

FOUNDATION SOURCE ANNUAL REPORT ON PRIVATE FOUNDATIONS

2019





TABLE OF CONTENTS

About the Foundation Source Annual Report	3
Report Methodology	4
Major Findings	5
Demographics	6
Changes in Asset Values	7
Analysis of Changes in Asset Values	8
Portfolio Performance	10
Asset Allocation	11
Trends in Giving	13
Distribution Ratios	14
Giving Patterns	16
Where Grants Were Made	17
Timing of Grants	18
General vs. Specific Purpose Grants	19
Terminology	20
Conclusion	21



About the Foundation Source Annual Report

Since 2008, Foundation Source has been collecting data for reports documenting the grantmaking and investment activity of our foundation clients with assets of \$50 million or less. Foundations of this size represent 98% of all private foundations in the U.S., so data regarding their behavior provides a useful benchmark for the larger community of private foundations and their professional advisors.

As the administrator of over 1,500 private foundations, Foundations Source is uniquely positioned to provide data and analysis on this majority of the foundation community. We source the data in this report not from opinion surveys, but from actual client transactions: grants, investment returns, asset balances, and charitable and administrative expenses disbursed in 2017 and 2018. Therefore, we are able to provide an accurate, up-to-date account of foundation activities.

Foundation Source's thought leadership is rooted in its 19 years of experience as the nation's largest provider of comprehensive support services for private foundations of all sizes, nationwide.

We hope you find this report helpful and informative.



Report Methodology

The findings in this report are based on our analysis of the activities of a sample of 987 private, non-operating foundation clients with assets of less than \$50 million. Our data are drawn from investment returns, asset balances, and transactions recorded by Foundation Source as we paid grants and expenses on behalf of our clients, prepared their tax returns, and recorded investment information provided by each foundation's financial institution. (Foundation Source does not custody or manage assets.)

To ensure a representative sample, we included only foundations with assets of less than \$50 million that were active Foundation Source clients across the two years of the study period (2017 and 2018). And, because foundation activity in its first years of existence can be quite different from subsequent years, we excluded foundations that were less than three years old. These parameters help mitigate aberrations in the data that could arise if, for example, grantmaking was modest in the first years, or the foundation was not fully funded.

Throughout the report, we present both the aggregate results for the entire study group, as well as the results for subsets of foundations, based on three asset bands:

Small Foundations: Assets of less than \$1 million

Medium Foundations: Assets between \$1 million and \$10 million

Large Foundations: Assets between \$10 million and \$50 million

As Foundation Source is committed to protecting the confidentiality and privacy of our clients, we have implemented rigorous policies to safeguard the information with which they have entrusted us. **In strict accordance with our company policy on client confidentiality, we have taken great care to use only aggregated data, and we do not make reference in this report to any individual foundation.**



Major Findings

In 2018, after three strong quarters, foundation assets dipped

The overall asset balances of the 987 foundations in the sample group declined by 3.5%, compared to 13.2% growth in 2017. However, most of this drop in value occurred in the fourth quarter of 2018 when, after three strong quarters, the Standard & Poor's 500-stock index fell, ending 2018 down 6.24% on the year.¹ As of January 2019, foundation asset balances were up 4.9%, suggesting that the year-end dip may have been more of a blip than the start of a downward slide.

Grant disbursements remained stable despite the decline in assets

In 2018, despite declines to their asset balances, the foundations in our study nearly matched their previous year's disbursements, collectively awarding almost \$300 million in grants.

Charitable distributions exceeded the requirement

Like the foundations in our previous reports, this group considerably exceeded the mandatory 5% distribution requirement. On average, they distributed 7.3% of their assets for charitable purposes.

Contributions were strong

Donors did not rely solely on returns to fuel their 2018 grantmaking. Instead, they contributed 73 cents to their foundations for every 76 cents disbursed as grants and charitable expenses.

Foundations increased the percentage of grants made for general operating support

Funders typically make most of their grants for specific purposes rather than general operations. In 2018, however, the foundations in our study increased the percentage of grants made for general operating support, providing more of the unrestricted funding that grantees particularly prize.

¹ Sheetz, Michael, and Robert Hum. "The Stock Market's Epic Fourth-quarter Reversal Is One for the History Books." CNBC. December 31, 2018. Accessed May 09, 2019. <https://www.cnbc.com/2018/12/31/the-sp-500-will-make-history-when-it-ends-the-year-with-a-loss.html>.



