2019 Endowment & Foundation Survey
CAPTRUST Financial Advisors is one of the country’s leading independent advisory firms, specializing in providing consultative financial services to retirement plan sponsors, institutional investors, executives, and high-net-worth individuals.

Corporate Structure and Ownership

- 34-year operating history
- Employee owned
- 652 employees
- More than 1,900 institutional clients
- $364 billion in client assets under advisement
- 98% client retention (average since 2008)

About the Editors

James Stenstrom
Senior Manager

James joined CAPTRUST in 2009 and serves as a senior manager supporting our foundation and endowment clients. In this role he supports client service and business development efforts by providing best-in-class, objective investment advice and solutions. His responsibilities include driving asset allocation, investment manager selection, and long-term investment strategy creation. James is a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science in Business Administration degree. James is also active in his community and formerly served as an executive on the board of a local nonprofit.

Sean Roberson
Specialist

Sean joined CAPTRUST in 2019 as a specialist, asset/liability. As a part of CAPTRUST’s Client Solutions Group, Sean supports client service and business development initiatives focused on asset allocation, investment manager selection, and long-term investment strategy creation. Prior to joining CAPTRUST, Sean was assistant vice president, hedge funds, for Credit Suisse for more than four years. He earned his Bachelor of Science degree in accounting from the University of Tennessee, Knoxville. He has been in the industry since 2015.
Notes from the Editors

Our mission is to enrich the lives of our clients, colleagues, and communities through sound financial advice, integrity, and a commitment to service beyond expectation.

We created this survey to live our mission by assisting nonprofits in fulfilling their missions in our shared communities. This information provides perspective and allows insight into peer data to help make well-informed decisions. The responses provide significant new understandings of the nonprofit sector.

The topic areas covered throughout the survey are below. We note the different formatting of the survey this year. We provide an Executive Summary of key themes and trends across the responses followed by a robust summary of the survey results. At the end, you will see an appendix with further questions/topics.

- Demographics  - Asset Allocation  - ESG  - Spending Policy  - Service Providers
- Objectives and Risk  - Performance Trends  - Governance  - Fundraising/Budgeting  - Current Issues

We thank the 133 organizations that participated in this year’s Endowment and Foundation Survey. Each respondent answered questions based on their selection of areas of familiarity within the organization (i.e., investment portfolio, fundraising, and/or spending policy).

Please contact us with any observations regarding the survey. We are always contemplating ways to improve all aspects of this process and appreciate any feedback you may offer. Additionally, we are receptive to any questions as they pertain to the survey responses or our analysis of the data.
Executive Summary

Asset Allocation Changes

When survey respondents were asked about changes in future allocation to certain asset classes or investment types, there was significantly more uncertainty than in last year’s survey.

The “undecided” responses increased year over year for each asset class with the most material changes being in international equity and alternatives. Respondents identified the top concerns related to their asset pool as “market volatility” and “return expectations.”

While it is difficult to identify why there is more uncertainty, it is clear that organizations lack clarity on how they should position their portfolios in 2020, and they are concerned with the general market environment and its potential impact on returns. It is also worth noting that survey responses occurred in the second half of 2019, after a volatile year of results. During January 2020, the S&P 500 closed at new highs nine times out of 21 trading days.

Noteworthy responses in this category follow:
- 32% of respondents were undecided about the role of alternatives in their portfolios going forward.
- Only 2% of respondents in this year’s survey indicated they intend to increase international equity exposure versus 22% in the 2018 survey. 22% were undecided.
- 34% were undecided about changes in passive management allocations going forward.
- There was also an increase in the number of undecided responses regarding future allocations to U.S. equity and fixed income.
- Over 50% of respondents were uncertain about the role of ESG in their portfolios going forward.

ESG

Surprisingly, more than 70% of respondents indicated they were not employing environmental, social, and governance (ESG), impact, or mission-aligned investing in their portfolios. However, only 2% of respondents identified their organization intended to reduce ESG investments, with the remaining responses being maintain, increase, or undecided.

ESG, impact, and mission-aligned investing styles are being utilized mostly in domestic equities and fixed income with negative screening as the primary form of implementation. Negative screening is avoiding investment in companies/interests that fail to meet the organization’s standards vs. actively investing in those with ESG alignment.

While there was a disproportionate number of respondents who were uncertain about future actions in ESG, it is clear few organizations are looking to move away from ESG factors in the investment process. There is a clear interest and an opportunity for education on ESG for nonprofits.
Executive Summary

Governance
The bulk of organizations exhibit strong governance practices, but room for improvement still exists. Interestingly, only 43% of organizations conduct fiduciary training for board or investment committee members, and even fewer (21%) include training on investment-related topics as part of new board member orientation.

