various sizes and types of foundation that participate in the CCSF. In general, larger foundations seem more inclined to use these practices, an observation that may be primarily a result of their having more analytical and administrative resources at their disposal than their smaller peers.

Looking ahead, it would seem that while the use of SRI practices may remain fairly stable, the use of ESG could continue to grow as better data become available. As for impact investing, its use by larger foundations may enable the establishment of standards and processes that assist smaller foundations in being able to engage in this practice while performing the measurement and analysis that will increasingly be expected by donors and regulators.

Chapter 4
Debt

Only a small number of participating foundations—18 of the 203 participating institutions—reported that they had debt in FY2016. The 18 were equally divided between private and community foundations at nine each.

In recent years, the trend for foundations participating in the CCSF has been to reduce debt, or deleverage. On the surface, that trend seemed to have reversed direction this year, as average debt among all participating foundations rose to $18.8 million from last year's $11.0 million. But a matched sample of FY2015/FY2016 data shows that the increase can be attributed to three foundations that did not participate last year entering the data set for this year. Of the three, one had debt of $97.2 million while another reported debt of $94.0 million.

In fact, debt among community foundations continued the deleveraging trend, as it fell to an average of $3.6 million from last year's $11.3 million. Average private foundation debt increased dramatically, however, to $34.0 million from last year's $10.8 million.

Median debt levels in FY2016 rose in similar proportions, more than doubling year over year, although differing significantly in dollar amounts overall. Among community foundations, median debt rose to $1.6 million from last year's $0.6 million. Among private foundations, it rose to $20.9 million from $9.9 million a year ago.

Even those private foundations reporting higher debt levels indicated that they came into and closed out FY2016 without any change in debt. Across the size cohorts, no private foundation reported increasing debt in FY2016.

Figure 4.1 Debt Levels for Fiscal Year 2016

	Total Institutions	Private	Community
Responding Institutions	18	9	9
Average debt ($ in millions)	18.8	34.0	3.6
Median debt ($ in millions)	3.2	20.9	1.6
Debt level as percentage of endowment			
Average	4.7	6.9	2.5
Median	1.3	1.5	0.9

Figure 4.2 Changes to Debt in Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Increased debt	0	4	0	0	0	8	0	2
Decreased debt	7	6	15	0	5	13	5	5
No change	89	82	80	75	90	79	92	86
No answer/uncertain	4	8	5	25	5	0	3	7

Figure 4.3 Plan to Significantly Increase Debt in Next Two Years

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Yes	0	1	0	0	0	0	0	2
No	98	93	100	75	97	96	100	96
No answer/uncertain	2	6	0	25	3	4	0	2

Four percent of all community foundations reported increasing debt in FY2016. While no community foundation with assets over $500 million increased debt, 8 percent of those with assets between $101 and $500 million did so, as did 2 percent of those with assets under $101 million.

Looking ahead, very few foundations plan to increase debt in the next two years. No private foundation and just 1 percent of community foundations expressed plans to increase debt. When segmented by size, most foundations of both types reported no plan to increase debt. The only exception was 2 percent of community foundations with assets under $101 million.

Thirteen percent of private foundations and 15 percent of community foundations reported maintaining a line of credit with a financial institution in FY2016. Among those with a line of credit, 50 percent of private foundations reported that the line is secured, down from 53 percent last year, and 44 percent reported that their line is committed, somewhat lower than last year's 47 percent. Among community foundations with a line of credit, 42 percent said that it was secured, down modestly from last year's 43 percent, and 33 percent said that their line was committed, down from 43 percent in FY2015.

Figure 4.4 Maintain Line of Credit with Financial Institution

numbers in percent (%)	Total Institutions	
	Private	Community
	123	80
Maintain line of credit♦	13	15
Line is secured	50	42
Line is committed	44	33

♦ *multiple responses allowed*

Chapter 5
Fund Flows

SPENDING

The spending rate for any foundation is a product of a variety of factors. For community foundations, these factors can include the purpose and characteristics of individual funds, spending policy as adopted by the board, donor restrictions, state regulations (see information regarding UPMIFA on page 2) and administrative fund management fees.

Figure 5.1 Average Annual Effective Spending Rates for Total Institutions for Fiscal Years 2007-2016♦

♦Previously published FY2007–2011 numbers were recalculated to show private foundations and community foundations separately.

Among participating foundations, FY2016 spending as a percentage of endowed assets—the effective spending rate—averaged 5.8 percent for private foundations and 4.7 percent for community foundations. The rate represented an increase for private foundations from 5.4 percent last year, but a decrease of 0.1 percentage points from last year's 4.8 percent among community foundations. These data do not reflect the activity of the many different types of funds that community foundations hold that are non-endowed. It is also important to remember that because foundations frequently use a smoothing formula to ameliorate volatility in their grantmaking, the effective rate will usually decline in strongly rising markets and, conversely, rise in falling markets. That these rates are stable or slightly higher is not, therefore, an indication of decreases in foundations' grant-making, which actually increased in dollar terms as discussed more fully below. (See Figure 5.5 on page 45.)

Viewing effective spending rates by foundation size and type, the highest rate, at 6.0 percent, was found among private foundations with assets between $101 and $500 million. The lowest, at 4.7 percent, was reported by community foundations with assets under $101 million. Private foundations with assets over $500 million reported an effective spending rate of 5.3 percent, while those with assets under $101 million reported a rate of 5.7 percent. Community foundations with assets over $500 million and those with assets between $101 and $500 million both reported an effective spending rate of 4.8 percent.

Figure 5.2 Average Annual Effective Spending Rates for Fiscal Year 2016

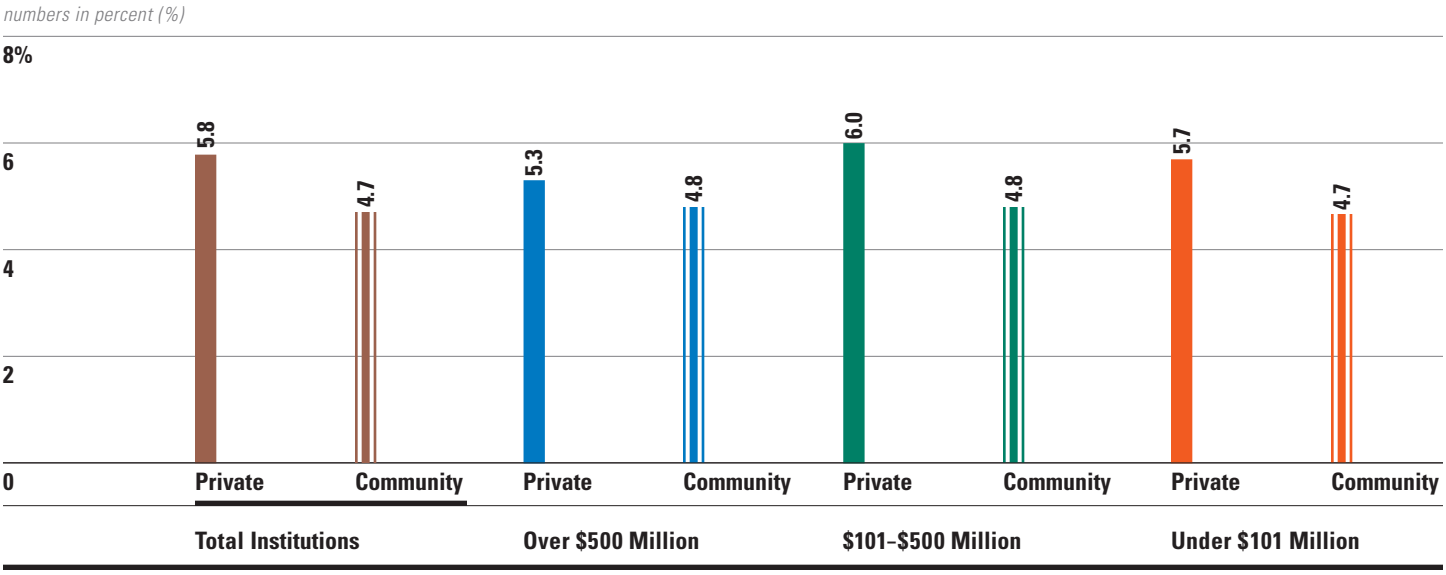


Figure 5.3 Changes to Effective Spending Rates for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Increased spending rate	44	22	35	42	48	37	44	9
Average percent increase	0.7	0.4	0.8	0.3	0.8	0.5	0.4	0.5
Decreased spending rate	25	17	30	8	24	13	23	23
Average percent decrease	0.6	0.5	0.2	0.4	0.7	0.2	0.9	0.6
No change	24	53	30	25	22	46	23	64
No answer/uncertain	7	8	5	25	6	4	10	4

Overall, 44 percent of private foundations and 22 percent of community foundations reported an increase in their effective spending rate in FY2016; respectively, these figures compare with 39 percent and 26 percent in FY2015. Of private foundations increasing their spending rate this year, the average increase was 0.7 percent, up from 0.5 percent last year. Among community foundations increasing their spending rate the average increase was 0.4 percent, the same as last year.

Twenty-five percent of private foundations and 17 percent of community foundations reported decreasing their effective spending rate in FY2016, in both cases down from 32 percent and 22 percent reported last year. Among those private foundations reporting a decrease, the average was 0.6 percent while among community foundations the decrease averaged 0.5 percent. The figure for foundations of both types last year was 0.7 percent.

Spending policies varied between private and community foundations, reflecting the regulatory framework in which they operate. Required by the Internal Revenue Service to spend an average of at least 5 percent of assets, 75 percent of private foundations used this rule, either alone or in conjunction with a smoothing formula, to guide their spending. Conversely, 85 percent of community foundations determined their spending amount by calculating a moving average asset value to which a policy spending rate is then applied, with the average policy rate being 4.7 percent. Thirty-one percent of private foundations used this methodology—presumably in conjunction with the IRS 5 percent minimum—with the average policy rate being 5.3 percent. Potentially initiating a reversal of a trend observed in recent years, fewer foundations of both types reported deciding on an appropriate rate each year. This year, 24 percent of private foundations reported using this method, down from last year's 35 percent; among community foundations, 8 percent reported deciding on a rate each year compared with 15 percent last year. The future direction of this data will be tracked in upcoming Studies.

Forty-three percent of private foundations and 59 percent of community foundations increased spending dollars in FY2016; comparable figures for FY2015 were 51 percent and 57 percent, respectively. Among private foundations increasing their spending dollars, the median increase was 7.6 percent; among community foundations, the median increase was 9.0 percent, well in excess of inflation.

Forty-six percent of private foundations and 12 percent of community foundations reported a decrease in dollar spending in FY2016; comparable figures for FY2015 were 40 percent of private foundations and 22 percent of community foundations. Among private foundations decreasing their spending dollars, the median decrease was 8.0 percent; among community foundations, the median decrease was 7.6 percent.

When viewed by size and type of organization, the pattern of increases and decreases varied widely. For example, 60 percent of private foundations with assets over $500 million

Figure 5.4 Spending Policy♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Spend all current income	2	0	0	0	3	0	3	0
Percentage of a moving average	31	85	50	67	32	96	21	84
Average percentage	5.3	4.7	5.1	4.9	5.5	4.9	5.0	4.5
Decide on an appropriate rate each year	24	8	15	0	19	8	36	9
Grow distribution at a predetermined inflation rate	0	1	0	0	0	0	0	2
Spend a pre-specified percentage of beginning market value	4	3	0	0	2	0	10	5
Average pre-specified percentage spent	5.0	5.0	0	0	5.0	0	5.0	5.0
Last year's spending plus inflation with upper and lower bands	0	1	0	8	0	0	0	0
Weighted average or hybrid method (Yale/Stanford Rule)	1	5	0	8	2	0	0	7
Meet IRS minimum of 5 percent	75	1	75	0	70	0	82	2
Other	9	6	10	17	13	4	3	5

♦ *multiple responses allowed*

Figure 5.5 Changes to Spending Dollars for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Increased spending dollars	43	59	60	42	48	75	28	54
Median percent increase	7.6	9.0	7.9	5.1	7.7	7.9	5.7	11.6
Decreased spending dollars	46	12	30	8	41	8	62	16
Median percent decrease	8.0	7.6	10.5	1.6	5.9	4.5	8.5	8.3
No change	3	1	0	8	2	0	5	0
No answer/uncertain	8	28	10	42	9	17	5	30

reported increased spending dollars, while just 28 percent of those with assets under $101 million did so, perhaps reflecting the greater prevalence of multi-year grant commitments among larger foundations. Fully 75 percent of community foundations with assets between $101 and $500 million reported an increase compared with 42 percent of the largest community foundations and 54 percent of the smallest (although among the latter the median increase was the largest, at 11.6 percent). Among private foundations reporting a decrease in spending dollars, 30 percent of those with assets over $500 million reported a decrease, while 62 percent of those with assets under $101 million reported a decrease. Among community foundations reporting a decrease in spending dollars, 8 percent each of the two larger size cohorts reported a decrease, a rate that doubled to 16 percent among the smallest participating community foundations.