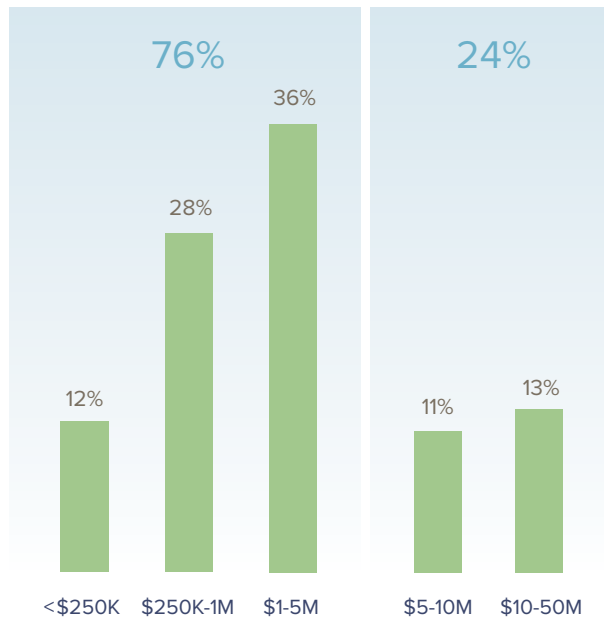
987

Foundations in our report sample

Demographics

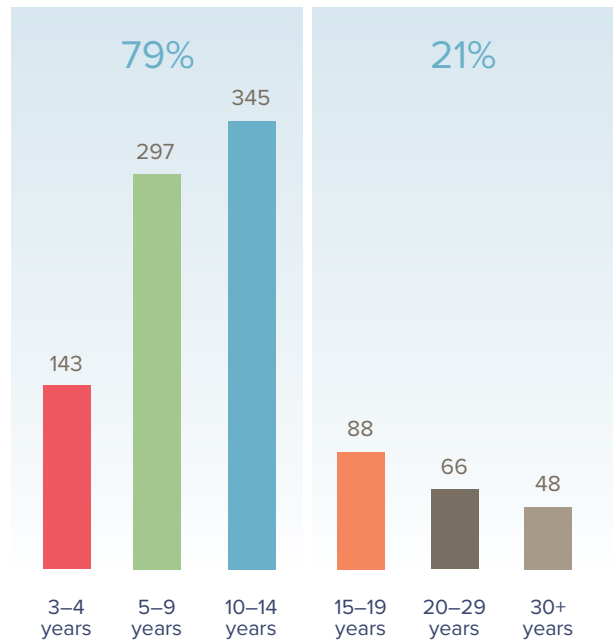
A closer look at the 987 foundations that we analyzed for this report.

Composition by Asset Size



The vast majority (76%) of the foundations in our sample have \$5M or less in assets. Foundations with \$1-5M in assets represent 36% of the sample. Foundations with assets of \$5-50M constitute 24% of the sample.

Composition by Age



Although the report includes foundations ranging in age from three to 30+ years, most of the foundations in our sample (79%) have been in existence fewer than 15 years. The largest sub-group of foundations (345 of the 987) have been in existence for 10-14 years.



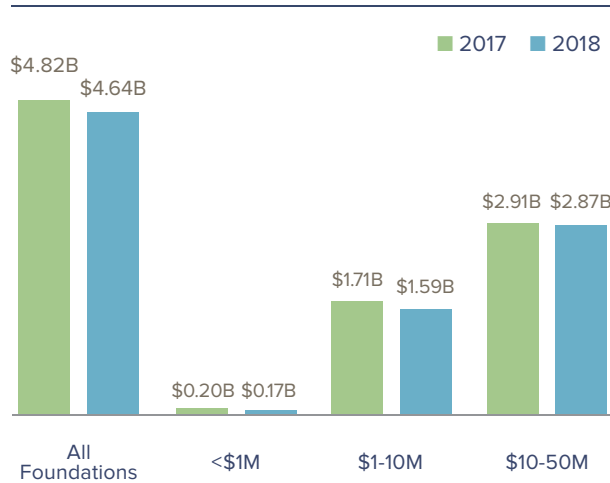
The typical foundation in our sample has assets of \$5 million or less and has been in existence for fewer than 15 years.



Changes in Asset Values

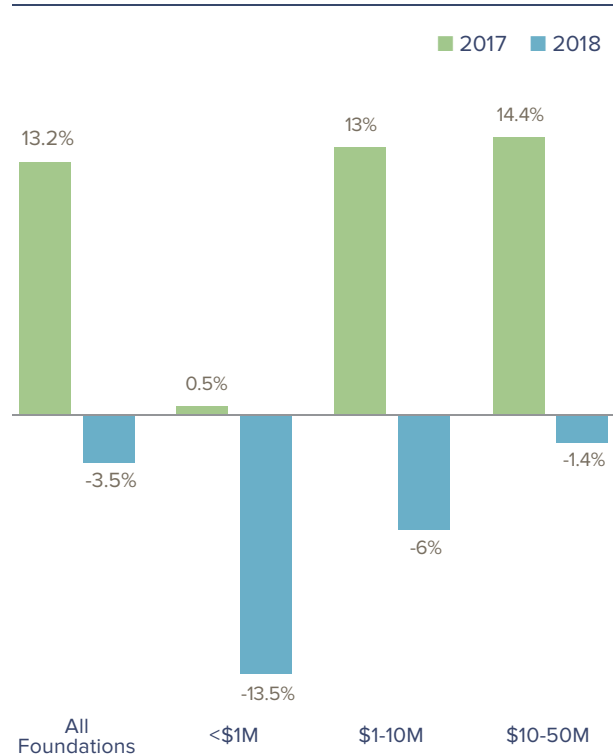
Collectively, the foundations in our study saw a decline of 3.5% in their overall asset value. As foundations grant out funds quite generously relative to their assets (see p. 15), the declines depicted on these charts do not solely represent investment performance.

Total Asset Balances by Foundation Size



At the close of 2018, the foundations in the sample collectively held \$4.64 billion, a loss of \$180 million over the previous year. The asset balances of the smallest foundations decreased \$30M, while on a percentage basis, mid-sized and large foundations saw more modest declines.

Total Annual Growth by Foundation Size



In 2018, foundations of all sizes experienced a net decline in asset values of 3.5%. The smallest foundations posted the most significant declines (-13.5%), mostly attributable to their robust grant-making. As shown on p. 9, these foundations distributed 14.5% in grants and expenses.²

² Another factor affecting asset values is that some of the foundations included in the study sample own investments in partnership interests requiring Schedule K-1s. Because the IRS deadline for issuance of Schedule K-1 isn't until September 15, 2019, there may be changes in asset balances due to K-1 activity reported after publication of this report.

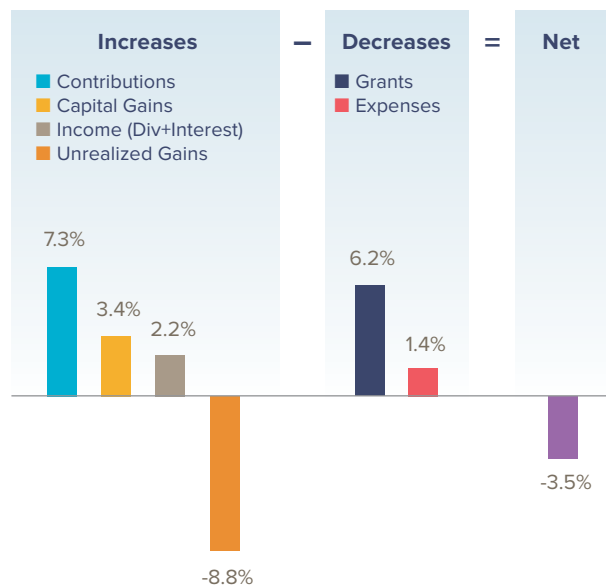


Analysis of Changes in Asset Values

For purposes of this report, we distinguish “net asset change” from “portfolio performance.” “Portfolio performance” looks only at the impact of the market on foundation asset values. In contrast, “net asset change” also takes into account the impact of client contributions and outflows of grants and expenses.