Obstacles
When provided the open-ended opportunity to identify their organization’s biggest challenges or obstacles, many organizations expressed concerns about the capital market environment. Comments focused heavily on concerns of market volatility and achieving adequate investment returns to support the organization’s goals. Other prevalent worries included concerns about the ability to expand donor bases. Anecdotally, there appears to be an increase in concern among nonprofits that investment returns combined with fundraising will support the desired spending levels.

Disconnect Between Expected Returns, Risk, and Asset Allocation
As expected returns increase, generally an investor’s willingness to accept more risk should follow. However, organizations showed no material differences in levels of equity exposure between those with moderate return expectations and those with higher return goals.

However, when looking at the level of risk (measured by equity and alternatives exposure) by reported annual loss tolerances, a clear trend emerged with higher allocations to risk assets reported as the tolerance thresholds increased.

Historical return simulations in the context of these risk cohorts demonstrated losses well outside of desired thresholds.

2018 Tax Reform Impact
The majority of respondents indicated there have not been any, nor is there any expectation of a major fundraising impact, after passage of the Tax Cuts and Jobs Act of 2018.

However, this sentiment was not universal. Some organizations observed a shift in the timing of donations and fewer, small donations.
Over 130 unique organizations responded to the survey. 69% of organizations reported asset pools less than $50MM, which is representative of the endowment and foundation landscape. 48% of reporting organizations indicated program activities comprised the majority (>75%) of expenditures.

Both public and private foundations responded. Private foundations that responded tend to focus more on grantmaking/scholarships (60%) than public foundations, which disproportionately (40%) operate with a “hybrid” of expenditures.
Objectives & Risk

The majority of organizations measure investment success using a market benchmark. When defining risk, most respondents identified multiple methods to evaluate risk. While “volatility of investable assets” was the most prevalent choice, a significant proportion of organizations answered “portfolio declines relative to spending needs” and “not keeping up with inflation.”

### How Do You Define Investment Objectives?

- **Market benchmark relative**: 63%
- **Inflation + spending + expense**: 40%
- **Absolute level of return**: 28%
- **Other**: 3%

Respondents: 123

### How Do You Define Risk?

- **Volatility of investable assets**: 85%
- **Portfolio declines relative to spending needs**: 45%
- **Not keeping up with inflation**: 35%
- **Volatility of spending**: 18%
- **Other**: 1%

Respondents: 123

### Time Horizon of Asset Pool

- **Support indefinitely**: 78%
- **Support for the foreseeable future**: 15%
- **Finite**: 4%
- **Other**: 2%

Respondents: 123

### Liquidity Measurement

- **Maintain targeted percentage based on spending needs**: 65%
- **On an asset-by-asset basis**: 14%
- **Portfolio separated by liquidity buckets**: 1%
- **Other**: 1%

Respondents: 88

78% of respondents indicated the time horizon for their asset pool is to “support indefinitely.” Investors most commonly measured liquidity based on a “targeted percentage of spending needs.”
Objectives & Risk

72% of respondents indicated their organization’s expected return on assets fell within the 5% to 8% range, with 13% expecting returns over 8%. The relationship between return expectations, loss tolerance, and investment returns actually experienced historically is further explored over the next few pages.

**Expected Returns**

<table>
<thead>
<tr>
<th>Return</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5%</td>
<td>15%</td>
</tr>
<tr>
<td>5% - 6%</td>
<td>25%</td>
</tr>
<tr>
<td>6% - 7%</td>
<td>23%</td>
</tr>
<tr>
<td>7% - 8%</td>
<td>24%</td>
</tr>
<tr>
<td>&gt;8%</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Annual Loss Tolerance**

<table>
<thead>
<tr>
<th>Loss</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5% loss</td>
<td>47%</td>
</tr>
<tr>
<td>5% - 10% loss</td>
<td>26%</td>
</tr>
<tr>
<td>10% - 15% loss</td>
<td>18%</td>
</tr>
<tr>
<td>15% - 20% loss</td>
<td>5%</td>
</tr>
<tr>
<td>&gt;20% loss</td>
<td>4%</td>
</tr>
</tbody>
</table>

Respondents: 116 (Expected Returns), 121 (Annual Loss Tolerance)
Objectives & Risk

Comparing responses across expected returns, annual loss tolerances, and reported asset allocations uncovers a few trends. Those with expected returns below 5% generally allocated more to fixed income in their portfolios than those with higher return targets. However, no material differences emerged in equity allocations across the organizations that reported higher returns goals.

Regarding risk, those organizations willing to tolerate larger annual losses allocated measurably more to equity and other (alternative) assets. While each organization's unique portfolio allocation may not match the potential magnitude of loss, taken as a group, more conservative nonprofits do invest larger proportions of their portfolios in fixed income and cash.