Participating foundations offered a range of comments regarding the factors that drove changes in their spending.

Spending is lower because we are in the process of developing a new mission and new programs. *Private foundation in the Northeast*

A large program-related investment (PRI) was responsible for changes in year-over-year spending. *Private foundation in the Mid-South*

Commitments made to larger grants and the opportunity to support top-level research. *Private foundation in the Midwest*

Identification of specific, worthwhile spending/grant requests…despite the increase in outflows. *Private foundation in the Middle Atlantic region*

Introduction of a deferred grant program during 2015, which resulted in a decrease in spending…with the expectation that future years will see a return to smoother spending rates. *Private foundation in the Northeast*

Some of our endowed funds are net income and some are spending policy. Our spending rate does not fluctuate, but our net income does from year to year. *Community foundation in the Mountain West*

We engaged in a conscious effort to bring spending down closer to the IRS minimum spend rate, as we have developed non-endowment sources of revenue. *Private foundation in the Northwest*

Private foundations reported that they funded 93.9 percent of their operating budget from endowment, compared with 97.6 percent reported last year. Community foundations funded a much smaller 48.0 percent from endowment, a modest increase from last year's 47.0 percent. This variation can be explained by the different ways in which the two types of foundations operate. At private foundations, new inflows are not typically available once the foundation has been established. Community foundations, however, engage in fund-raising and the administration of donor-advised funds, and are able to charge fees to support the expenses associated with these activities. These revenue streams serve as an additional source of support for the institution's operating budget. For these reasons, the percentage of the operating budget funded by the institution's endowment (or long-term asset pool) varies considerably between private and community foundations.

Private foundations with assets over $500 million funded 100 percent of their operating budget from endowment, a proportion that declined to 92.5 percent among foundations with assets between $101 and $500 million and 93.0 percent for those with assets under $101 million. Community foundations with assets between $101 and $500 million reported funding an average of 55.7 percent of their operating budget from endowment, higher than community foundations with assets over $500 million, at 41.9 percent, and those with assets under $101 million, at 45.7 percent.

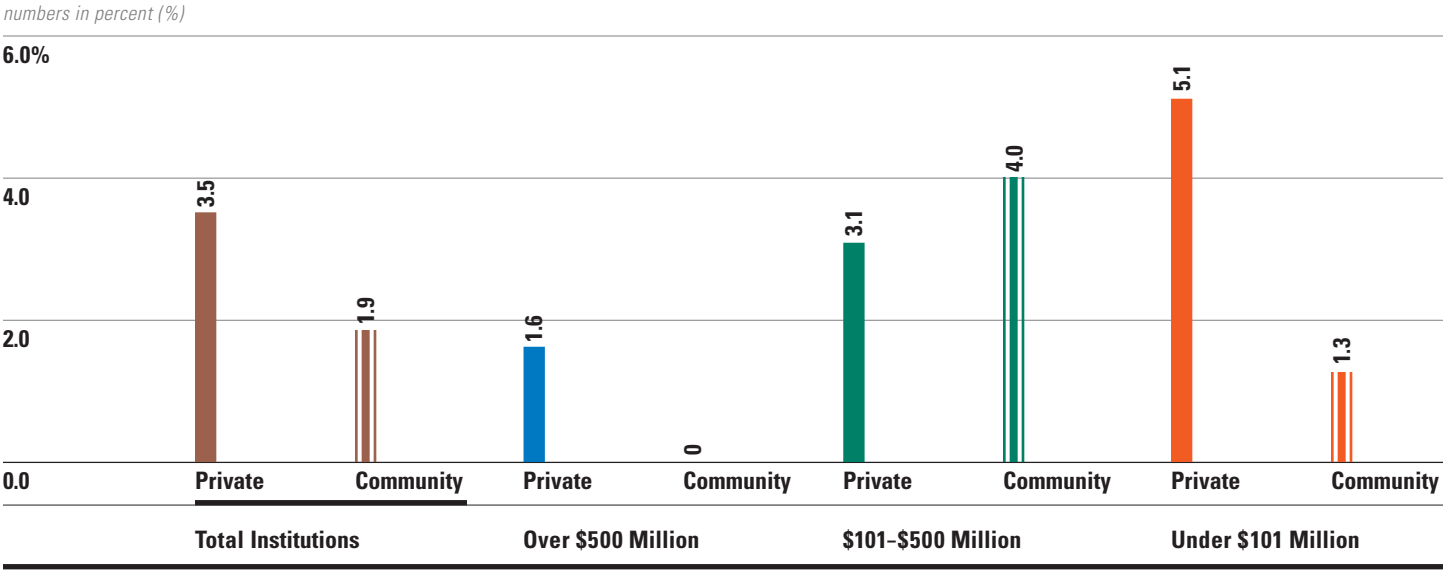
COST OF MANAGING INVESTMENT PROGRAMS

It is widely recognized that most institutions do not have access to or understand many of the components of investment costs, which are frequently not disclosed directly. The resulting data have typically understated the costs actually paid. Accordingly, we have discontinued the practice of publishing fee data. Institutions seeking a better understanding of investment costs may wish to consult the white paper "Understanding the Cost of Investment Management," and the article "Viewpoint: Counting the Cost." Both pieces may be downloaded from www.commonfund.org.

Figure 5.6 Percentage of Operating Budget Funded by Endowment

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Average percentage of operating budget funded by endowment	93.9	48.0	100.0	41.9	92.5	55.7	93.0	45.7
Median percentage of operating budget funded by endowment	100.0	37.0	100.0	35.0	100.0	63.0	100.0	35.0
Increased	1	27	0	10	2	19	0	35
Decreased	6	24	0	30	6	29	8	21
No change	91	33	100	20	89	33	92	35
No answer/uncertain	2	16	0	40	3	19	0	9

Figure 5.7 Percentage of Endowment Under Water for Fiscal Year 2016



UNDERWATER FUNDS

The percentage of foundation assets reported as being under water in the past few years has declined, with the exception of last year, when returns were flat to negative. This year the downward trend resumed. Private foundations reported that an average 3.5 percent of their assets were under water, down from last year's 3.8 percent. The proportion of assets under water for community foundations was 1.9 percent, down from 2.9 percent reported last year.

The largest foundations reported the smallest share of endowment funds under water, collectively, in FY2016. For private foundations, it was 1.6 percent and for community foundations it was 0.0 percent. Private and community foundations with assets between $101 and $500 million reported that 3.1 percent and 4.0 percent of their endowments were under water, respectively. Among organizations with assets under $101 million, private foundations reported having 5.1 percent of their endowment under water compared with 1.3 percent for community foundations.

GIFTS TO COMMUNITY FOUNDATIONS

Community foundations, which as public charities frequently engage in fund-raising, have, in many cases, experienced a strong increase in gifts in recent years as the economy and financial assets continue their post-financial crisis recovery. That trend seems to have moderated in FY2016, with 34 percent of community foundations reporting an increase in gifts, down from last year's 43 percent. (The question was asked only of community foundations.) Among those reporting an increase, however, the median increase was 65.0 percent, up from 59.7 percent last year. Forty percent of community foundations reported a decrease in gifts, nearly double the 21 percent that reported a decrease last year. The median decrease was somewhat lower, however, at 27.6 percent this year versus 34.9 percent in FY2015.

Twenty-five percent of community foundations with assets over $500 million reported an increase in gifts in FY2016, a significant drop from 58 percent a year ago. A similar 25 percent of community foundations with assets between $101 and $500 million reported an increase, one percentage point lower than a year ago. Forty-one percent of community foundations with assets under $101 million reported an increase in giving versus 50 percent last year.

Figure 5.8 Changes in Gifts and Donations for Community Foundations for Fiscal Year 2016

numbers in percent (%)	Total Institutions	Over $500 Million	$101–$500 Million	Under $101 Million
	80	12	24	44
Increase in gifts	34	25	25	41
Median percent increase	65.0	19.1	38.3	74.7
Decrease in gifts	40	33	46	39
Median percent decrease	27.6	18.8	43.7	33.2
No answer/uncertain	26	42	29	20

Chapter 6
Resources, Management and Governance

PROFESSIONAL STAFFING

Foundations use a variety of models in managing their investments. At smaller foundations, investments may be managed by a group including the founder, family members and professional advisers, while larger foundations typically have more internal staff devoted to the investment management function. And, while most foundations make use of investment consultants, smaller foundations may require their expertise for technical tasks such as portfolio construction and manager searches. Larger foundations may use internal staff for such tasks as performance attribution and portfolio reporting and use consultants for services such as performance benchmarking.

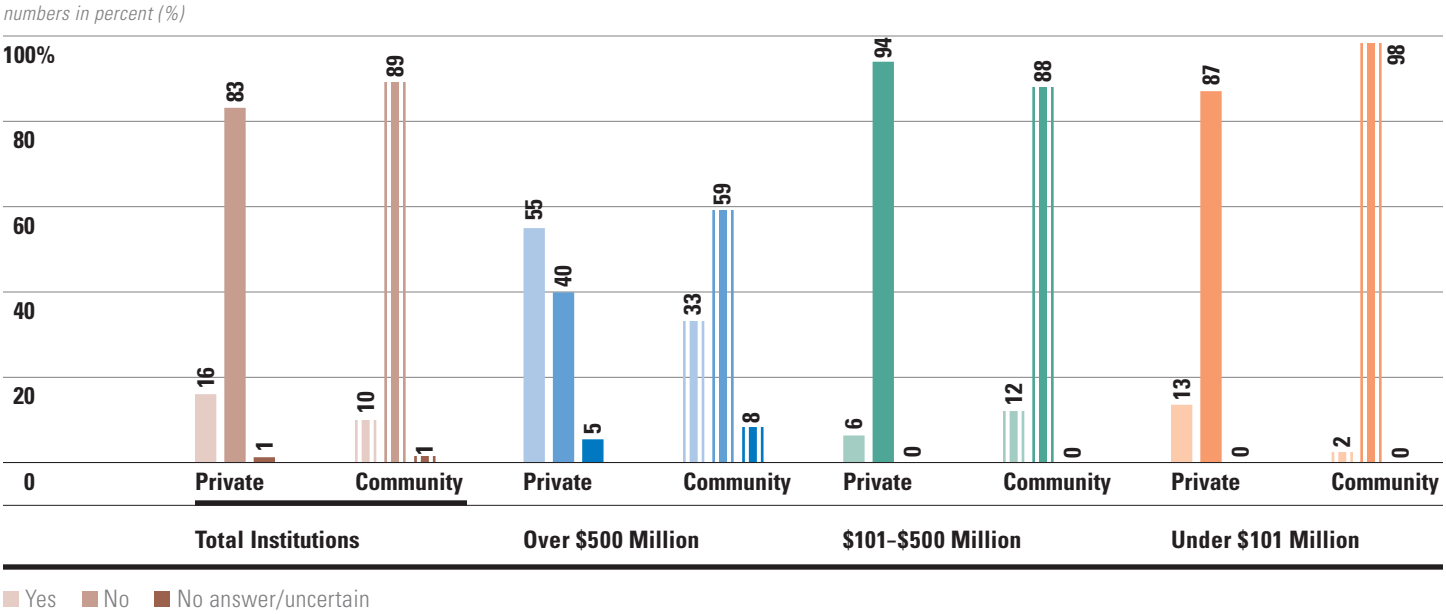
The number of professional staff devoted to the investment function at private foundations remained steady for the third straight year for private foundations at an average of 1.3 full-time equivalents (FTEs), but among community foundations it rose to an average of 0.9 FTEs from 0.8 FTE in FY2015 and 0.6 FTE in FY2014. As we have commented in the past, in complicated and rapidly changing global financial markets and with foundations frequently employing portfolios that include complex investment strategies, internal staff resources remain quite modest. This circumstance raises fiduciary issues regarding the oversight and monitoring of these portfolios, in which even active and well-qualified investment committees and boards may be challenged.