To a varying degree, all three foundation cohorts saw declines in their net asset values. Outflows for grants and expenses account for most of the variation in their net asset values.²

Net Change Asset Values (All Foundations)



The net asset values of foundations in our sample declined 3.5% for the year. Clients supplied robust infusions of fresh capital to their foundations, contributing 73 cents for every 76 cents they disbursed as grants and charitable expenses. However, modest increases in income and capital gains were insufficient to offset both charitable disbursements and unrealized gains in strongly negative territory.

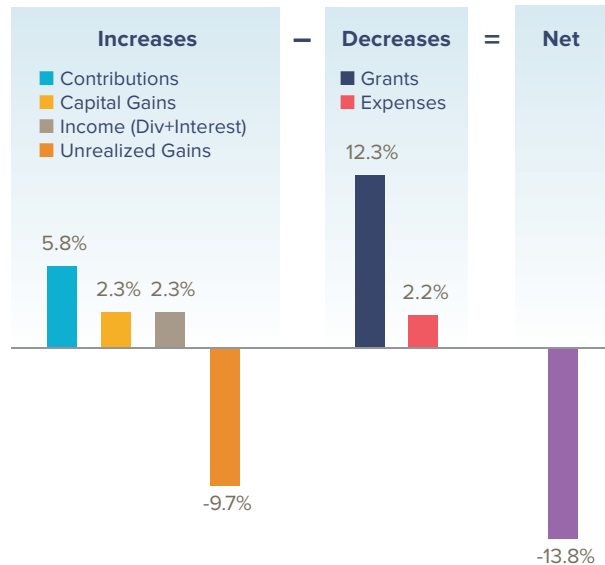


The foundations experienced positive growth for the first three quarters of 2018, but these were followed by a steep decline in the fourth quarter, equating to the net decline of 3.5% at year’s end. Happily, growth during the first month of 2019 (4.9%) helped these foundations recoup some of their losses.



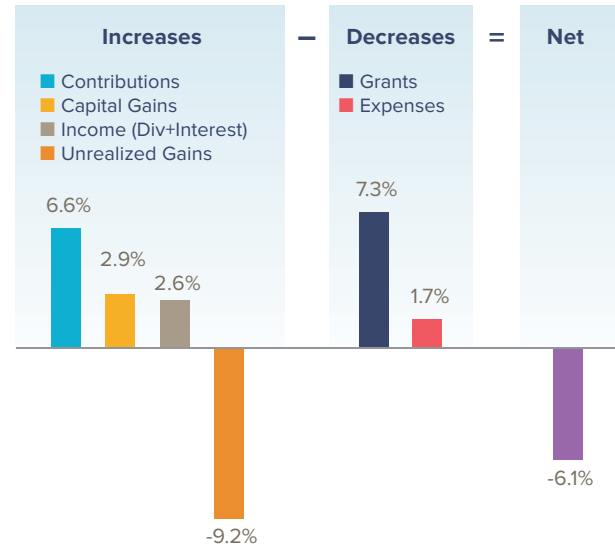
NET CHANGE FACTORS

Small Foundations (<\$1M)



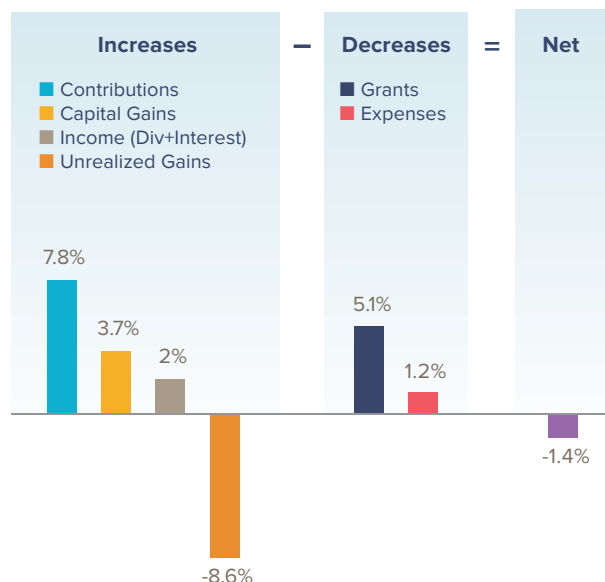
Smaller foundations saw a 13.8% decrease in their 2018 asset values. Because foundations of this size are particularly energetic grantmakers, their asset balances are subject to considerable pressure. This was especially apparent during 2018 when -9.7% unrealized investment returns were coupled with 14.5% outflows in grants and expenses.

Mid-Sized Foundations (\$1–\$10M)



Foundations with assets of \$1-10M experienced a -6.1% change in asset value. Although foundations of this size received substantial new contributions of 6.6%, this was insufficient to offset -9.2% in unrealized gains and grant and expense disbursements of 9%.

Large Foundations (\$10–\$50M)



In 2018, the largest foundations in the sample population experienced the smallest decline in asset values (-1.4%). Robust client contributions of 7.8%—the highest of the three foundation cohorts—were more than sufficient to keep pace with disbursements of 6.3% in grants and expenses. Realized capital gains of 3.7% and 2% in dividend and interest income also helped mitigate -8.6% in unrealized gains.