Using a historical return simulation over the past 20 years based on the average of the reported asset allocations segmented by annual loss tolerances, the challenges faced by nonprofit investors become clear.
Objectives & Risk

The following page contains a historical simulation over the prior 20 years based on the survey responses regarding 2018 year-end asset allocations broken down by annual loss tolerance.

The benchmark indices and average asset allocations can be seen below.

<table>
<thead>
<tr>
<th>Annual Loss Tolerance</th>
<th>&lt;5%</th>
<th>5-10%</th>
<th>10-15%</th>
<th>15-20%</th>
<th>&gt;20%</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Responses</td>
<td>35</td>
<td>24</td>
<td>18</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Mean Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>10% 3% 3% 5% 4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>27% 34% 28% 24% 20%</td>
</tr>
<tr>
<td>Domestic Equity</td>
<td>41% 47% 41% 48% 45%</td>
</tr>
<tr>
<td>International Equity</td>
<td>13% 13% 20% 12% 16%</td>
</tr>
<tr>
<td>Other</td>
<td>9% 3% 8% 11% 15%</td>
</tr>
</tbody>
</table>

Simulation indexes include: ICE BofAML US 3m Treasury Bill TR Index (cash), Bloomberg Barclays Aggregate Bond Index (Fixed Income), S&P 500 Index (Domestic Equities), MSCI EAFE Index (International Equity), and HFRI FoF Conservative Index (Other).

Approximately 90% of nonprofits indicated an annual loss tolerance of 15% or lower. However, the average asset allocation employed by each group experienced simulated declines in excess of 20% in 2008. 47% indicated an annual loss tolerance less than 5% which would have been exceeded in 2002 in addition to 2008.
Historical Simulation

It would take a portfolio with at least a 70% allocation to fixed income to avoid calendar year losses above 10% over the prior 20-year period. As noted, 47% of respondents possess a <5% annual loss tolerance. A portfolio would need approximately an 80% allocation to fixed income to meet that requirement over the last 20 years.
### Historical Simulation

#### Periods of Peak-to-Trough Drawdown (2000-2019)

<table>
<thead>
<tr>
<th>&lt;5% Allocation Median</th>
<th>5-10% Allocation Median</th>
<th>10-15% Allocation Median</th>
<th>15-20% Allocation Median</th>
<th>&gt;20% Allocation Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
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</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
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<td>Oct-01 Dec-08 Nov-08</td>
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<tr>
<td>Nov-00 Feb-08 Nov-09</td>
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<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
<tr>
<td>Nov-00 Feb-08 Nov-09</td>
<td>Mar-01 Jul-03 Sep-01 Dec-08</td>
<td>Oct-01 Dec-08 Nov-08</td>
<td>Sep-02 Mar-09 Oct-02 Apr-09</td>
<td>Oct-02 May-09 Sep-03 Jun-09</td>
</tr>
</tbody>
</table>

#### Previous 20 Years

<table>
<thead>
<tr>
<th>Down Years</th>
<th>Positive Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Return</td>
<td>#</td>
</tr>
<tr>
<td>&lt;5%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>5-10%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>10-15%</td>
<td>-9.6%</td>
</tr>
<tr>
<td>15-20%</td>
<td>-9.3%</td>
</tr>
<tr>
<td>&gt;20%</td>
<td>-10.0%</td>
</tr>
</tbody>
</table>

The average allocation of each respondent cohort experienced at least 11 months where the portfolio had fallen more than the maximum tolerance level since the last peak.

Average down years (on a calendar basis) produced negative returns of 7.9 to 10.0%. Many organizations may find these average losses tolerable because they are more concerned about the impact on spending policies as opposed to peak-to-trough losses.

However, each allocation strategy experienced a minimum peak-to-trough loss of more than 32% in 2009.
Asset Allocation

Asset allocation varied from 100% cash portfolios to 100% equity portfolios. The chart below details the asset allocation quartiles across the reporting organizations. These allocations are nearly identical to the figures reported in last year’s survey.

### Asset Allocation Quartiles (as of 12.31.2018)

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Fixed Income</th>
<th>Domestic Equity</th>
<th>Foreign Equity</th>
<th>Alternatives/Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1st Quartile</td>
<td>0%</td>
<td>21%</td>
<td>35%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Median</td>
<td>3%</td>
<td>30%</td>
<td>43%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>3rd Quartile</td>
<td>5%</td>
<td>35%</td>
<td>50%</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>Max</td>
<td>100%</td>
<td>70%</td>
<td>80%</td>
<td>36%</td>
<td>37%</td>
</tr>
</tbody>
</table>
Asset Allocation

Asset Classes Utilized

Alternatives: 56% of organizations indicated the current portfolio included an allocation to alternative asset classes. The most common alternatives included real estate (61%), hedge funds (39%), and private investments (35%).