As might be expected, staff size was correlated with foundation size. The highest number of FTEs by far, at an average of 4.8, was found among private foundations with assets over $500 million. This was up from last year's average of 4.6. Community foundations in this size cohort averaged 1.6 FTEs, unchanged from last year. All other

Figure 6.1 Professional Staffing of Investment Function for Fiscal Year 2016

number of Full-Time Equivalents (FTEs)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Average	1.3	0.9	4.8	1.6	0.7	0.8	0.5	0.8
Median	0.5	0.5	2.8	1.5	0.6	0.4	0.4	0.3

Figure 6.2 Organization Has a Chief Investment Officer



sizes and types of foundations had less than one full-time equivalent staff person devoted to the investment function, the lowest being an average of 0.5 FTE for private foundations with assets under $101 million.

Among Study respondents overall, 16 percent of private foundations and 10 percent of community foundations reported having a chief investment officer. Compared with FY2015, this represented a four-percentage-point decline for private foundations, but a doubling of the rate for community foundations.

Fifty-five percent of the largest private foundations had a CIO, the high for the Study. For similarly sized community foundations, 33 percent reported having a CIO. Both represented year-over-year increases. The presence of a CIO varied widely in the two remaining size cohorts. Six percent of private foundations with assets between $101 and $500 million reported having a CIO, while 12 percent of community foundations did so. The situation reversed among foundations with assets under $101 million, where 13 percent of private foundations had a CIO versus just 2 percent of community foundations.

Turning to matters of governance, when asked which entity within the foundation conducts investment oversight, 67 percent of private foundations said this function is the responsibility of the investment committee, about the same as last year's 68 percent. Eighty-four percent of community foundations assigned it to the investment committee, also one percentage point lower year over year.

Fewer foundations appear to be assigning this responsibility to their boards. Thirteen percent of private foundations said it was a board responsibility, down from last year's 20 percent, and 5 percent of community foundations assigned it to the board, down from last year's 19 percent. (Confirming this trend, 25 percent of foundations of both types assigned it to the board in FY2014.) Similarly, fewer foundations are assigning it to executive leadership and staff—17 percent of private foundations versus 34 percent last year and 5 percent of community foundations compared to last year's 18 percent.

When the data are viewed by size of foundation, across the spectrum a higher proportion of community foundations reported that investment oversight was conducted by an investment committee than did private foundations. On the other hand, the latter were more likely to make investment oversight a responsibility of their executive leadership and staff. Among the largest foundations, community foundations were more likely to make it a board responsibility, but the reverse was true among the other two size cohorts.

Figure 6.3 Responsible for Investment Oversight

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Board	13	5	10	16	18	0	8	4
Investment committee	67	84	40	42	71	96	72	89
Executive leadership/staff	17	5	45	25	8	4	18	0
Other	3	2	5	0	3	0	2	5
No answer/uncertain	0	4	0	17	0	0	0	2

Figure 6.4 Consultant Use

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Used consultant	85	84	85	100	86	96	85	73
Services used♦								
Asset allocation/rebalancing	81	81	53	58	83	91	91	81
Manager selection	79	84	47	83	81	91	91	78
Policy review	72	84	41	75	78	96	79	78
Performance attribution and measurement	84	87	53	75	85	96	97	84
Outsourced investment management	38	40	18	8	41	30	42	59
ESG criteria review	16	9	24	0	9	22	24	3
Other	8	7	29	17	4	4	3	6

♦*multiple responses allowed*

CONSULTANT USE

A large majority of foundations—more than four-fifths of all Study participants—continued to make use of consultant services. This year, 85 percent of private foundations and 84 percent of community foundations did so, both higher than last year's respective 81 percent and 82 percent.

Community foundations in the large and mid-sized cohort reported using consultants at higher rates than did private foundations, repeating a pattern observed last year. This situation was reversed for smaller foundations.

When asked which consultant services they used, 84 percent of private foundations and 87 percent of community foundations cited performance attribution and measurement. Both represented moderate increases compared with FY2015. Closely behind, 81 percent each of private and community foundations used consultants for asset allocation/rebalancing. Eighty-four percent of community foundations used consultants for two functions—manager selection and policy review—while 79 percent and 72 percent of private foundations used them for these functions, respectively. Thirty-eight percent of private foundations and 40 percent of community foundations reported using consultants for outsourced investment management. The former was two percentage points higher year over year, while the latter was eight percentage points lower. Sixteen percent of private foundations and 9 percent of community foundations reported using consultants for ESG criteria review, also moderately lower than year-ago figures.

Figure 6.5 Outsourcing of Investment Function for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Have substantially outsourced	34	39	15	17	38	38	36	45
Considering substantially outsourcing	3	5	5	0	5	4	0	7
Neither	63	55	80	75	57	58	64	48
No answer/uncertain	0	1	0	8	0	0	0	0

While performance attribution and measurement was the service most widely used by all participating foundations, looking at the data by size and type of foundation, the largest foundations (having larger internal staffs) used consultants for this service at the lowest rate. Similarly reflecting internal staff resources, foundations in the two smaller size cohorts were much more likely to use consultants for outsourced investment management.

This is confirmed in a separate question focused on outsourcing of investment management. Overall, 39 percent of community foundations and 34 percent of private foundations reported they had substantially outsourced the investment function in FY2016. Another 5 percent of community foundations and 3 percent of private foundations are considering doing so.

Foundations with assets over $500 million were the least likely to have outsourced—just 15 percent of private foundations and 17 percent of community foundations. Both rates were more than double among other size and type categories.

MANAGER USE

Community foundations participating in the 2016 CCSF generally used more U.S. equities and fixed income managers than did their private foundation counterparts, while the latter utilized slightly more non-U.S. equities managers and more than twice as many alternative strategies (direct) managers. The number of alternative strategies (fund of funds) managers was almost in balance between the two types of foundations.

Participating private foundations with assets over $500 million reported using an average of 58.0 direct alternative managers, nearly the same as last year's 58.6, while community foundations in the same size cohort reported using an average of 18.5, down from last year's 26.2. As was true last year, private foundations in the other two size cohorts continued to use more direct alternative managers than community foundations, although the difference was negligible among foundations with assets between $101 and $500 million. Community foundations in the two larger size cohorts reported using more alternative strategies (fund of funds) managers, while among smaller foundations, both types of foundations reported using an average of 2.1 managers.

Community managers used more fixed income managers across all size cohorts. They did so, as well, in two of three size cohorts with respect to U.S. equities managers; the pattern differed slightly among foundations with assets under $101 million, where private foundations utilized an average of 2.7 managers versus 2.6 for community foundations.

A further concomitant to the more complex portfolios in which many foundations invest is the need for manager due diligence, both before and after hiring. While alternative strategies can be less transparent, and thus warrant more intensive due diligence, even managers in traditional asset classes should be the subject of rigorous due diligence. The following findings are presented separately for private foundations and community foundations.

Figure 6.6 Number of Managers Used by Asset Class in Fiscal Year 2016

average number of managers	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
U.S. equities	3.1	3.9	4.0	6.1	3.0	4.9	2.7	2.6
Fixed income	2.1	2.9	2.0	3.0	2.3	3.9	1.8	2.3
Non-U.S. equities	4.1	3.8	8.5	5.5	3.7	4.8	2.5	2.6
Alternative strategies (direct)	15.4	6.7	58.0	18.5	8.3	8.2	4.2	2.4
Alternative strategies (fund of funds)	2.5	2.7	2.6	4.1	2.7	3.0	2.1	2.1

Figure 6.7.1 Responsibility for Manager Due Diligence Before and After Hiring at Private Foundations♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	123		21		63		39	
	Before	After	Before	After	Before	After	Before	After
Board	13	16	5	15	17	17	10	13
Investment or finance committee	54	49	30	25	60	56	56	51
Dedicated internal staff	48	43	90	75	37	37	44	38
Consultant (is not an outsourced investment manager)	43	39	40	35	46	44	41	33
Consultant (is an outsourced investment manager)	20	17	5	5	22	17	26	23
Outsourced investment manager (is not a consultant)	12	13	20	20	14	16	5	5
Other	3	2	5	0	0	0	8	8
No answer/uncertain	0	0	0	0	0	0	0	0

♦*multiple responses allowed*

In fact, there are some observable differences in how private and community foundations approach this responsibility. For example, among private foundations, 54 percent assign it to the investment or finance committee before hiring and 49 percent reported it is the committee's responsibility after hiring. This rises among community foundations, where 78 percent say it is the investment or finance committee's responsibility before hiring, while 65 percent say it is the committee's responsibility after hiring. Both represent year-over-year increases—a spread of five percentage points from two among private foundations and a 13-percentage-point spread among community foundations, up from six in FY2015.

As noted, among all private foundations, 54 percent said it was the responsibility of the investment or finance committee before hiring while 48 percent it was the responsibility of dedicated internal staff and 43 percent said it was the responsibility of a consultant (who is not an outsourced investment manager). All three averages were lower—in a range of four to five percentage points—after hiring. As may be expected, due diligence, both before and after hiring, was most frequently the responsibility of dedicated internal staff at foundations with assets over $500 million. After that, the largest foundations were most likely to make it the responsibility of a consultant (who is not an outsourced investment manager). Private foundations in the mid-sized and smaller cohorts relied on the investment or finance committee with greater frequency than the largest foundations. Due diligence, both before and after hiring, was most frequently a board responsibility among foundations with assets between $101 and $500 million.

Figure 6.7.2 Responsibility for Manager Due Diligence Before and After Hiring at Community Foundations♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	80		12		24		44	
	Before	After	Before	After	Before	After	Before	After
Board	26	26	0	8	13	13	41	39
Investment or finance committee	78	65	58	58	71	58	86	70
Dedicated internal staff	38	35	58	58	33	25	34	34
Consultant (is not an outsourced investment manager)	38	34	67	50	50	50	23	20
Consultant (is an outsourced investment manager)	28	26	25	25	25	25	30	27
Outsourced investment manager (is not a consultant)	10	10	0	0	13	13	11	11
Other	0	0	0	0	0	0	0	0
No answer/uncertain	0	0	0	0	0	0	0	0

♦*multiple responses allowed*

Compared to private foundations, community foundations overall reported higher rates of reliance on their finance and investment committees and boards for due diligence. They were less likely, however, to rely on dedicated internal staff members. They were also somewhat less reliant on a consultant (who is not an outsourced investment manager).

As was the case with private foundations, the largest community foundations were far more reliant on dedicated internal staff for due diligence than were mid-sized and small foundations. Community foundations in the two larger size cohorts were even less reliant on their boards than were private similarly sized private foundations; smaller community foundations relied much more heavily on their boards for due diligence than did private foundations. Community foundations in the two larger size categories assigned this responsibility to an outsourced investment manager (not a consultant) less frequently than private foundations, while smaller community foundations used an outsourced manager with greater frequency than their private counterparts.

The Study also inquired about the various ongoing due diligence procedures employed by foundations. While most private and community foundations used various procedures at much the same rate, there were a few notable exceptions.

The most frequently used due diligence procedure was telephone conference calls with managers; this was used by four-fifths of private foundations and about two-thirds of community foundations. Peer group comparisons were used at a somewhat higher rate (73 percent) among community foundations; 68 percent of private foundations also used them. On-site visits by managers at the foundations were cited at about the same rate by private and community institutions, but 54 percent of private foundations cited on-site visits with managers at their offices versus just 35 percent of community foundations. Fourteen percent of community foundations said their consultant conducts due diligence, twice the 7 percent of private foundations relying on their consultant.

When the data are viewed by size and type of institution, larger foundations of both types and private foundations in the mid-sized category relied on telephone conversations with managers most frequently—92 percent of community foundations cited this category, the highest rate for the Study. Annual due diligence questionnaire updates and third-party evaluations of managers were used most frequently by foundations of both types in the largest size category.

GOVERNANCE

Recognition of the importance of demonstrating good governance practices—including but not limited to investment management—has increased in recent years along with greater scrutiny of the nonprofit sector by constituents, regulators, beneficiaries and the media.