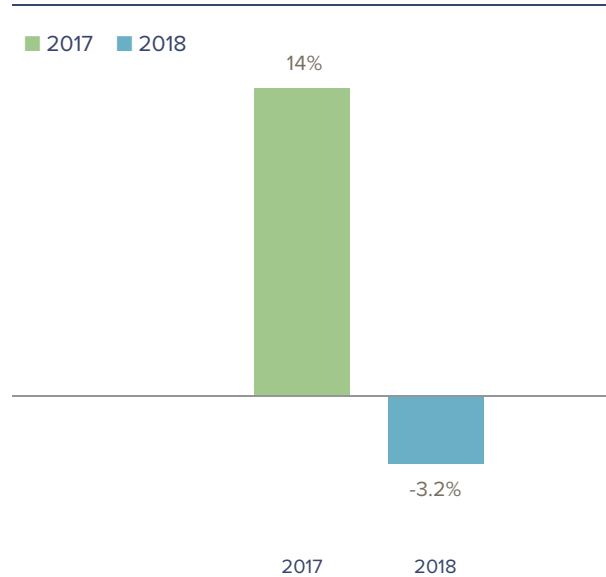


Portfolio Performance

For the purposes of this report, we distinguish “portfolio performance” from “net asset change.” Portfolio performance looks only at the impact of the market, whereas net asset change also takes into account client contributions and outflows of grants and expenses. In looking at the sample group’s portfolio performance, we took into consideration their capital gains, unrealized gains, and income (both dividends and interest).

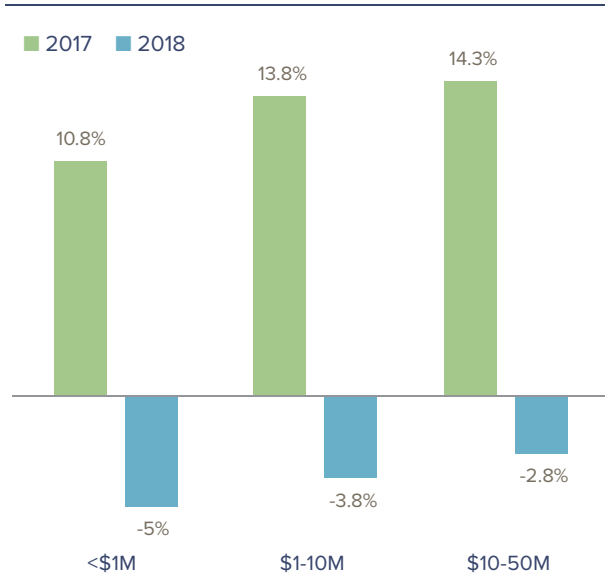
In assessing how the foundations in our sample fared relative to the market, we should first consider the market’s overall performance: After the strong growth of 2017, 2018 ended down due to a weak fourth quarter, with all three major indexes finishing in the red. The Dow Jones Industrial Average closed out 2018 at -5.97%; the Standard & Poor’s 500-stock index ended down 6.24% on the year; and the NASDAQ finished down 4.38%.³

Portfolio Performance (All Foundations)



In 2017, portfolio performance across all asset sizes was boosted by strong investment returns. In 2018, however, the foundations in the study sample experienced a collective decline of 3.2%, largely due to a weak fourth quarter.

Portfolio Performance by Foundation Size



Foundations of all sizes posted negative growth in 2018. However, if we were to benchmark the mid-sized and largest foundations to the S&P total return index (-4.38%), their results would compare favorably.

³ Heath, Thomas. “All Three Market Indexes Finish 2018 in the Red.” The Washington Post. December 31, 2018. Accessed May 09, 2019. https://www.washingtonpost.com/business/economy/markets-stage-late-rally-but-2018-decline-still-sets-records/2018/12/31/0ddf9dc8-0d32-11e9-8938-5898adc28fa2_story.html?utm_term=.c56658e41746.



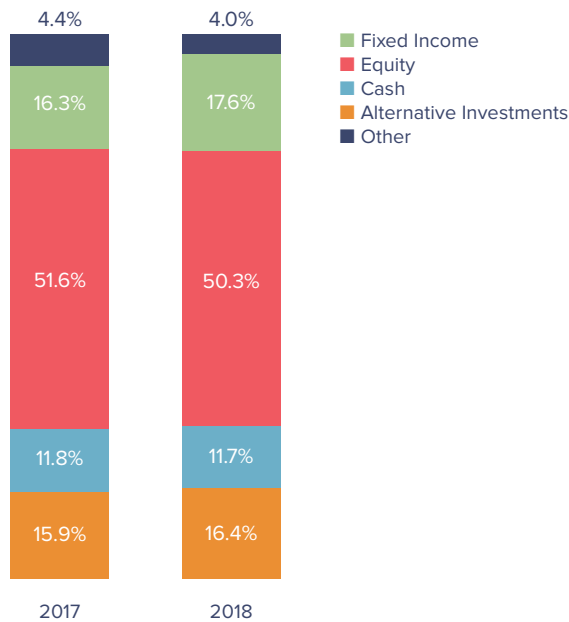
Asset Allocation

The study looked at the foundations’ asset allocations across four broad categories:

- Cash
- Equities (domestic and international)
- Fixed income (primarily corporate and government bonds)
- Alternative investments (hedge funds, private equity, real estate, distressed debt, and commodities)²

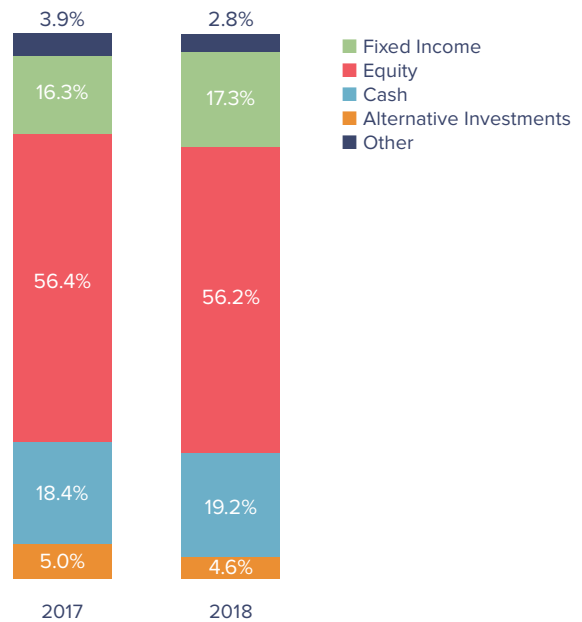
Equities typically represent the largest share of foundation portfolios. However, in 2018, perhaps due to uncertainty about market stability, foundations of all sizes slightly reduced their allocations to equities while increasing their fixed income holdings.