Respondents: 96

Alternatives/Other Investments

Respondents: 51
Asset Allocation

Changes in Asset Allocation
Organizations indicated what action they intended to take (decrease, maintain, increase, and undecided) across the major asset classes for the next year. While the majority of respondents noted their organization intended to maintain their current allocations, some interesting trends emerged across respondents who indicated they planned on making changes to their asset allocations.

Asset Allocation Changes over Next 12 Months

- Of those intending to change their international equity allocation next year, those planning a reduction outnumbered those planning to increase the exposure by a 4-to-1 margin.
- Fixed income saw a 4-to-1 ratio in the other direction, although fewer organizations were intending to make a change.
- Those intending to change their U.S. equity allocations exhibited a near 1-to-1 ratio regarding increasing and decreasing the allocation next year.
- Of those intending to change their alternatives allocation next year, nearly 70% of respondents expected an increase.

See the full ratios on the next page.
Asset Allocation

Active vs. Passive: From the responses regarding active/passive investments, it is clear most organizations allocate more to active managers. Over 50% of respondents for each asset class indicated they were allocating a majority of their assets to active management. When asked if the organization planned to adjust their passive allocations in the coming year, 57% indicated “no” and 34% were “undecided.”

Active vs. Passive across Asset Classes

Respondents: 56

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>All/Mostly Active</th>
<th>Majority Active</th>
<th>About Equal</th>
<th>Majority Passive</th>
<th>All/Mostly Passive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternatives/Other</td>
<td>51%</td>
<td>20%</td>
<td>7%</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Foreign Equity</td>
<td>41%</td>
<td>22%</td>
<td>20%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>46%</td>
<td>15%</td>
<td>11%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Domestic Equity</td>
<td>31%</td>
<td>23%</td>
<td>19%</td>
<td>11%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Respondents: 75
**Asset Allocation**

**Tactical Asset Allocation**
Over 60% of organizations use tactical asset allocation. Based on the median net of fees returns over the last 3-, 5-, and 10-year periods (where respondent fiscal year matched the calendar year), organizations who used tactical asset allocation underperformed those who did not, although other factors may have driven those results.

**Tactical Allocation Utilized and Median Returns**

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Years</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>5 Years</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>10 Years</td>
<td>4.5%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Respondents: 33

**Who Determines the Tactical Asset Allocation?**

- **39%** Investment Committee
- **30%** Investment Consultant
- **16%** Board of Directors
- **14%** Asset Manager
- **2%** Staff

Respondents: 57
Asset Allocation

An interesting trend emerged based on who determined the tactical asset allocation and reported performance. The exhibit below illustrates the net-of-fees trailing returns for organizations who tactically managed their asset allocation “internally” (i.e., investment committee, board of directors, and staff) vs. those who leveraged an “external” party (i.e., investment consultant or asset manager). The organizations that outsourced tactical asset allocation decisions outperformed in every trailing period measured. There are several other factors that may drive this outcome, and further research is needed to determine a causal relationship.

Internal vs. External Tactical Asset Allocation and Median Returns (period ending 12.31.2018)

Note the return data utilized is for organizations whose fiscal year aligns with the calendar year only.

Respondents: 27
Performance Trends

Trailing 3-, 5-, and 10-year median net-of-fee returns for each period can be seen below. Returns are segmented by whether the organization’s fiscal year matches the calendar year to avoid skewing the data. The median return in each case is 5% and above. 60% of respondents indicated an expected return on assets of 6% and higher. In other words, some organizations may not have met their expected return targets.

- If fiscal year aligns with calendar year: data through December 31, 2018.
- If fiscal year does not align with calendar year: data ending no later than June 30, 2019.

Median Trailing Returns

<table>
<thead>
<tr>
<th>Period</th>
<th>Fiscal Year Matches Calendar Year</th>
<th>Fiscal Year is Different than Calendar Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Years</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>5 Years</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>10 Years</td>
<td>5%</td>
<td>8%</td>
</tr>
</tbody>
</table>

 Respondents: 69  Respondents: 60  Respondents: 49
ESG, Impact, and Mission-Aligned Investing

Most organizations (70%) do not currently employ ESG, impact, or mission-aligned investing strategies in their portfolios. Of those that do, the most common implementation methods are mission-aligned investing and broad ESG mandates. Most organizations (76%) indicated “negative screening” as the most common tool as opposed to positive identification.

The charts below show which asset classes where ESG and related styles are employed and how these styles are implemented.