Figure 6.8 Ongoing Due Diligence Procedures Employed♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
On-site manager visits at my institution	62	64	70	67	63	67	56	61
On-site visits with managers at their offices	54	35	65	58	54	46	49	23
Telephone conference calls with managers	80	65	75	92	78	63	85	59
Quantitative attribution analysis of manager performance	65	63	70	58	67	79	59	55
Position-based risk analysis	34	40	50	50	27	50	36	32
Peer group comparisons	68	73	75	75	75	71	54	73
Annual due diligence questionnaire updates	22	26	40	42	13	25	28	23
Third-party evaluations of managers	48	39	60	58	49	42	41	32
Consultant conducts due diligence	7	14	7	0	5	13	9	19
Other	4	3	15	0	0	4	5	2
No answer/uncertain	2	4	5	8	2	0	3	5

♦*multiple responses allowed*

Figure 6.9 Conflict of Interest Policies♦

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Have conflict of interest policy	97	99	100	92	98	100	92	100
For board	34	10	35	8	29	13	44	9
For investment committee	1	0	0	0	2	0	0	0
For board and investment committee	60	88	65	75	67	88	46	91
Stricter standard applies to investment committee	7	3	10	8	5	0	8	2
Policy applies to senior staff	92	96	100	83	95	96	82	100
Policy allows board members to conduct business with institution	15	33	5	42	17	25	15	34
Have process for resolution of potential conflicts	89	96	100	80	91	100	83	100
Recusal and disclosure	61	73	100	20	55	83	66	87
Recusal only	5	23	0	60	9	17	0	13
Disclosure only	17	0	0	0	18	0	17	0
Other	6	0	0	0	9	0	0	0

♦*multiple responses allowed*

Where institutional reputations are concerned, potential or real conflicts of interest warrant particular care by boards. The presence of conflict-of-interest policies is increasingly regarded as essential, and 97 percent of private foundations and 99 percent of community foundations reported having a policy addressing this concern. Comparable figures from last year's Study were 94 percent and 96 percent, respectively.

Ninety-two percent of private foundations and 96 percent of community foundations said that their policy applies to senior staff members. In FY2015, 88 percent of private foundations and 94 percent of community foundations said that their policy applies to senior staff members. A lower proportion apply it to the board and investment committee—60 percent for private foundations and 88 percent for community foundations. The policy is applied to board members alone at a rate of 34 percent for private foundations and 10 percent for community foundations.

Fifteen percent of private foundations and 33 percent of community foundations reported that they allow board members to conduct business with the organization—both unchanged since FY2015. One hundred percent of mid-size and smaller community foundations reported having a process for resolution of potential conflicts. Last year, 100 percent of community foundations in all three size cohorts reported having such a process; this year, that rate fell to 80 percent among the largest community foundations. This process ranged from recusal and disclosure through recusal only and disclosure only. Recusal and disclosure was cited most often by foundations across the size spectrum, except for community foundations with assets over $500 million where recusal only was cited at the highest rate.

INVESTMENT COMMITTEE DEMOGRAPHICS

Private foundations and community foundations differ significantly in the size and composition of their investment committees. Community foundations reported having an average of 7.9 voting members on their investment committees, while private foundations averaged 5.4 voting members. Both figures were relatively unchanged since FY2014, when private foundations reported 5.4 voting members and community foundations reported 7.8 voting members. Across the three size categories, community foundations consistently had the greater number of voting members on their investment committees compared to private foundations.

Community foundations' investment committees averaged 5.2 members who are investment professionals, up from 5.0 a year ago. Private foundations' committees averaged 2.2 members who are investment professionals, down from 2.3 members in FY2015. Among community foundations, investment committee members who are investment professionals constituted 64 percent of total committee membership, up from 62 percent in FY2015, while for private foundations the proportion declined to 40 percent from 42 percent, widening the spread slightly year over year.

Figure 6.10 Voting Members on Investment Committee in Fiscal Year 2016

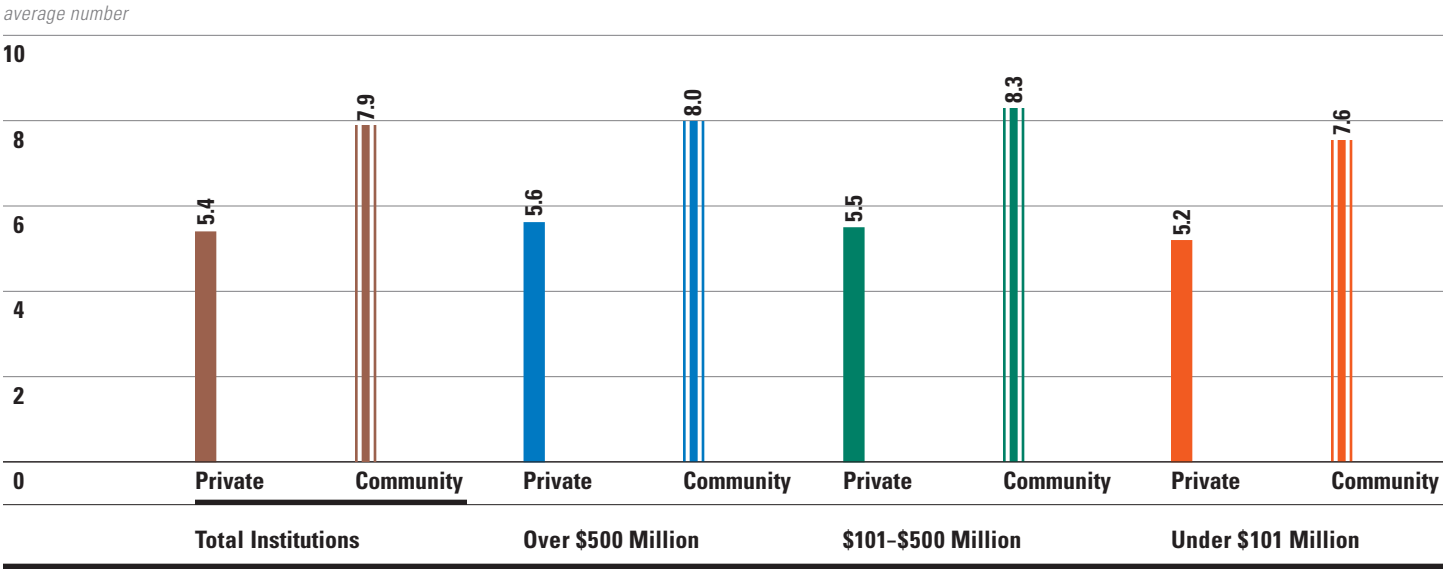


Figure 6.11 Investment Committee Credentials for Fiscal Year 2016

	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Investment committee members who are investment professionals								
Average number	2.2	5.2	2.6	6.3	2.2	5.5	2.0	4.7
Percentage of committee	40	64	46	78	39	61	38	62
Investment committee members with alternative strategies experience								
Average number	1.8	3.4	2.1	4.9	1.9	3.8	1.5	2.7
Percentage of committee	31	33	38	56	33	33	26	26
Non-trustee voting members								
Average number	0.8	3.6	0.5	3.8	0.8	4.0	1.0	3.4
Percentage of committee	14	46	8	47	14	49	19	45

On average, 3.4 members of community foundations' investment committees had alternative strategies experience, down from 3.6 last year, and ahead of the average of 1.8 members of private foundations' investment committees (1.7 last year). These members accounted for 33 percent of community foundations' investment committees and 31 percent of private foundations' committees.

Community foundations averaged 3.6 non-trustee voting members on their investment committees, down from last year's 3.7, while private foundations averaged 0.8 non-trustee voting members, just below last year's average of 0.9 non-trustee voting member. Non-trustee voting members accounted for nearly half (46 percent) of community foundations' investment committees, but just 14 percent of private foundations' committees.

As may be anticipated, the largest private and community foundations had more committee members who are investment professionals and more members with alternative strategies experience. Community foundations with assets between $101 and $500 million had the higher number of non-trustee voting members, displacing community foundations with assets over $500 million, which had the most last year. Organizations with assets under $101 million led the private foundation category in this area.

APPENDICES

Appendix I

About Commonfund Institute and the Council on Foundations

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. Commonfund Institute pursues its objectives through a wide variety of resources, including conferences, seminars and roundtables on topics such as endowment and treasury management; proprietary and third-party research and publications including this Study (CCSF), the NACUBO-Commonfund Study of Endowments® (NCSE), and the Commonfund Benchmarks Studies® annual in-depth surveys of investment management practices and policies; the management and distribution of the Commonfund Higher Education Price Index® (HEPI), an inflation index designed specifically for higher education; Commonfund Forum, the largest investment conference for trustees and senior executives of qualified organizations; the Endowment Institute,® an intensive, week-long seminar for trustees and senior managers of endowed organizations; and the Commonfund Prize for outstanding contribution to nonprofit investment research. The institute's broad range of programs and services is designed to serve financial practitioners, fiduciaries and scholars.

Commonfund Institute conducts the full range of research, education, publication, professional development and best practice initiatives in which Commonfund has been engaged since its founding in 1971. At that time, Commonfund was established with the assistance of a $2.8 million grant from the Ford Foundation; of that total, $500,000 was earmarked specifically for research and publications. Thus, projects such as this Study have been an essential part of Commonfund's mission from the beginning. Over the years, we have published numerous books, white papers and monographs on topics related to endowment and treasury management.

In addition to the professional staff at Commonfund Institute and the Council on Foundations, this Study is indebted to the talents and experience of team members at England Associates. They bring a wealth of experience to the research and add immeasurably to the value created for our clients. Additionally, we are grateful to the authors of this report—professionals from Commonfund and England Associates—whose cogent perspectives and thoughtful analysis make this report a true working reference tool.

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.

Appendix II
Supplemental Tables

Figure 1.5A/EW Asset Allocations♦ for Top Decile and Top Quartile Performers

numbers in percent (%)	Total Institutions		Top Decile		Top Quartile	
	Private	Community	Private	Community	Private	Community
	123	80	13	8	31	20
U.S. equities	31	35	36	51	38	43
Fixed income	13	18	11	17	14	16
Non-U.S. equities	20	22	17	18	18	22
Alternative strategies	29	19	29	7	23	15
Short-term securities/cash/other	7	6	7	7	7	4

♦*equal-weighted*

Fiscal Year 2016 One-Year Returns by Decile and Quartile

numbers in percent (%)	Total Institutions	Private	Community
	203	123	80
Deciles			
90th percentile	9.5	9.5	9.4
80th percentile	8.3	8.2	8.4
70th percentile	7.7	7.6	7.8
60th percentile	7.4	7.1	7.6
50th percentile (median)	7.0	6.6	7.3
40th percentile	6.3	5.9	7.1
30th percentile	5.8	5.6	6.5
20th percentile	5.3	4.8	5.9
10th percentile	4.5	3.6	5.2
Quartiles			
75th percentile	8.0	7.8	8.0
50th percentile (median)	7.0	6.6	7.3
25th percentile	5.6	5.1	6.1

Figure 3.3A/EW Detailed Asset Allocations♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
U.S. equities	31	35	26	31	30	35	35	37
Fixed income	13	18	8	13	13	16	16	20
Non-U.S. equities	20	22	24	22	19	22	19	21
Alternative strategies	29	19	39	28	32	22	21	15
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	5	2	7	6	5	3	3	1
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	15	11	14	15	18	11	11	10
Venture capital	1	0	5	1	1	1	1	0
Private equity real estate (non-campus)	2	2	3	0	3	2	1	2
Energy and natural resources	2	2	4	2	2	2	1	2
Commodities and managed futures	1	1	1	1	1	2	1	0
Distressed debt	1	0	2	0	1	0	0	0
Alternatives not broken out	2	1	3	3	1	1	3	0
Short-term securities/cash/other	7	6	3	6	6	5	9	7
Short-term securities/cash	4	3	2	3	4	2	4	3
Other	3	3	1	2	2	2	5	4
Short-term securities/cash not broken out	0	0	0	1	0	1	0	0

♦*equal-weighted*

Figure 3.8A/EW Alternative Strategies Asset Mix♦ for Fiscal Year 2016

numbers in percent (%)	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
Responding Institutions	107	63	17	10	60	21	30	32
Type of investment strategy								
Private equity (LBOs, mezzanine, M&A funds and non-U.S. private equity)	17	13	19	23	18	16	15	7
Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)	54	61	40	61	56	54	60	66
Venture capital	6	2	14	2	4	4	5	0
Private equity real estate (non-campus)	9	8	8	1	10	7	9	12
Energy and natural resources	7	10	10	9	6	9	4	11
Commodities and managed futures	4	5	2	2	4	8	4	3
Distressed debt	3	1	7	2	2	2	3	1

♦*equal-weighted*

Appendix III
Demographic Tables

Figure D.1 Endowment Fund Flows for Fiscal Year 2016 by Size and Type

dollars ($) in thousands	Total Institutions		Over $500 Million		$101–$500 Million		Under $101 Million	
	Private	Community	Private	Community	Private	Community	Private	Community
	123	80	21	12	63	24	39	44
Total beginning period endowment value	76,637,392	16,906,661	60,101,711	9,648,004	13,966,895	4,987,234	2,568,786	2,271,423
Total additions to investment pool	4,379,547	1,089,227	4,015,793	286,355	262,582	559,831	101,172	243,041
Total withdrawals from investment pool	(7,949,274)	(1,035,321)	(6,913,142)	(379,040)	(870,380)	(523,417)	(165,752)	(132,864)
Adjustment to account for non-responding institutions	4,207,745	2,101,389	3,288,691	1,759,910	889,980	234,900	29,074	106,579
Total ending period endowment	77,275,410	19,061,956	60,493,053	11,315,229	14,249,077	5,258,548	2,533,280	2,488,179