Asset Allocation (All Foundations)



The foundations in the sample reduced their equity holdings overall by 1.3% in 2018 while increasing their allocations to fixed income by the same amount. Allocations to alternative investments increased 0.5% with cash holdings almost unchanged over the previous year.

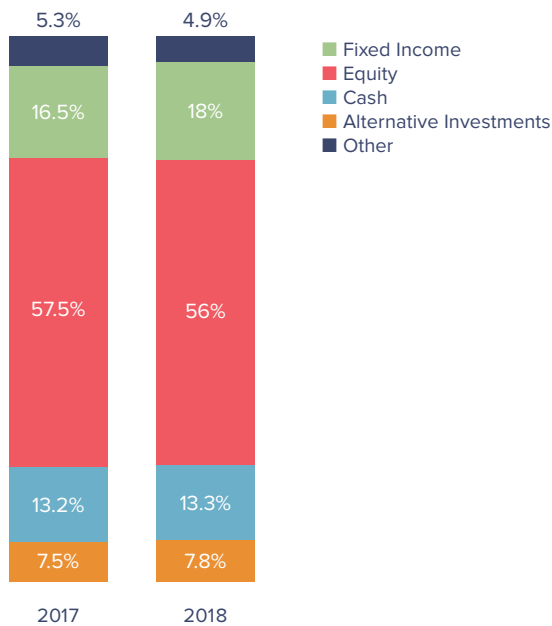
Small Foundations (<\$1M)



In 2018, smaller foundations, which typically hold more cash than the two other cohorts, increased their allocations to cash by 0.8%. Because smaller foundations tend to disburse a larger percentage of their assets in grants and expenses, they need to maintain liquidity to fund those activities.

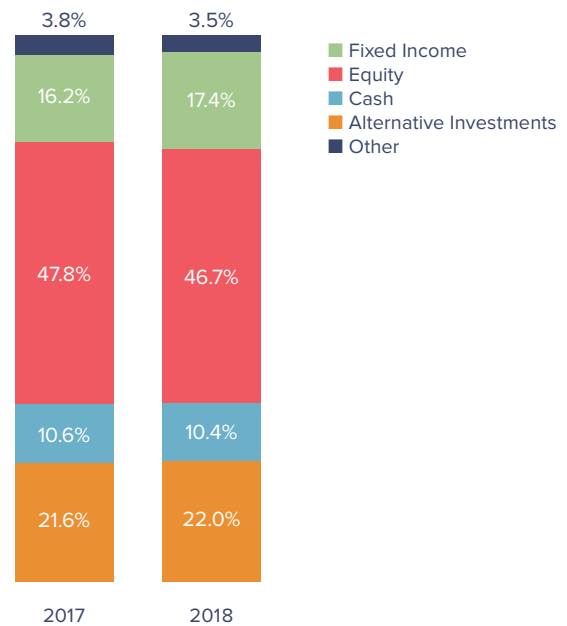


Mid-Sized Foundations (\$1–\$10M)



In 2018, mid-sized foundations reduced their allocation to equities slightly and increased their fixed income position. Their allocations to alternative investments and cash remained almost unchanged.

Large Foundations (\$10–\$50M)



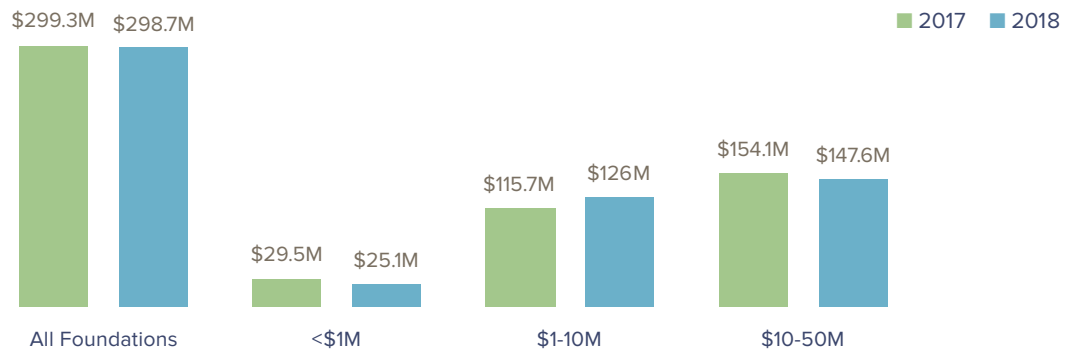
Like the other cohorts, the largest foundations reduced their equity holdings in 2018, reallocating 1.1% to other investment categories. As larger foundations may have investment opportunities unavailable to their smaller counterparts, in both 2017 and 2018, they devoted a far greater percentage of their portfolios to alternative investments.



Trends in Giving

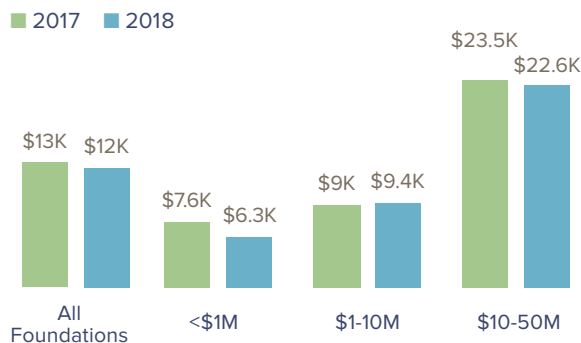
Collectively, the 987 foundations in our study gave almost as much in 2018 as they did in 2017, awarding \$298.7 million in grants. However, a closer look at the data reveals some subtle shifts.

Grantmaking Totals



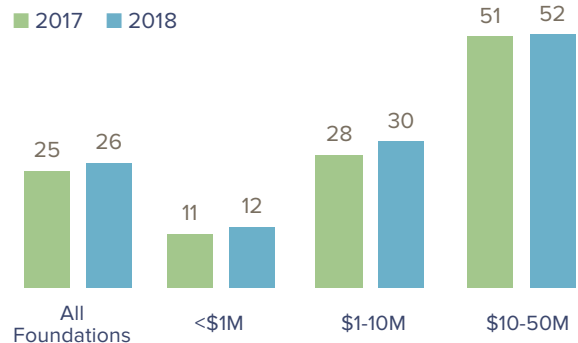
Although the grantmaking totals remained relatively stable overall, in 2018, the total grants made by small and large foundations declined by \$4.4M and \$6.5M respectively. Mid-sized foundations picked up the slack, increasing their grantmaking levels by \$10.3M over the previous year.