**Asset Classes Where ESG, Impact, or Mission-Aligned Investing Are Employed**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Employment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>88%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>79%</td>
</tr>
<tr>
<td>International Equity</td>
<td>67%</td>
</tr>
<tr>
<td>Alternatives/Other</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Implementation**

- Negative screening: 76%
- Positive identification: 24%

Respondents: 24

**Negative Screening:** Avoiding investments that fail to meet the organization’s standards

**Positive Identification:** Utilizing investments that promote the organization’s standards

Respondents: 25
ESG, Impact, and Mission-Aligned Investing

As noted, 70% of respondents do not employ ESG and related investing styles currently. However, smaller organizations reported using these methods more so than their larger counterparts.

Organization Size and Use of ESG, Impact, or Mission-Aligned Investing

<table>
<thead>
<tr>
<th>Organization Size</th>
<th>Not Using</th>
<th>Currently Using</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$50mm</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>$50-100mm</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>$100-250mm</td>
<td>11%</td>
<td>89%</td>
</tr>
<tr>
<td>&gt;$250mm</td>
<td>17%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Respondents: 89

In a preview of coming trends, only 2% of organizations plan to reduce investments in the ESG space. Most organizations are undecided, and 9% intend to increase exposure in these areas. This suggests that ESG and related investing styles will continue to gain greater adoption.

Changes Next Year to ESG and Related Investments

- Undecided: 51%
- Reduce: 38%
- Maintain: 9%
- Increase: 2%

Respondents: 88
Governance

The majority of respondents possess formal documented investment policies, spending policies, conflict-of-interest policies, and documented responsibilities for committees/boards. 80% of respondents maintain a separate investment committee dedicated to overseeing the investment portfolio and 76% provide new board member orientation. Overall, the numbers indicate most organizations exhibit relatively strong governance.

However, there is still room for improvement. 24% of respondents either lacked a formal documented spending policy or were unsure. 50% indicated the investment committee overlapped with the committee responsible for mission-related spending.

Additional opportunities for training/education exist as only 43% conduct fiduciary training for board membership/investment committee members, and only one in five (21%) include training on investment-related topics as part of new board member orientation.

The most common activities staff and board members participated in for development purposes were attending conferences and informal networking events with peers.

<table>
<thead>
<tr>
<th>STAFF DEDICATED TO INVESTMENTS</th>
<th>INVESTMENT COMMITTEE SIZE</th>
<th>COMMITTEE TERM LENGTH (YEARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Minimum: 0</td>
<td>• Minimum: 0</td>
<td>• Minimum: 0</td>
</tr>
<tr>
<td>• Median: 1</td>
<td>• Median: 5</td>
<td>• Median: 3</td>
</tr>
<tr>
<td>• Maximum: 5</td>
<td>• Maximum: 16</td>
<td>• Maximum: 10</td>
</tr>
<tr>
<td>• Average: 1</td>
<td>• Average: 5</td>
<td>• Average: 3</td>
</tr>
<tr>
<td>• Total Respondents: 89</td>
<td>• Total Respondents: 89</td>
<td>• Total Respondents: 84</td>
</tr>
</tbody>
</table>
Governance

1. Do you have a formal investment policy?
   - Yes: 96%
   - No: 3%
   - Not Sure: 1%

2. Do you have a formal policy on conflicts of interest?
   - Yes: 92%
   - No: 6%

3. Do you have formal governance documents that define board- or committee-level roles and responsibilities?
   - Yes: 81%
   - No: 11%
   - Not Sure: 8%

4. Do you have a separate finance/investment committee that oversees investable assets?
   - Yes: 80%
   - No: 17%
   - Not Sure: 3%

5. Do you have a formal documented spending policy?
   - Yes: 76%
   - No: 15%
   - Not Sure: 9%

6. Do you provide new board member orientation?
   - Yes: 76%
   - No: 18%
   - Not Sure: 6%

7. Is your spending policy a separate document from the investment policy statement?
   - Yes: 54%
   - No: 31%
   - Not Sure: 15%

8. Does your investment committee overlap with the committee responsible for mission-related spending?
   - Yes: 49%
   - No: 40%
   - Not Sure: 10%

9. Have you conducted fiduciary training for board, finance, and/or investment committee members?
   - Yes: 43%
   - No: 40%
   - Not Sure: 17%

10. Do you include training on investment topics as a part of orientation?
    - Yes: 21%
    - No: 63%
    - Not Sure: 16%

Respondents: 89
Governance

Over 70% of organizations lack limitations regarding board member terms. Most organizations typically employ staggered board term structures (83%).