Appendix IV
Participating Foundations

A

Adirondack Foundation, NY
The Ahmanson Foundation, CA
Albuquerque Community Foundation, NM
The Alleghany Foundation, VA
Altman Foundation, NY
American Savings Foundation, CT
Arcus Foundation, NY
Ann Arbor Area Community Foundation, MI
Arizona Community Foundation, AZ

B

Mary Reynolds Babcock Foundation, NC
Ball Brothers Foundation, IN
Baltimore Community Foundation, MD
Baptist Community Ministries, LA
The Barra Foundation, PA
The Russell Berrie Foundation, NJ
Blue Mountain Community Foundation, WA
Boettcher Foundation, CO
Bonfils-Stanton Foundation, CO
Brinson Foundation, IL
James Graham Brown Foundation, KY
Edyth Bush Charitable Foundation, FL
Patrick and Aimee Butler Family Foundation, MN

C

The California Endowment, CA
The California Wellness Foundation, CA
The Keith Campbell Foundation for the Environment, MD
Marguerite Casey Foundation, WA
Harold K.L. Castle Foundation, HI
Cedar Tree Foundation, MA
Central Indiana Community Foundation, IN
Central Susquehanna Community Foundation, PA
Chester County Community Foundation, PA
The Christensen Fund, CA
The Cleveland Foundation, OH
The Clowes Fund, IN
Sam L. Cohen Foundation, ME
Cold Spring Harbor Laboratory, NY
College Spark Washington, WA
The Colorado Trust, CO
Columbus Jewish Foundation, OH

The Commonwealth Fund, NY
Communities Foundation of Texas, TX
Community Foundation for Greater Buffalo, NY
Community Foundation for Muskegon County, MI
The Community Foundation for Northeast Florida, FL
Community Foundation for Southeast Michigan, MI
Community Foundation for the Fox Valley Region, WI
Community Foundation of Abilene, TX
Community Foundation of Eastern Connecticut, CT
Community Foundation of Grant County, IN
The Community Foundation of Frederick County, MD
Community Foundation of Northeast Alabama, AL
Community Foundation of Northern Louisiana, LA
Community Foundation of Northwest Mississippi, MS
Community Foundation of St. Joseph County, IN
Community Foundation of West Texas, TX
Community Foundation of the Lowcountry, SC
Community Foundations of the Hudson Valley, NY
The Community Foundation San Luis Obispo County, CA
Community Funds - Affiliated with The New York Community Trust, NY
Connecticut Community Foundation, CT
Connelly Foundation, PA
Jack Kent Cooke Foundation, VA
Cooper Foundation, NE
The Crawford Idema Family Foundation, MA
Cumberland Community Foundation, NC

D

Christel DeHaan Family Foundation, IN
The Denver Foundation, CO
Geraldine R. Dodge Foundation, NJ
Joseph Drown Foundation, CA
The Duke Endowment, NC
Jessie Ball duPont Fund, FL
Dyson Foundation, NY

E

Fred L. Emerson Foundation, NY
Empire Health Foundation, WA
Endowment for Health, NH

F

Fargo-Moorhead Area Foundation, ND
Father Flanagan's Fund for Needy Children, NE
Max M. & Marjorie S. Fisher Foundation, MI
Flight Attendant Medical Research Institute, FL
Foellinger Foundation, IN
The Foundation for Enhancing Communities, PA
France-Merrick Foundation, MD
Francis Family Foundation, MO
Fremont Area Community Foundation, MI
Frey Foundation, MI
The Frist Foundation, TN
Fulcrum Foundation, WA

G

GAR Foundation, OH
The Gerber Foundation, MI
Grand Haven Area Community Foundation, MI
Grand Rapids Community Foundation, MI
William T. Grant Foundation, NY
William Caspar Graustein Memorial Fund, CT
The Greater Cedar Rapids Community Foundation, IA
Greater Milwaukee Foundation, WI
The Harry Frank Guggenheim Foundation, NY
Gulf Coast Community Foundation, FL

H

Hartford Foundation for Public Giving, CT
Hau`oli Mau Loa Foundation, HI
Hawaii Community Foundation, HI
Health Foundation of South Florida, FL
Healthcare Foundation of New Jersey, NJ
Healthcare Georgia Foundation, GA
Heising-Simons Foundation, CA
Roy A. Hunt Foundation, PA

I

Inland Northwest Community Foundation, WA

J

Jewish Community Foundation of Greater Hartford, CT
Jewish Community Foundation of Greater Kansas City, KS
Jewish Community Foundation of San Diego, CA
Robert Wood Johnson Foundation, NJ
Theodore R. and Vivian M. Johnson Scholarship Foundation, FL
The Walter S. Johnson Foundation, CA
Juneau Community Foundation, AK

K

K21 Health Foundation, IN
The Kane Family Foundation, CO
Ewing Marion Kauffman Foundation, MO
W.K. Kellogg Foundation Trust, MI
Harris and Eliza Kempner Fund, TX
Peter Kiewit Foundation, NE
Samuel H. Kress Foundation, NY

L

Lakeshore Community Foundation, WI
The Lancaster County Community Foundation, PA
Albert and Mary Lasker Foundation, NY
The Lozier Foundation, NE
Lumpkin Family Foundation, IL

M

The John D. and Catherine T. MacArthur Foundation, IL
Josiah Macy Jr. Foundation, NY
Madison Community Foundation, WI
Marion Community Foundation, OH
John and Mary R. Markle Foundation, NY
The McCune Charitable Foundation, NM
McGregor Fund, MI
The McKnight Foundation, MN
The Meadows Foundation, TX
The Andrew W. Mellon Foundation, NY
MetroWest Health Foundation, MA
The Miami Foundation, FL
James F. and Marion L. Miller Foundation, OR
The Burton D. Morgan Foundation, OH
Morgan Family Foundation, OH
Mark & Bette Morris Family Foundation, KS

N

Nellie Mae Education Foundation, MA
Northwest Area Foundation, MN

O

Oak Park-River Forest Community Foundation, IL
Obici Healthcare Foundation, VA
The Oregon Community Foundation, OR
I.A. O'Shaughnessy Foundation, MN
Oshkosh Area Community Foundation, WI
Outer Banks Community Foundation, NC

P

The David and Lucile Packard Foundation, CA
Parasol Tahoe Community Foundation, NV
The Ralph M. Parsons Foundation, CA
Pasadena Community Foundation, CA
Paso del Norte Health Foundation, TX
The Patterson Foundation, FL
Virginia G. Piper Charitable Trust, AZ
The Pittsburgh Foundation, PA
Polish-American Freedom Foundation, NY
Polk Bros. Foundation, IL
Nina Mason Pulliam Charitable Trust, IN

R

Rancho Santa Fe Foundation, CA
The Randolph Foundation, NY
The REACH Healthcare Foundation, KS
John Rex Endowment, NC
Rhode Island Foundation, RI
Rochester Area Community Foundation, NY
Winthrop Rockefeller Foundation, AR
Rose Community Foundation, CO

S

Russell Sage Foundation, NY
The San Diego Foundation, CA
Santa Barbara Foundation, CA
Scharbauer Foundation, TX
Dr. Scholl Foundation, IL
Schooler Family Foundation, OH
Silicon Valley Community Foundation, CA
Sioux Falls Area Community Foundation, SD
Alfred P. Sloan Foundation, NY
May and Stanley Smith Charitable Trust, CA
The Sosland Foundation, MO
The Spencer Foundation, IL
The Springfield Foundation, OH
Nelda C. and H.J. Lutcher Stark Foundation, TX
George B. Storer Foundation, WY
Stranahan Foundation, OH
Sunflower Foundation: Health Care for Kansans, KS
Surdna Foundation, NY

T

Teagle Foundation, NY
Harry C. Trexler Trust, PA

U

United Methodist Health Ministry Fund, KS
USAA Educational Foundation, TX
USAA Foundation, TX

V

Valley Baptist Legacy Foundation, TX

W

The Andy Warhol Foundation for the Visual Arts, NY
Welborn Baptist Foundation, IN
WELS Foundation, WI
Kemper and Leila Williams Foundation, LA
Women's Foundation of Minnesota, MN
Robert W. Woodruff Foundation, GA

Y

Y&H Soda Foundation, CA
Yakima Valley Community Foundation, WA
York County Community Foundation, PA

Z

M.B. and Edna Zale Foundation, TX
The Zellerbach Family Foundation, CA

Appendix V
Glossary of Terms

501(c)(3) Section of the Internal Revenue Code that designates an organization as charitable and tax exempt. Organizations qualifying under this section include religious, educational, charitable, amateur athletic, scientific or literary groups, organizations testing for public safety and organizations involved in prevention of cruelty to children or animals. Most organizations seeking foundation or corporate contributions secure a Section 501(c)(3) classification from the Internal Revenue Service (IRS).

absolute return Strategies intended to be market neutral (i.e., not dependent on the overall direction of the markets) which include such underlying strategies as: distressed debt, merger arbitrage, fixed income arbitrage, convertible bond arbitrage and equity market neutral (i.e., offsetting long and short positions).

active management (see passive investing; passive management) The management of a portfolio whose investments may be traded at any time.

active MSCI ex-U.S. (developed) The MSCI World ex-U.S. Index is a capitalization-weighted index of equities in the entire developed world other than the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita. There are 22 countries within this index. Active (long) equity investment strategies are in listed stocks of exchanges in developed economies excluding the U.S. Such international investments typically use the Morgan Stanley Capital International World ex-U.S. Index (MSCI World ex-U.S.) or a comparable index as a benchmark.

alternative strategies A broad classification of investments that includes any investment that is considered less traditional or non-traditional (traditional assets include stock instruments and debt instruments, such as direct investments or mutual fund investments in equities, bonds, and money market instruments). Specific examples of alternative strategies include private equity, venture capital, hedge funds, distressed (or private) debt, and "real assets" (such as real estate, oil and natural gas, timber and commodity funds). Alternative investments often have a low or negative correlation to traditional assets, can contribute to lower portfolio risk (as measured by volatility), and can contribute to a higher expected return.

annuity trust A trust that pays an agreed-upon sum of money at agreed-upon intervals, drawing from the trust's principal when income from the trust is insufficient to make the agreed-upon payments.

arbitrage A financial transaction or strategy that seeks to profit from a perceived price differential with respect to related instruments and typically involves the simultaneous purchase and sale of those instruments.

asset allocation Allocating investments among different asset classes (e.g., stocks, bonds, and real estate) to find the optimal risk/reward mix. Tactical asset allocation implies a relatively short-term approach, and strategic asset allocation a longer-term approach.

asset mix The proportions of a portfolio invested in various types of investments, such as common stock, bonds, guaranteed investment contracts, real estate and cash equivalents.

asset-backed security A fixed income instrument comprising collateralized assets that pay interest, such as consumer credit cards and automobile loans.

balanced fund manager (balanced manager) A mutual fund manager whose investment policy is to balance the fund's portfolio by investing in more than one asset class—typically stocks, bonds, and cash—to obtain a good return, while minimizing risk.

banded inflation A spending rule pursuant to which the annual dollar amount of spending grows by a designated rate of inflation, subject to upper and lower limits to the total spending rate expressed in percentage terms. For example, the rule may call for last year's spending to be increased by HEPI each year but to be not below 3 percent nor above 6 percent of assets in any given year.