Average Size of Grants



The average grant size across all foundations decreased slightly, from \$13,000 in 2017 to \$12,000 in 2018. While the average grant size of the smallest and largest-size foundations decreased (down \$1,300 and \$900 respectively), the average grant size of mid-sized foundations increased \$400 over the previous year.

Average Number of Grants



Based on a weighted average, the number of grants awarded by all foundations in the sample rose slightly from 25 in 2017 to 26 in 2018. Foundations of all sizes made similarly small increases in the number of grants awarded.



Distribution Ratios

A foundation's distribution ratio is the amount of its charitable distributions relative to the value of its assets. Charitable distributions include all expenditures made by foundations in furtherance of their philanthropic missions. These expenditures include grants as well as expenses for managing the foundations, operating their charitable programs, complying with state and federal laws, and other administrative costs. They do not include expenses associated with the production of income.

Looking at distribution ratios helps explain whether an increase in foundation giving is the result of a foundation having more money to distribute due to an increase in assets or whether it is more “generous” in its giving. For example, a foundation that lost 10% of its endowment value but maintained the same level of giving as the previous year is actually more generous relative to its asset size, even though its overall grantmaking budget was unchanged. Conversely, a foundation that increased the total value of grants it awarded by 10% over the previous year while its assets increased in value by 25%, could be said to have been less generous relative to its assets over the previous year.

Tracking distribution ratios over time can help us determine whether increases or decreases in grantmaking from one year to the next are the result of fluctuations in asset size or are attributable to increased generosity.

By law, each year, foundations are required to spend an amount equal to roughly 5% of their net assets of the previous year (the “minimum distribution requirement”). Consequently, it is often assumed that private foundations only pay the 5% minimum requirement for charitable purposes. In 2018, however, the foundations in our study collectively distributed an average of 7.3% of their assets for charitable purposes—exceeding the mandatory distribution. This finding is consistent with those of previous reports we've published using different samples of client foundations.



A distribution ratio compares a foundation's charitable spending to the total value of the assets it holds.



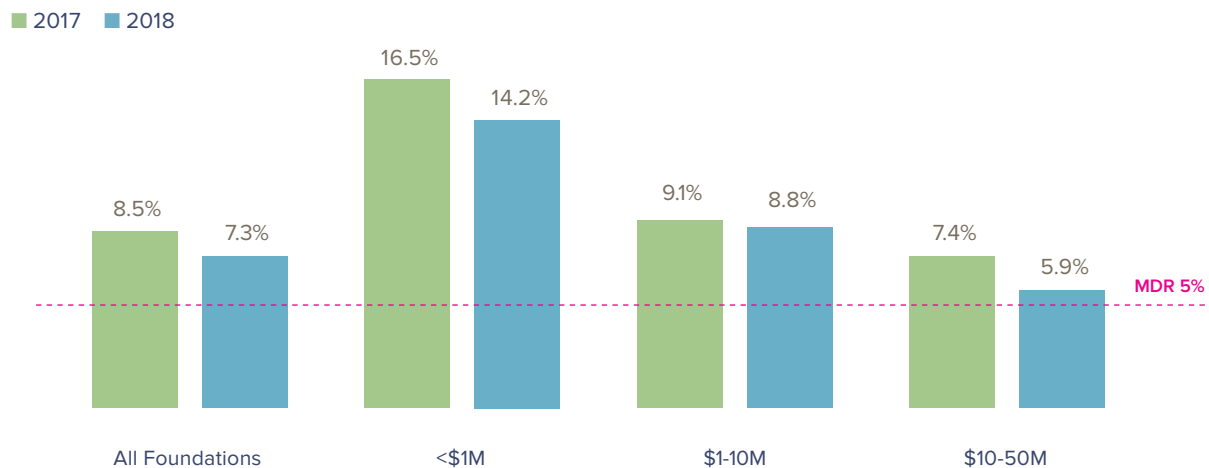
How Much Foundations Gave Relative to Their Assets

Since 2008, the first year of data that we collected in issuing these reports, charitable distributions by foundations of all sizes have consistently and significantly exceeded the 5% minimum distribution requirement. The pattern held true in 2018, when the foundations in our sample distributed an average of 7.3% of their assets, down slightly from 8.5% in 2017.

Given the 3.5% net loss that these foundations experienced in their asset values, it was encouraging to see that their charitable distributions remained relatively stable and continued to exceed the 5% requirement.

Historically, the smallest foundations in our sample have been the most generous in their giving relative to their size, and in 2017 and 2018, foundations with assets of less than \$1M again led the pack. In 2018, they distributed 14.2% of their total asset balances, nearly three times the 5% required by law and considerably higher than the mid- and large-sized foundations. However, their 2018 distribution ratio was slightly lower than in 2017, when small foundations distributed 16.5% of their average assets. Mid- and large-sized foundations slightly decreased their percentage distributions in 2018, awarding 8.8% and 5.9%, respectively.