**Term Limits**
- No Term Limitations: 72%
- 1 Term: 16%
- 2 Terms: 9%
- 3 Terms: 2%
- 4 or more Terms: 1%

**Board Term Structure**
- Staggered: 83%
- Uniform: 17%

Respondents: 85

Respondents: 59
Spending Policy

For the most recent completed fiscal year, 62% of organizations’ actual spending equaled the target spending rate, 23% spent less, while 15% spent more than their target rate. The majority of organizations do not intend to change their annual spending targets.

Latest Fiscal Year Actual Spending vs. Target Spending

However, organizations show a shift in how they plan to change their spending. Last year, organizations looking to increase their spending outnumbered those considering decreasing their expenditures by more than seven times. This year the breakdown is nearly even. Interestingly, 44% of respondents that increased spending last year plan to increase spending next year as well.

How Do You Plan to Change Your Spending Policy?

Respondents: 74

Respondents: 78
Spending Policy

Generally, either staff or the board/committee monitor and report on the spending policy as opposed to a third party. Most organizations report on actual spending to the board quarterly (47%) or monthly (26%), and over 80% of respondents present asset performance concurrently with spending when reporting to the board.

The most common types of spending policy utilized were “moving average” and “simple.” 10% of the organizations responded “other” to the question, most of which indicated there was a set, predetermined annual dollar amount.

**Type of Spending Policy Utilized**

- **Moving Average**: Spending a predefined percentage based on a calculation of a moving average. 12 or 20 quarters are commonly used.
- **Simple**: Spending a predefined percentage annually.
- **Hybrid**: Combination of two or more approaches.
- **Corridor**: Establish ceilings and floors that constrain the outcomes of a simple, moving average, or inflation-based approach.
- **Inflation-Based Policies**: Grow the previous year’s spending by an inflation factor.

Respondents: 69
Spending Policy

Finally, organizations reported their actual spending rate for the most recent fiscal year. The median rate across 76 respondents measured 5%. Some outliers reported 0% and several targeted a spending rate above 50%.

**Actual Spending Rates Reported**

- <4%: 12%
- 4%: 21%
- 5%: 34%
- 6%: 4%
- >6%: 18%

Respondents: 76
Spending Policy

Fundraising
Traditional sources/platforms of communication remain the most common platforms for fundraising efforts, whereas social media sites—including Twitter, Instagram, and LinkedIn—have seen less adoption with the exclusion of Facebook. Comparing fundraising platforms across different organization size, larger organizations have more quickly adopted social media sites into their fundraising efforts. Interestingly, the use of Instagram surged from 9% last year to 29% this year.

Fundraising Platforms Utilized

<table>
<thead>
<tr>
<th>Platform</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website</td>
<td>84%</td>
</tr>
<tr>
<td>Email</td>
<td>77%</td>
</tr>
<tr>
<td>Direct mail</td>
<td>76%</td>
</tr>
<tr>
<td>Facebook</td>
<td>65%</td>
</tr>
<tr>
<td>Twitter</td>
<td>37%</td>
</tr>
<tr>
<td>Instagram</td>
<td>29%</td>
</tr>
<tr>
<td>LinkedIn</td>
<td>21%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

Respondents: 62

Nearly 80% of organizations do not engage and do not plan to start utilizing a fundraising consultant. Across the responses, the bulk of donations are from unrestricted donors. Donations are accepted across several different avenues including checks, debit/credit cards, online payments, cash, and in-kind donations. Apple Pay and Venmo lack widespread adoption. “Other” responses commonly referenced other in-kind donations such as real estate and individual securities.

How Do You Accept Donor Funds?

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check</td>
<td>92%</td>
</tr>
<tr>
<td>Credit/debit card</td>
<td>81%</td>
</tr>
<tr>
<td>Online payment</td>
<td>76%</td>
</tr>
<tr>
<td>Cash</td>
<td>74%</td>
</tr>
<tr>
<td>In-kind donation</td>
<td>73%</td>
</tr>
<tr>
<td>PayPal</td>
<td>32%</td>
</tr>
<tr>
<td>Other</td>
<td>26%</td>
</tr>
<tr>
<td>Apple Pay</td>
<td>2%</td>
</tr>
<tr>
<td>Venmo</td>
<td>2%</td>
</tr>
</tbody>
</table>

Respondents: 62
Fundraising & Budgeting

The most common planned giving programs include charitable gift annuities (50%), donor advised funds/donor managed investment accounts (34%), and charitable trusts (32%).