Barclays Aggregate Bond Index An index that covers the U.S. investment-grade, fixed-rate bond market with index components for government, corporate, mortgage pass-through and asset-backed securities.

basis point One one-hundredth of a percentage point.

benchmark risk (see risk relative to benchmark)

bequest A type of donation or gift, typically via a decedent's will or estate. Bequests and gifts are awards with few or no conditions specified. Gifts may be provided to establish an endowment or to provide direct support for existing programs. Frequently, gifts are used to support developing programs for which other funding is not available. The unique flexibility, or lack of restrictions, makes gifts attractive sources of support.

block grant A type of mandatory grant where the recipients (normally, states) have substantial authority over the type of activities to support, with minimal federal administrative restrictions. The basic premise is that states should be free to target resources and design administrative mechanisms to provide services to meet the needs of their citizens.

bond Evidence of a debt on which the issuing company usually promises to pay holders a specified amount of interest for a specified length of time and to repay the principal on the maturity date. A bond represents debt and its holder is a creditor of the corporation and not a part owner as is a shareholder. Utility bonds are usually secured by mortgages.

buy-and-hold portfolio A portfolio for which the investment manager buys securities, usually bonds, with the intention of holding them for a long period of time, usually until maturity, in contrast with an actively managed portfolio. The term may also apply to common stocks such as those held by an index fund.

capital gain Profit on the sale of an investment, which may include common stock, corporate and government bonds, real estate and other real assets. There are long- and short-term capital gains, as defined in the Internal Revenue Code. Capital losses may also occur.

capital markets Markets in which capital funds (debt and equity) are issued and traded. Included are private placement sources of debt and equity, as well as organized markets and exchanges.

cash and cash equivalents Assets with maturities of less than one year (e.g., Treasury bills, commercial paper, certificates of deposit and nonconvertible bonds) which are highly liquid and comparatively risk-free.

cash management Bank services designed to help a company manage its cash more efficiently. These services include payable-through drafts, zero-balance accounts, remote disbursement accounts, account reconciliation, lockboxes, depository transfer checks, freight payment plans, wire transfers, concentration accounts, information reporting and cash management consulting.

challenge grant A grant that provides monies in response to monies from other sources, usually according to a formula. A challenge grant may, for example, offer two dollars for every one that is obtained from a fund drive. The grant usually has a fixed upper limit, and may have a challenge minimum below which no grant will be made. This form of grant is fairly common in the arts, humanities, and some other fields, but it is less common in the sciences. A challenge grant differs from a matching grant in at least one important aspect. The amount of money that the recipient organization realizes from a challenge grant may vary widely, depending on how successful that organization is in meeting the challenge. Matching grants usually award a clearly defined amount and require that a specific sum be obtained before any award is made.

charitable gift annuity A contract between the donor and a charity in which the donor transfers assets to the charity. The charity agrees to pay a specified sum of money each year to the donor, for a fixed period (usually life). The assets exceed the present value of the expected payments to the donor, and the charity receives the surplus (mortality tables are used to make this calculation). The donor can claim as a charitable tax deduction the difference between the present value of the expected payments and the value of the assets.

charitable lead trust (also called charitable income trust) A trust in which the donor transfers income-producing assets to a trustee and instructs the trustee to pay a fixed amount or annual percentage to charity for the term of the trust. At the end of the trust term, assets remaining in the trust are conveyed to the donor or his/her beneficiary or beneficiaries. The donor can claim as a charitable tax deduction the present value of the expected payments to charity.

charitable remainder annuity trust A trust that pays the donor or the donor's beneficiary an agreed-upon annual income for the life of the donor or for a specific term. The principal remaining from this type of trust eventually passes to a qualified charity.

charitable remainder trust The assets left in a charitable trust, gift annuity, or pooled income fund that eventually pass to a qualified charity. The present value of the charitable remainder is equal to the charitable tax deduction.

charitable remainder unitrust Under Internal Revenue Code Section 664(d)(2) and the regulations thereunder, there are three variations of the unitrust:

1) **"straight" unitrust** Donor irrevocably transfers money, securities or property to a separately invested trust having a charitable remainder. The trust makes payments to named beneficiaries at least annually in an amount equal to a fixed percentage (not less than 5 percent) of the net fair market value of the trust assets, determined once each year. The donor may designate himself and/or other beneficiaries to receive these payments for life, so long as the designated beneficiaries are alive at the time the trust is created. Alternatively, the trust instrument may provide for payment to be made for a term of years, not to exceed 20. At the expiration of all income interests the assets are distributed to the charitable organization(s).

2) **"net income" unitrust** The same as a "straight" unitrust except the payments to the beneficiary are limited to the actual income earned by the trust up to, but not exceeding, the fixed percentage stated in the trust agreement.

3) **"net plus markup" unitrust** Payments limited to ordinary earned income as in the "net income" unitrust, except that payments may exceed the stated percentage up to, but not exceeding, the amount required to make up any accumulated deficiencies from prior years (years in which the trust earned less than the stated percentage).

charity In its traditional legal meaning, the word "charity" encompasses religion, education, assistance to the government, promotion of health, relief of poverty or distress and other purposes that benefit the community. Nonprofit organizations that are organized and operated primarily to further one of these purposes generally will be recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and will be eligible to receive tax-deductible charitable gifts.

collateralized mortgage obligation (CMO) A structured mortgage bond, backed by a pool of mortgages that serves as collateral for the bond, that pays interest and principal in maturity succession. The bond is repaid in series from the mortgage proceeds (i.e., principal payments go against the Series A bond {lowest interest and maturity} until it is paid off, at which time all payments go against the next series bond {Series B}). This procedure acts as call protection against a series bond with a higher interest rate and a longer maturity, since it cannot be called until the prior series is paid off.

common stock Securities that represent an ownership interest in a corporation. A common stockholder is not a creditor of the corporation, so he or she assumes greater risk than does a creditor but shares in earnings and growth through dividends and price appreciation.

community foundation A tax-exempt, nonprofit, autonomous, nonsectarian philanthropic institution supported by the public with the long-term goals of:

1) Building permanent, component funds established by many separate donors to carry out their charitable interests;

2) Supporting the broad-based charitable interests and benefitting the residents of a defined geographic area, typically no larger than a state; and

3) Serving in leadership roles on important community issues.

community fund An organized community program which makes annual appeals to the general public for funds that are usually not retained in an endowment but are instead used for the ongoing operational support of local agencies.

compliance risk The possibility that existing procedures do not adequately ensure that a fund and its managers adhere to the regulations and requirements of governmental and regulatory bodies and industry standards of practice or that the recordkeeping of compliance documentation is not sufficient to show that the fund and its managers have been in compliance with those standards.

consortium grant A grant to one institution in support of a project in which any programmatic activity is carried out through a collaborative arrangement between or among the recipient institution and one or more other institutions or organizations which are separate legal entities, administratively independent of the recipient. The involvement of the non-recipient (collaborating) institutions is that of actually performing a portion of the programmatic activity.

convertible arbitrage A strategy that seeks to take advantage of the pricing inefficiencies of the embedded option in a convertible bond. It is generally characterized by a long convertible position and corresponding short position in the underlying stock. Convertible arbitrage may also use leverage.

convertible bond A bond or preferred stock that can be turned into common stock at a predetermined conversion rate, frequently at predetermined times. Conversion is often forced by the issuer by calling the bond or preferred stock prior to its maturity.

core portfolio A portfolio, closely resembling the structure and risk of the total market, that can be actively or passively managed.

corporate bond A fixed income security issued by a corporation to evidence borrowing, usually with a term in excess of five years.

corporate foundation A private foundation (company-sponsored) that derives its grant-making funds primarily from the contributions of a profit-making business. The company-sponsored foundation often maintains close ties with the donor company, but it is a separate legal organization, sometimes with its own endowment, and is subject to the same rules and regulations as other private foundations.

corporate giving program A grant-making program (direct giving) established and administered within a profit-making company. Gifts or grants go directly to charitable organizations from the corporation. Corporate foundations/giving programs do not have a separate endowment; their expense is planned as part of the company's annual budgeting process and usually is funded with pre-tax income. Annual grant totals generally are directly related to company profits.

counterparty A principal to a foreign exchange, swap, or other derivative instrument, as opposed to an agent such as a broker.

credit/counterparty risk (see financial risk) The potential that the issuer of a security may default or fail to honor their financial obligations to the fund or its client. The risk that a counterparty (or participant in a securities transaction) does not meet its financial obligation, thereby resulting in a financial loss for the transaction.

cultural institution A cultural institution is an operating nonprofit (or a foundation that directly supports such an entity) that supports the arts and other cultural endeavors (e.g., museums, art galleries, symphonies, libraries). These are not grant-making organizations; rather, they are typically recipients of grants from private and public foundations.

debt fund (see fixed income portfolio) A portfolio of debt-oriented investments (e.g., real estate mortgages) or fixed income securities (e.g., corporate bonds).

debt service Required interest and principal payments made on debt.

dedicated bond portfolio A portfolio of debt-oriented securities that is structured to meet a specific liability such as the payment of benefits to a group of retirees for the remainder of their life. The portfolio is dedicated to the objective of meeting the identified liability.

default risk (see credit/counterparty risk; financial risk)

deferred payment gift annuity A charitable gift annuity in which payments to the donor are deferred until such time as they can be made at a higher rate (shorter life expectancy) and may be taxable at a lower rate.

derivative A financial instrument whose value depends upon the value of another instrument or asset (typically an index, bond, equity, currency or commodity). Examples are futures, forwards and options.

distressed debt (see event driven strategy) Publicly held and traded debt and equity securities, as well as bank loans, of companies and governments that are in financial "distress." Financial distress is indicated by having filed or being near to filing for protection under Chapter 11 of the U.S. Bankruptcy Code. Distressed public debt and related bank loans trade at risk premiums generally in excess of 10 percentage points to U.S. Treasury securities of comparable duration.

distribution committee The committee responsible for making grant decisions. For community foundations, the distribution committee is intended to be broadly representative of the community served by the foundation.

divestment of fossil fuels A type of exclusionary screening strategy through which investors actively exclude companies involved in fossil fuels from their investment portfolio.

dollar-weighted return Also called the internal rate of return (IRR); the interest rate that makes the present value of the cash flows from all the subperiods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

donation Transfer of equipment, money, goods, services, and property with or without specifications as to its use. Sometimes donation is used to designate contributions that are made with more specific intent than is usually the case with a gift, but the two terms are often used interchangeably.

donor-advised fund A fund held by a community foundation or other qualified sponsoring organization where the donor, or a committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation's governing body must be free to accept or reject the recommendations.

donor-designated fund A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. These funds are sometimes established by a transfer of assets by a public charity to a fund designated for its own benefit, in which case they may be known as grantee endowments or agency funds. The community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

EAFE The Europe, Australia, and Far East Index from Morgan Stanley Capital International. An unmanaged, market-value weighted index designed to measure the overall condition of overseas markets.

emerging growth fund (see emerging growth stock; emerging markets fund) A fund that consists of the stocks of emerging growth companies, typically higher risk stocks in defined market segments such as high tech and medical technology.

emerging growth stock (see emerging growth fund) The stock of a relatively small company that is growing very rapidly but is not large enough or has not been in business long enough to be of investment quality.

emerging markets fund (see emerging growth fund) A fund that consists of investments in markets of emerging countries, such as some of those in Southeast Asia and Central and South America.

endowment The principal amount of gifts and bequests that are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose.

environmental, social and governance (ESG) investing An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

equity, equities (stock) 1) The total ownership interest in a company of all common and preferred stockholders. 2) Ownership interests in companies, often producing current income paid in the form of quarterly dividends, that can be traded in public equity markets. As an asset class, may include convertible bonds (if held as an opportunistic means of eventually acquiring a company's stock) and warrants, rights, options and futures (if the underlying assets are equities).

equity derivative Any financial instrument, such as options or futures, priced off of individual stocks or groups of stocks.

equity market neutral A strategy designed to exploit equity price inefficiencies. It typically involves using balanced long and short positions in equity markets to insulate the portfolio from overall market risk. Equity market portfolios are often designed to be neutral relative to beta, sector, industry, market capitalization, and style, among other factors. Leverage may be applied to enhance returns.

equity portfolio A portfolio of equity-oriented securities such as common stock or equity real estate.

equity real estate The ownership interest possessed by shareholders in a real estate investment.

event-driven strategy Seeks to take advantage of anticipated corporate events and to capture price movement generated by these events. Two of the better known event-driven strategies are merger arbitrage and distressed debt.

family foundation An independent private foundation whose funds are derived from members of a single family. Family members often serve as officers or board members of family foundations and have a significant role in their grant-making decisions.

fiduciary A person, committee or institution that holds assets on behalf or for the benefit of another. The property may be used or invested for the benefit of the owner, depending on the agreement.

fiduciary risk The potential exposure of fiduciaries to legal and regulatory actions precipitated by a breakdown in controls, or the failure to execute due diligence on behalf of the beneficiaries.

financial risk (see credit/counterparty risk) The possibility that a bond issuer will default, i.e., fail to repay principal and interest in a timely manner. Also called default risk.

fiscal year (FY) Accounting period covering 12 consecutive months, 52 consecutive weeks, 13 four-week periods, or 365 consecutive days at the end of which the books are closed and profit and loss are determined. An institution's fiscal year is often, but not necessarily the same as the calendar year.

fixed income arbitrage A strategy to capture the disparities of pricing across the global fixed income markets and related derivatives. Some of the more common fixed income arbitrage strategies find opportunity in yield curve anomalies, volatility differences and bond futures versus the underlying bonds. Leverage is often used to enhance returns.

fixed income portfolio A portfolio of fixed income securities, such as marketable bonds, private placements, real estate mortgages and guaranteed investment contracts.