Average Distribution Ratio by Asset Size

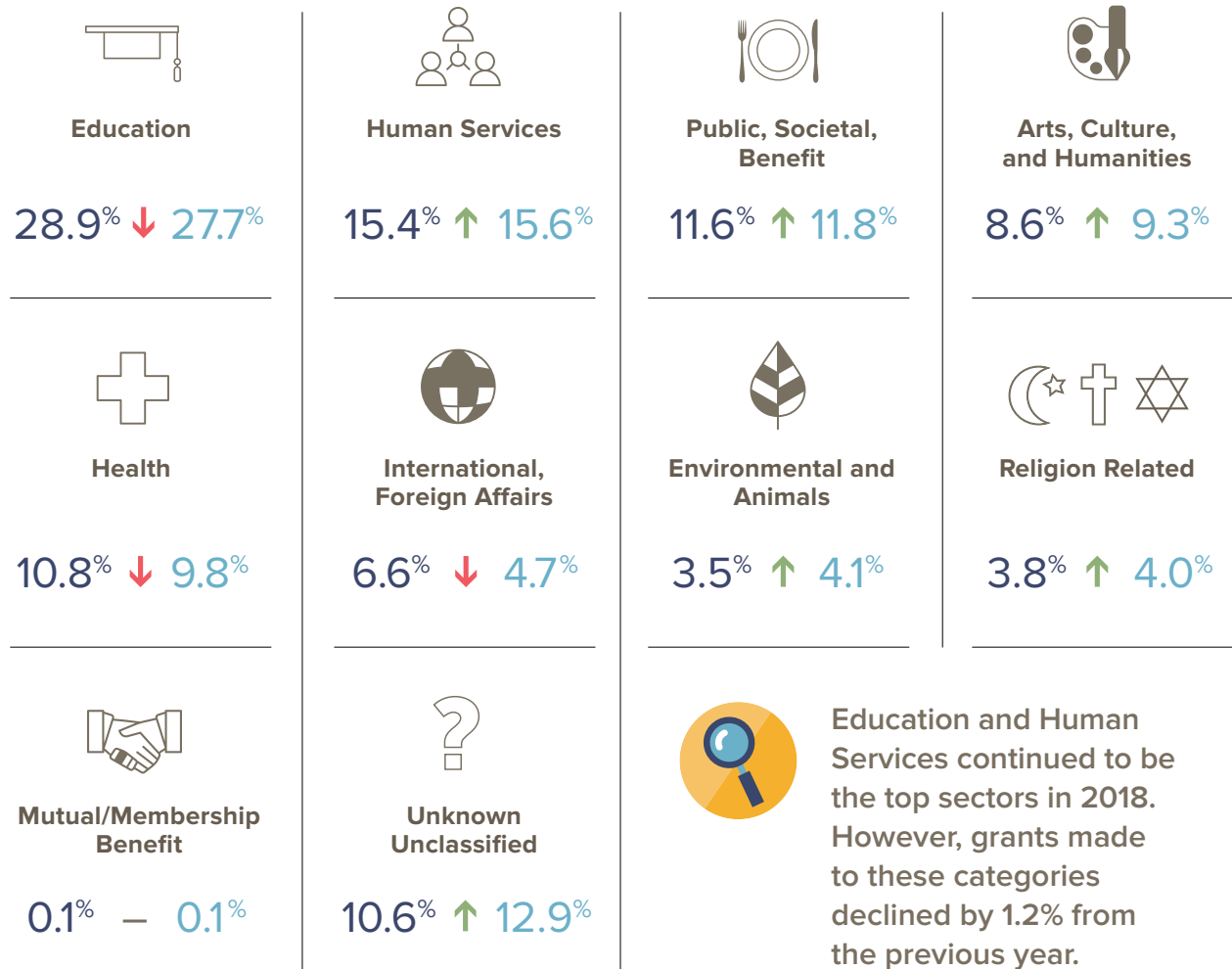




Giving Patterns

When looking at the breakdown of the grant dollars that went to different charitable sectors in 2018, it is apparent that most funding categories received more or less the same percentage of grant dollars as in 2017. There were, however, slight increases in funding in 2018 to the categories of Human Services, Public Benefit, Arts, Environmental, and Religion.

■ 2017 ■ 2018



Education and Human Services continued to be the top sectors in 2018. However, grants made to these categories declined by 1.2% from the previous year.

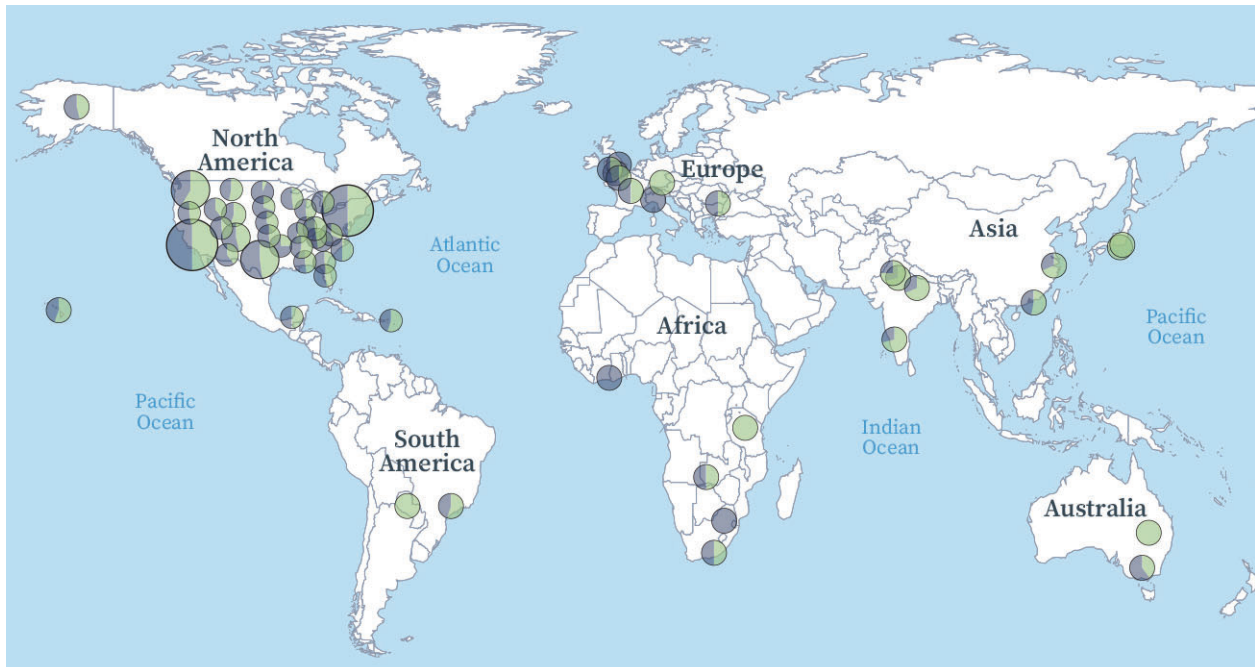


Where Grants Were Made

The map below shows the geographic location of grant recipients in 2017 and 2018. Although most of the grants made by the sample foundations were made domestically, a significant number were made outside the U.S.