Planned Giving Programs Utilized

<table>
<thead>
<tr>
<th>Program</th>
<th>Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable Gift Annuity</td>
<td>50%</td>
</tr>
<tr>
<td>Donor Advised Fund (or account)</td>
<td>34%</td>
</tr>
<tr>
<td>Charitable Trusts</td>
<td>32%</td>
</tr>
<tr>
<td>Pooled Income Fund</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
</tbody>
</table>

Top Organizational Priorities Should Additional Resources Be Available

<table>
<thead>
<tr>
<th>Area</th>
<th>Prioritization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Gift Fundraising</td>
<td>45%</td>
</tr>
<tr>
<td>Planned Giving Program Design</td>
<td>34%</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>31%</td>
</tr>
<tr>
<td>General Fundraising</td>
<td>28%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>28%</td>
</tr>
<tr>
<td>Planned Giving Program Administration</td>
<td>20%</td>
</tr>
<tr>
<td>Marketing</td>
<td>20%</td>
</tr>
<tr>
<td>Website Design</td>
<td>20%</td>
</tr>
<tr>
<td>Brand Management</td>
<td>17%</td>
</tr>
<tr>
<td>Accounting/Tax Preparation</td>
<td>14%</td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>13%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>11%</td>
</tr>
<tr>
<td>Event Planning</td>
<td>7%</td>
</tr>
<tr>
<td>Graphic Design</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Crisis Management/Response</td>
<td>3%</td>
</tr>
<tr>
<td>Payroll</td>
<td>2%</td>
</tr>
</tbody>
</table>

Respondents: 62

Budgeting

Respondents indicated major gift fundraising (45%), planned giving program design (34%), and strategic planning (31%) represented the top priorities should additional resources become available. Meanwhile, payroll (2%), crisis management (3%), and graphic design (6%) were the least prioritized.
Service Providers

**Investment Vehicles**
The most common investment vehicles utilized in investment portfolios included: mutual funds (79%), individual securities (53%), and ETFs (53%). Larger organizations were invested across different structures including collective investment trusts (CITs) and limited partnerships more so than their smaller counterparts. However, as organization size increases, mutual fund usage also becomes increasingly more common.

**Investment Vehicles Utilized by Organization Size**

<table>
<thead>
<tr>
<th>Organization Size</th>
<th>Mutual Funds</th>
<th>ETFs</th>
<th>Individual Securities</th>
<th>SMAs</th>
<th>CITs</th>
<th>LPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$50mm</td>
<td>75%</td>
<td>49%</td>
<td>33%</td>
<td>23%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>$50-100mm</td>
<td>77%</td>
<td>62%</td>
<td>15%</td>
<td>31%</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>$100-250mm</td>
<td>89%</td>
<td>67%</td>
<td>44%</td>
<td>44%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>&gt;$250mm</td>
<td>100%</td>
<td>50%</td>
<td>33%</td>
<td>50%</td>
<td>33%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Respondents: 84

**Sub-Accounting**
Nearly half of organizations who leverage sub-accounting do so in-house, while 16% use an accounting firm and 16% use a custodian.

**Consultants**
Registered investment advisors (RIAs) consult to 47% of organizations while 30% utilize an investment manager. The discretionary services most often provided by the organization’s consultant include strategic asset allocation (66%), manager selection (62%), and tactical asset allocation (53%).

**Custodian**
Most organizations did not utilize custodial services provided by the consultant. Nearly half (48%) of respondents custody their assets independently from their consultant and asset manager(s), while 36% bundle these services with their asset manager(s).
Current Issues

Organizations ranked their concerns from 1 (extremely low) to 5 (extremely high) across several different topics ranging from portfolio returns and market characteristics to spending and fees. The largest concerns were market volatility (>70% indicated high-extreme concern) and return expectations (nearly 60% indicated high-extreme concern). Liquidity, inflation, and spending were the areas of least concern.

Reported Top Concerns

Respondents: 82
Current Issues

Respondents were offered two open-ended questions at the end of the survey.

Biggest Obstacle Faced by the Organization

Many responses focused on the general market environment going forward. Concerns of market volatility and growth in the economy resonated throughout the responses with one respondent going as far to say, “Depth of the upcoming recession” as their biggest concern. Another respondent indicated, “Achieving adequate investment returns to support a stable endowment payout while allowing the pool to grow.”

Several comments related to fundraising concerns from general worries around expanding the donor base (including aging donor bases) to government policy implementation that could restrict fundraising. Competition from other organizations was a common theme throughout. Additionally, many organizations mentioned staffing shortages as an obstacle that could inhibit fundraising potential.

Impact of 2018 Tax Reform on Fundraising

Most respondents indicated the 2018 Tax Reform either had no major impact on the organization or that the impact was not currently clear. However, several respondents indicated experiencing an influx of donations, which was likely to allow donors to take a larger deduction this year. One response indicated, “(The reform) has created waves of donations and some donors doubled their giving last year but are not expected to fund this year.”