Form 990/Form 990-PF The IRS forms filed annually by public charities and private foundations, respectively. The letters PF stand for private foundation. The IRS uses this form to assess compliance with the Internal Revenue Code. Both forms list organization assets, receipts, expenditures and compensation of officers. Form 990-PF includes a list of grants made during the year by the private foundation.

foundation An entity which exists to support a charitable institution and which is funded by an endowment or donations.

fund of funds An approach to investing in which a manager invests in various funds formed by other investment managers. The benefits of this approach include diversification, the expertise of the fund-of-funds manager, access to hedge fund managers who may be otherwise unavailable and a less intense commitment of staff resources by the investor.

general purpose foundation An independent private foundation that awards grants in many different fields of interest.

gift Gifts and bequests are awards given with few or no conditions specified. Gifts may be provided to establish an endowment or to provide direct support for existing programs. Frequently, gifts are used to support developing programs for which other funding is not available. The unique flexibility, or lack of restrictions, makes gifts attractive sources of support.

global macro A global, top-down approach to investing in which managers will take long or short positions in fixed income, equity, currency and commodity markets.

global portfolio (see international portfolio) An investment portfolio (of equities or bonds) that can invest in U.S. and non-U.S. markets.

government bond A security issued by a federal, state, or city government to evidence borrowing, with a term usually in excess of 10 years.

grant A type of financial assistance awarded to an organization for the conduct of research or other program as specified in an approved proposal. A grant, as opposed to a cooperative agreement, is used whenever the awarding office anticipates no substantial program involvement with the recipient during the performance of the archives.

grantee financial report A report detailing how grant funds were used by an organization. Many corporate grantmakers require this kind of report from grantees. A financial report generally includes a listing of all expenditures from grant funds as well as an overall organizational financial report covering revenue and expenses, assets and liabilities. Some funders may require an audited financial report.

growth stock Stock in a company that has shown better-than-average growth in earnings and is expected to continue to do so. It can pay little or no dividends but is expected to have growth potential over an extended period of time.

hedge fund (see marketable alternative strategies [hedge funds])

(HEPI) The Commonfund Higher Education Price Index® (HEPI), which reports price information for the goods and services purchased by colleges and universities for their current operations. Colleges and universities use these measures to analyze the impact of inflation on their operations as a starting point for securing additional revenues to meet expected higher costs, so as to preserve their purchasing power.

high yield bond (junk bond) A lower-quality rated bond, rated BB or lower by Standard & Poor's and Ba or lower by Moody's, is called high yield because the interest rate is higher than average to compensate investors for taking higher-than-average risk.

impact investing Investing in projects, companies, funds, or organizations with the express goal of generating and measuring mission-related economic, social or environmental change alongside financial return.

income stabilization reserve A percentage of the total withdrawal set aside in a separate fund to be used to augment spending in a down year. Employed as a smoothing device to lessen any decrease in the transfer to operating budget in a given year.

independent foundation These private foundations are usually founded by one individual, often by bequest. They are occasionally termed "non-operating" because they do not run their own programs. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent foundations, such as the Ford Foundation, are no longer governed by members of the original donor's family but are run by boards made up of community, business and academic leaders. Private foundations make grants to other tax-exempt organizations to carry out their charitable purposes. Private foundations must make charitable expenditures of approximately 5 percent of the market value of their assets each year. Although exempt from federal income tax, private foundations must pay a yearly excise tax of 1 or 2 percent of their net investment income.

index fund (see international index fund) A portfolio of stocks structured to replicate the performance of a commonly used index, such as the S&P 500.

indexing (see passive investing; passive management) A passive investment strategy in which a portfolio is designed to mirror the performance of a stock index, such as the S&P 500. Also, tying taxes, wages or other measures to an index.

in-kind contribution (see third-party in-kind contribution) Contributions or assistance in a form other than money. Real property, equipment, materials, or services of recognized value that are offered in lieu of cash.

international index fund (see index fund) A portfolio of stocks structured to replicate an index of international securities such as the MSCI World ex-U.S. Index or MSCI EAFE Index.

international portfolio (see global portfolio) An investment portfolio (of equities or bonds) that can invest only in non-U.S. markets.

investment return The total amount that an investor or an investment fund earns from its investments, including both realized and unrealized capital gains (appreciation/depreciation) and income (dividends and interest).

junk bond (see high yield bond)

laddered cds (certificates of deposit) A cash management practice whereby an institution invests in bank certificates of deposit which mature at regularly spaced intervals thereby ensuring that it has access to ready cash while still being able to protect its capital and earn some current income.

large cap fund A fund that invests in stocks with larger market capitalizations, generally $5 billion or more.

liquidity risk Covers the failure to maintain sufficient funds (cash and marketable securities) to meet short-term obligations. Also, market liquidity risk is the difficulty in liquidating certain investments due to the lack of active markets in these securities.

long/short equity Long/short equity funds take long and short positions in listed equities—generally with a net long position. Managers seek to find (buy) stocks which are "undervalued" by the market and short stocks whose prices are "overvalued" by the market.

macro Macro managers use long and short strategies based on their view of the overall market direction as influenced by major global economic trends and events. Investments can include stocks, bonds, currencies, and commodities in the form of cash or derivatives instruments of both developed and emerging economies. Macro strategies often use moderate amounts of leverage.

manager, investment manager A firm, committee or individual, inside or outside an institution responsible for making decisions to buy, hold or sell assets. May also be called a money manager or investment adviser.

market risk The possibility of loss due to large movements in market prices (e.g., due to changes in interest rates, foreign exchange rates, volatility, correlation between markets, capital flows).

marketable alternative strategies (hedge funds) A fund, usually a limited partnership, used by wealthy individuals and institutions. Hedge funds are allowed to use aggressive strategies including selling short, leverage, program trading, swaps, arbitrage and derivatives. Since most are restricted by law to less than 100 investors, the minimum investment is typically $1 million. The general partner usually receives performance-based compensation and invests significantly in the partnership.

marketable securities Publicly traded securities, such as stocks, bonds or notes, which, as such, are easily bought and sold in the marketplace and readily convertible to cash.

matching grant A grant that requires a specified portion of the cost of the supported item of equipment or project be obtained from other sources. The required match may be more or less than the amount of the grant. Some matching grants require that the additional funds be obtained from sources outside the recipient organization. Many matching grants are paid in installments, the payments coinciding with the attainment of pre-specified levels of additional funding. Matching grants are very common in the sciences, especially for equipment. They are the standard practice in some government agencies.

merger arbitrage (see event driven strategy) Long and short positions are held in both companies that are involved in a merger or acquisition. Merger arbitrageurs are typically long the stock of the company being acquired and short the stock of the acquirer. The principal risk of this strategy is deal risk.

mid-cap fund A fund that specializes in stocks with market capitalizations generally in the range of $2 billion to $10 billion.

modeling risk The potential for loss due to actions taken or to policies implemented based on views of the world, in general, and the investment community, in particular, that are derived from improper models. These views are derived from representation(s) of reality that do not capture all significantly relevant information or are inappropriately applied throughout the investment program.

money market fund (MMF) A fund managed by an investment banking firm, investment manager, or insurance company, in which short-term funds of individuals, institutions, and corporations may be invested. These funds are invested in money market instruments.

money market instrument A short-term debt security, including Treasury bills, bank CDs, commercial paper, Eurodollar CDs, and Yankee CDs, among others. Money market instruments have maturities of a year or less.

mortgage-backed security A security for which investors receive payments out of the interest and principal on the underlying mortgage.

multi-strategy fund A fund providing exposure, in a single investment, to several investment styles and strategies in addition to a disciplined asset allocation process and ongoing rebalancing. A multi-strategy fund seeks to add alpha over a full market cycle, while providing significant risk reduction through diversification of manager and investment styles.

mutual fund An investment company or trust in which a number of investors pool their funds and receive units in the fund that are priced daily. There are many types of mutual funds: stock funds, bond funds, money market funds, and closed- and open-end investment funds. Participants in these funds also cover a wide range of investors (e.g., individuals, pension funds, and trust funds).

operating foundation A 501(c)(3) organization classified by the IRS as a private foundation whose primary purpose is to conduct research, social welfare, or other programs determined by its governing body or establishment charter. An operating foundation may make grants, but the amount of grants awarded generally is small relative to the funds used for the foundation's own programs.

operational risk The potential for discontinuity due to the possibility of a breakdown in operational procedures particularly as they relate to a process breakdown; this is distinct from the design, implementation, and maintenance of computerized information systems, e.g., errors resulting from a lack of reviewer function to catch errors, from incorrect data and/or lack of adequate staffing/backup.

passive account An account of stocks and/or bonds that is not actively managed.

passive/index MSCI ex-U.S. (developed) The MSCI World ex-U.S. Index is a capitalization-weighted index of equities in the entire developed world other than the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita. There are 22 countries within this index. Passive (index) equity investment strategies are listed in the stocks of exchanges in developed economies excluding the U.S. Such international investments typically use the Morgan Stanley Capital International World ex-U.S. Index (MSCI World ex-U.S.) or a comparable index as a benchmark.

passive investing (see active management; indexing; passive management) A process that creates a portfolio of stock or bonds, not actively traded, that will replicate as closely as possible the performance of standard market indices such as the S&P 500 for stock or the Barclays Aggregate Bond Index.

passive management (see active management; indexing; passive investing) Assets that are not traded actively but set up and held in an index fund.

performance measurement Various techniques for measuring the total rate of return (income received plus or minus changes in market value between two dates) of a pension or profit-sharing plan and of investment managers, generally in comparison with other plans and managers having similar investment objectives.

philanthropy Philanthropy is defined in different ways. The origin of the word philanthropy is Greek and means love for mankind. Today, philanthropy includes the concept of voluntary giving by an individual or group to promote the common good. Philanthropy also commonly refers to grants of money given by foundations to nonprofit organizations. Philanthropy addresses the contribution of an individual or group to other organizations that in turn work for the causes of poverty or social problems—improving the quality of life for all citizens. Philanthropic giving supports a variety of activities, including research, health, education, arts and culture, as well as alleviating poverty.

policy portfolio A portfolio of investment assets designed to achieve the financial and investment objectives of an institution over the long term. Policy portfolios are typically established by an investment committee which sets target percentages for each asset class and strategy selected for inclusion.

portable alpha The inclusion of a non-correlated strategy (i.e., one in which returns are independent of market performance) within an existing portfolio in order to improve risk-adjusted returns. The word "portable" is used because the strategy can be applied without affecting the style under which a particular portfolio is being managed.

portfolio Combined holdings of multiple stocks, bonds, commodities, real estate investments, cash equivalents or other assets by an individual or institutional investor. The purpose of a portfolio is to reduce risk by diversification.

portfolio diagnostics An analytical performance measurement approach that segregates a manager's investment performance into components such as value added from securities selection and value added from market timing.

portfolio optimization A process whereby an investor's bond portfolio is restructured to match anticipated cash inflow and outflow. Some reinvestment of early cash receipts is allowed.

portfolio restructuring The rebalancing of a large volume of equity in a portfolio at one time by selling baskets of stock and reinvesting the proceeds in other equity, debt, or cash securities.

preferred stock A class of favored stock whose holders have a claim on the company's earnings before payment can be made to common stockholders. Preferred stockholders are usually entitled to dividends at a specified rate, when declared by the board of directors, before payment is made to common stockholders, and they usually have priority if the company is liquidated; however, preferred stockholders generally do not have voting rights.

price/earnings ratio (P/E) The price/earnings ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. The P/E ratio relates the price of the stock to the per-share earnings of the company. High P/E generally indicates that the market is paying more to obtain the stock because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E often indicates that the market has less confidence that the company's earnings will increase rapidly or steadily, and therefore will not pay as much for its stock. In most cases, a fund with a high average P/E ratio has paid a premium for stocks that have a high potential for increased earnings. If the fund's average P/E is low, the manager may believe that the stocks have an overlooked or undervalued potential for appreciation. A P/E ratio calculated using a forecast of future earnings is called a forward P/E.

private equity Equity capital invested in a private company.

private foundation A nongovernmental, nonprofit organization with funds (usually from a single source, such as an individual, family, or corporation) and program managed by its own trustees or directors. Private foundations are established to maintain or aid social, educational, religious, or other charitable activities serving the common welfare, primarily through the making of grants.

private operating foundation A private foundation that uses the bulk of its resources to provide charitable services or run charitable programs of its own. It makes few, if any, grants to outside organizations and, like private independent and private family foundations, it generally does not raise funds from the public.

private placement A distribution of securities (including interests in commingled funds) made in a private manner and only to qualified investors. A private placement does not require registration with the SEC and is not offered to the public.

program-related investment (PRI) A loan or other investment (as distinguished from a grant) made by a foundation to another organization for a project related to the foundation's philanthropic purposes and interests.

proxy voting disclosure In an effort to improve the transparency of proxy voting by mutual funds and other registered investment vehicles, the SEC now requires registered investment management companies to provide disclosure about how they vote proxies relating to portfolio securities they hold. These amendments require registered investment management companies to disclose the policies and procedures that they use to determine how to vote proxies relating to portfolio securities. The amendments also require registered investment management companies to file with the Commission and to make available to shareholders the specific proxy votes that they cast in shareholder meetings of issuers of portfolio securities. The intent of the rule is to encourage funds to become more engaged in corporate governance of issuers held in their portfolio.

proxy voting policy A proxy statement is a document that provides shareholders with information about issues to be discussed and voted upon at a stockholders' meeting. Shareholders may attend the meeting and register their votes in person or vote by sending in proxy ballots on the various matters scheduled to come before the meeting. As investors and shareholders, nonprofits are frequently confronted with the issue of whether they should vote their shares as recommended by the company's management or analyze each issue in light of the institution's mission. Some nonprofits have adopted policies by which they either (i) vote their own proxies, (ii) assign the responsibility to a third party or (iii) have their investment managers vote the proxies, usually in accord with guidelines provided by the institution.

public charity A nonprofit organization that qualifies for tax-exempt status under section 501(c)(3) of the Internal Revenue Code and that derives its support from broad-based public sources. Public charities are the recipients of most foundation and corporate grants. Some public charities also make grants. Religious, educational and medical institutions are deemed to be public charities.

public foundation Legally classified as "public charities," public foundations are publicly supported nonprofit organizations and are predominantly funded by contributions from individuals, corporations, governmental units and private foundations. As distinguished from most public charities, public foundations focus more on grant-making than on providing direct charitable services.

public support test There are two public support tests, both of which are designed to ensure that a charitable organization is responsive to the general public rather than a limited number of persons. One test, sometimes referred to as 509(a)(1) or 170(b)(1)(A)(vi) for the sections of the Internal Revenue Code where it is found, is for charities like community foundations that mainly rely on gifts, grants, and contributions. To be automatically classed as a public charity under this test, organizations must show that they normally receive at least one-third of their support from the general public (including

government agencies and foundations). However, an organization that fails the automatic test still may qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics—such as a broad-based board—that make it sufficiently "public." The second test, sometimes referred to as the section 509(a)(2) test, applies to charities, such as symphony orchestras or theater groups, that get a substantial part of their income from the sale of services that further their mission, such as the sale of tickets to performances. These charities must pass a one-third/one-third test. That is, they must demonstrate that their sales and contributions normally add up to at least one third of their financial support, but their income from investments and unrelated business activities does not exceed one-third of support.

Q-TIP trust The Economic Recovery Tax Act of 1981 made available a planned giving vehicle which is similar to a qualified charitable remainder trust, but without the stringent technical requirements. A person can establish a "qualified terminal interest property trust" (Q-TIP trust) for the benefit of his/her spouse, with the remainder to the foundation. There is no charitable income tax deduction and the trust is not tax-exempt, because it is not a charitable remainder trust. However, the entire trust qualifies for the marital deduction in the first spouse's estate and for the charitable deduction in the second spouse's estate, and thus generates no tax with respect to either spouse's life interest or the charitable remainder trust. A Q-TIP trust with a charitable remainder is flexible. For example, trust payments to the surviving spouse need not be limited to an annuity or unitrust amount, but may be determined by the needs of the surviving spouse.

qualifying distributions Expenditures of a private foundation made to satisfy its annual payout requirement. These can include grants, reasonable administrative expenses, set-asides, loans and program-related investments, and amounts paid to acquire assets used directly in carrying out tax-exempt purposes.

quantitative portfolio A portfolio management approach using computer-based models or other quantitative methods to select securities and/or structure a portfolio.

real property Land, including land improvements, structures and appurtenances thereto, but excluding movable machinery and equipment.

religious organization Both operating and grant-making nonprofits that are either directly affiliated with a church or religious order, or are strongly influenced by one.

request for proposal (RFP) The practice of institutional funds that seek to allocate funds to a specific investment style by requesting competing investment management firms and trust and custody banks to submit proposals detailing capabilities, prices and the like.

responsible investing (see socially responsible investing (SRI), environmental, social and governance (ESG) investing, impact investing and divestment of fossil fuels) an investment approach using one or more of SRI, ESG, impact investing, divestment of fossil fuels, and other related strategies.

restricted funds Designated by a donor or board of trustees for a specific purpose, and cannot be used for any other purpose.

return (average, annual, total) Total return measures the annual return on an investment including the appreciation and dividends or interest. Total returns are calculated by taking the change in investment value, assuming the reinvestment of all income and capital gains distributions (plus any other miscellaneous distributions) during the period, and dividing by the initial investment value. These returns are not adjusted for sales charges, but they are adjusted for management, administrative and other costs that are automatically deducted from fund assets.

risk management The procedures necessary to manage exposure to various types of risk associated with transacting business or investments.

risk relative to benchmark (benchmark risk) The potential for losses due to unintended bets or a breakdown in due diligence; the impact of investment initiatives that were not fully understood at the outset and had the potential of unintended consequences; or the monetary impact (to the portfolio and the fund) of managers who violate guidelines, engage in unauthorized transactions, develop excessive concentrations (high trading error), commit fraud, etc.

S&P Standard & Poor's Corporation.

S&P 500 A popular stock market index composed of 500 stocks selected by Standard & Poor's Corporation to represent the entire market and used by many funds to compare the investment performance of their equity-oriented managers.

single life gift annuity A charitable gift annuity based and paid on the life of one person.

small cap fund A fund that specializes in stocks with lower market capitalization; small cap stocks are usually $2 billion or less in market capitalization.

social services organization A social services organization is an operating nonprofit (and the category includes foundations that directly support them) that provides social programs to the public or that conducts research to benefit humanity (e.g., Boys and Girls Clubs, Blood Center, various research institutes). These are not grant-making organizations (rather they are typically recipients of grants from private and public foundations).

socially responsible investing (SRI) A portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.

stewardship The management of assistance programs to be exercised by federal officials. Grants management officials oversee the process of evaluating and awarding grants and actively participate in the management of grants to ensure that funding is properly and prudently utilized, that all applicable laws and regulations are followed, and that the mission of the sponsor is furthered.

stock (see equity)

sunset policy A policy that specifies a termination date in the life of a nonprofit institution, such as a foundation or operating charity. The bylaws of many nonprofits do not address a termination date and they are therefore assumed to operate in perpetuity. An operating charity or foundation having a sunset policy would cease operations and distribute all its assets by a specified date. A high-visibility example is the Bill and Melinda Gates Foundation, which has specified that all of the foundation's resources will be spent within 50 years of Bill and Melinda Gates' deaths.

survivorship gift annuity A charitable gift annuity arranged during the donor's lifetime. A payment is made to the donor for life, then to the designated survivor for the rest of his/her life.

sustainability Institutional policies and practices that attempt to meet the material needs of present generations of users, without compromising the ability of future generations to enjoy a similar standard.

systems risk The risk that current system designs or implementations are inappropriate or ineffective to the extent that information obtained from or disseminated through the system environment is incorrect or incorrectly perceived, and the decisions made based on that information are sub-optimal. In addition, this includes the security of information in response to unauthorized access and disaster.

technical analysis Research to identify mispriced securities that focuses on recurrent and predictable stock price patterns and on proxies for buy or sell pressure in the market.

testamentary trust A trust established by the will of its creator for the benefit of survivors. This trust comes into being only after the death of the person whose will creates it. The will must be probated to bring the trust into existence.

third-party in-kind contribution (see in-kind contribution) The value of non-cash contributions directly benefiting a grant-supported project or program that are provided by non-federal third parties to the recipient, the sub-recipient, or a cost-type contractor under the grant or sub-grant without charge. In-kind contributions may be in the form of real property, equipment, supplies and other expendable property, and goods and services directly benefiting and specifically identifiable to the project or program.

trust A legal agreement by which something of value is owned by a person or persons for the benefit of another. In practice, this means that a person transfers assets to a trust, which, for tax purposes, is a separate legal entity (this is not true, however, for revocable trusts).

trustee A foundation board member or officer who helps make decisions about how grant monies are spent. Depending on whether the foundation has paid staff, trustees may take a more or less active role in running its affairs.

UMIFA (see UPMIFA) First promulgated in 1972, the Uniform Management of Institutional Funds Act (UMIFA) has been replaced by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

underwater fund An individual "true" or restricted fund that has a market value that has decreased below its historic dollar value as defined by the Uniform Management of Institutional Funds Act (UMIFA). Historic dollar value is the aggregate fair value in dollars of (i) an endowment fund at the time established, (ii) subsequent contributions to the fund, and (iii) other additions to the fund required by the donor or law.

unrestricted funds Monies with no requirements or restrictions as to their use or disposition.

UPMIFA (Uniform Prudent Management of Institutional Funds Act) This new uniform law, which was approved by the National Conference of Commissioners on Uniform State Laws in 2006 and has now been enacted in virtually all of the states and in the District of Columbia, clarifies previously existing standards for the investment and expenditure of all types of charitable endowment funds. UPMIFA was designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which dates from 1972. UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as "endowments" to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for the purposes of any endowment fund held by a charitable institution. UPMIFA continues to follow these principles, while clarifying previously existing standards for the investment and expenditure of all types of charitable endowment funds. UMIFA in its original form excluded all trusts, a gap which led to the passage of the subsequent Uniform Prudent Investor Act and Uniform Principal and Income Act in most states. UPMIFA is intended to eliminate the need for multiple statutes by applying consistent investment and spending standards to all forms of charitable funds, whether held by institutions that are incorporated, unincorporated or organized as charitable trusts (i.e., trusts with a beneficial purpose but no named beneficiaries). It strengthens the concept of prudent investing, refining it further by means of specific guidelines for fiduciaries. It applies the rule of prudence to charitable spending, eliminating outmoded concepts such as historic dollar value while providing an optional section to restrain levels of spending that are deemed imprudently high. Finally, it facilitates the release or modification of restrictions on a fund, consistent with the recognition and protection of donor intent. Taken as a whole, UPMIFA establishes a stronger and more unified basis for charitable fund management.

value stock A stock that is considered to be a good stock at a great price, based on its fundamentals, as opposed to a great stock at a good price. Generally, these stocks are contrasted with growth stocks that trade at high multiples to earnings and cash.

venture capital Funds invested in a high-risk enterprise that is not large or mature enough for its shares to be publicly traded.

Yale/Stanford rule (also called hybrid rule) A group of endowment spending rules that seek to take a middle road between the moving average and the banded inflation spending methods. Typically employed by more endowment-dependent institutions, they use a weighted average methodology in which the predominant weighting (for example, 80 percent) is given to the banded inflation method, with the remainder (for example, 20 percent) being calculated according to the moving average method. This technique, originated at Stanford University and used in various forms by other institutions such as Yale and Harvard, results in a reduced volatility of spending due to the lower reliance on market value-based calculations, while honoring the fact that market values do have an influence on the ability to spend.

yield The return on a security or portfolio, in the form of cash payments. Most yield comes from dividends on equities, coupons on bonds, or interest on mortgages. In general, yield is defined in terms of the component of return that is taxable as ordinary income. Consequently, since the capital gain on a Treasury bill or other discount note is viewed for tax purposes as a form of interest, it is also included in the definition of yield. Yield is usually described in percent terms (e.g., 7 percent per annum).

yield spread analysis The comparison of yield differential among varying types of fixed income securities. Professional investors watch for changes in normal yield spreads among many types of issues to identify overpriced situations (where they might sell securities they own) and underpriced securities (where they might buy).

yield-to-maturity The rate of return on a bond until its due date, including both interest payments and price changes. It is greater than the current yield when the bond is selling at a discount and less than the current yield when the bond is selling at a premium.

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