Another commented, “The number of small gifts of less than $100 has decreased.” Coincidentally, another respondent stated, “There have been less contributions from middle income donors.” This could potentially be a byproduct of the increased standard deduction, which reduced the number of households who itemized their deductions. If donors itemized previously but now take the standard deduction, charitable contributions may no longer be a tax incentive. One respondent stated, “We would assume people would give less if they cannot deduct it from their taxes. It is important that donors know they can contribute directly from their IRA.”
Appendix

**Total Staff by Organization Size**

<table>
<thead>
<tr>
<th>Staff Size</th>
<th>&lt;$50MM</th>
<th>$50-250MM</th>
<th>&gt;$250MM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>2%</td>
<td>28%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>10-100</td>
<td>5%</td>
<td>20%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>100-500</td>
<td>23%</td>
<td>23%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>&gt;500</td>
<td>14%</td>
<td>29%</td>
<td>57%</td>
<td></td>
</tr>
</tbody>
</table>

Respondents: 87

**Organization Type and Expenditures**

- **Public**
  - Hybrid: 29%
  - Grantmaking/Scholarships (>75%): 31%
  - Program Activities (>75%): 40%

- **Private**
  - Hybrid: 20%
  - Grantmaking/Scholarships (>75%): 59%
  - Program Activities (>75%): 22%

Respondents: 130
Appendix

Investment Vehicles Utilized

- Mutual Funds: 79%
- Individual Securities: 53%
- ETFs: 53%
- SMAs: 41%
- Collective Investment Trusts/Funds: 30%
- Limited Partnerships: 21%
- Other: 2%

Respondents: 89

Expected Passive Investment Allocation Change

- Undecided: 57%
- Reduce: 3%
- Maintain: 34%
- Increase: 6%

Respondents: 88
Appendix

How Often Do You Report on Actual Spending to the Board?

- Monthly: 47%
- Quarterly: 26%
- Annually: 17%
- Other: 10%

Respondents: 77

Who Is Responsible for Monitoring/Reporting Spending Policy?

- Staff: 68%
- Board/Committee: 62%
- Consultant: 12%
- Asset Manager: 4%
- Other: 1%

Respondents: 78

Is Asset Performance Presented with Spending When Reported to the Board?

- Yes: 84%
- No: 16%

Respondents: 76

Changes or Considered Changes to Spending Policy in the Past Year

- No change: 83%
- Changed Methodology: 8%
- Changed Time Period: 5%
- Other: 4%

Respondents: 76
Appendix

Do You Currently or Plan to Engage an Outside Fundraising Consultant?

- Yes: 21%
- No: 79%

Respondents: 81

What Percentage of Fundraising Comes from the Following Sources?

- Unrestricted donors: 61%
- Restricted donors: 39%

Respondents: 114

What Percentage of Your Operating Budget is Covered Through the Following?

- Fundraising: 29%
- Endowment/foundation earnings: 24%
- Government programs: 15%
- Endowment/foundation fees: 10%
- Support from other nonprofits: 5%
- Other: 6%

Respondents: 96

Averages mask wide disparities on a response-by-response basis.
Appendix

Which of the Following Activities Do Your Staff and/or Board Participate in for Development?

- Attend conferences: 78%
- Informal networking with peer organizations: 75%
- Subscribe to philanthropy periodicals, list serves, or blogs: 57%
- Participate in formal philanthropic networks: 51%
- Other: 5%

Respondents: 87
**Appendix**

### What Type of Consultant Do You Utilize?

<table>
<thead>
<tr>
<th>Consultant Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Investment Advisor</td>
<td>47%</td>
</tr>
<tr>
<td>Investment Manager</td>
<td>30%</td>
</tr>
<tr>
<td>Bank</td>
<td>11%</td>
</tr>
<tr>
<td>No Consultant</td>
<td>9%</td>
</tr>
<tr>
<td>Broker Dealer</td>
<td>2%</td>
</tr>
</tbody>
</table>

Respondents: 87

### What Are the Discretionary Services Provided by Your Consultant?

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Asset Allocation</td>
<td>66%</td>
</tr>
<tr>
<td>Manager Selection</td>
<td>62%</td>
</tr>
<tr>
<td>Tactical Asset Allocation</td>
<td>53%</td>
</tr>
<tr>
<td>Security Selection</td>
<td>49%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Respondents: 79
Appendix

Who Provides Custody Services for Your Portfolio?

- Independent From Consultant/Asset Manager: 48%
- Bundled With Asset Manager: 36%
- Bundled With Consultant: 12%
- Other: 4%

Respondents: 83

Who Provides Sub-Accounting for Restricted/Endowed Assets?

- Internal Staff: 48%
- Accounting Firm: 16%
- Bank/Custodian: 16%
- Asset Manager: 8%
- Third Party Administrator: 5%
- Don’t Know: 3%
- Other: 3%

Respondents: 73