Where They Gave

■ 2017 ■ 2018

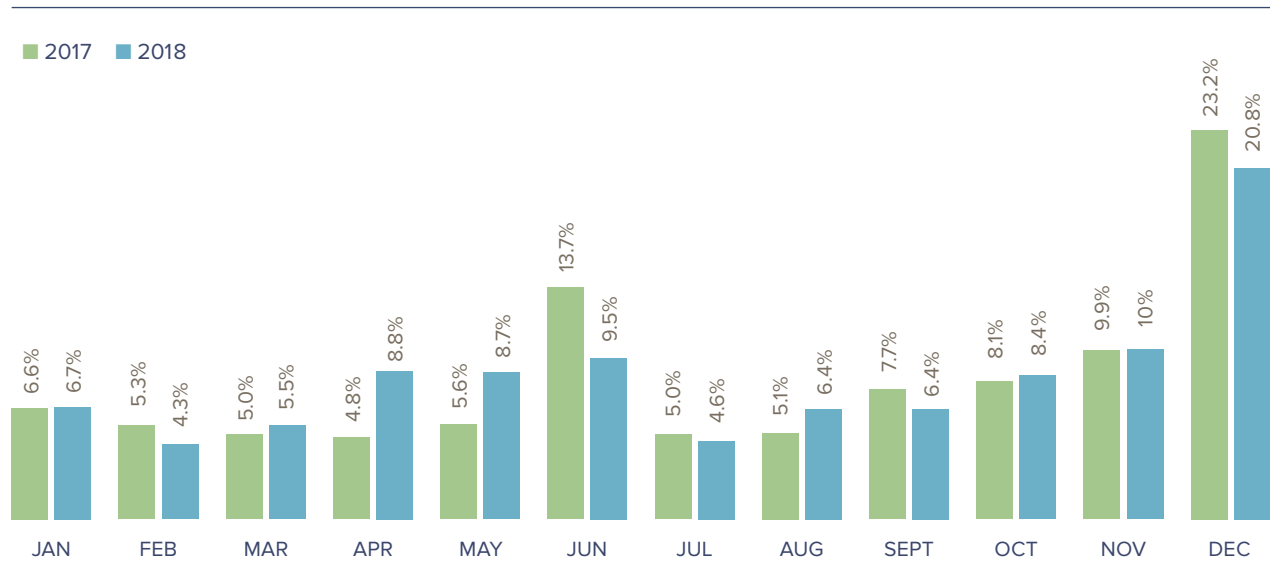




Timing of Grants

Grantmaking activity typically spikes in December with a smaller spike in June. The timing of grants in 2018 was similar to the previous year but with lower spikes in those two peak months.

Timing of Grants



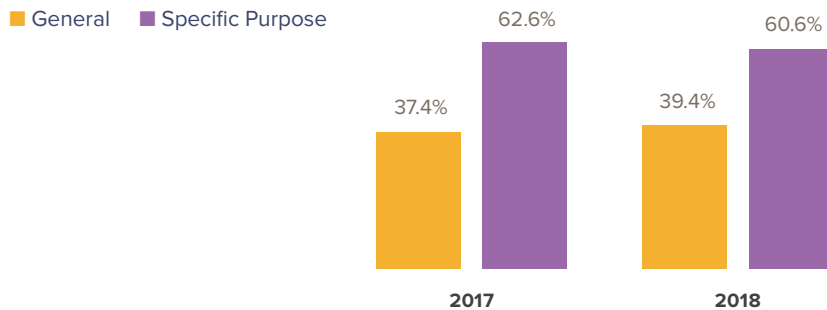


General vs. Specific Purpose Grants

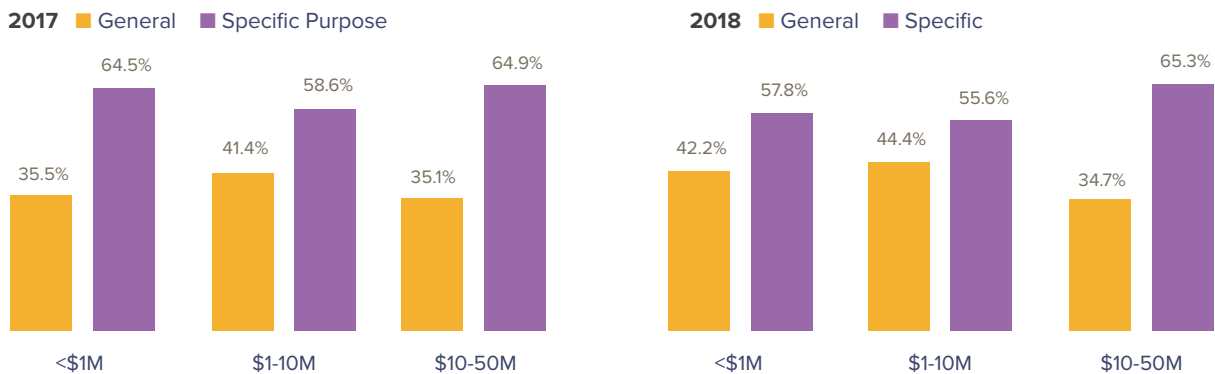
Grants can be made as general operating support (funds used to sustain an organization’s overall operations) or for a specific purpose (support for a designated program or initiative). General operating support is particularly prized by nonprofits because it can be used as they wish, whether paying basic expenses that help keep the lights on or launching a new program. However, funders typically favor specific purpose grants because they want their resources devoted to programs that further their own charitable objectives.

In both years of the study, the private foundations in the sample showed a preference for specific purpose grants. However, in 2018, foundations increased general operating support grants by 2% overall. This increase was particularly evident among the smallest foundations, which increased their general operating support grants by 6.7%. Meanwhile, the largest foundations, which historically give the highest percentage of their grants for a specific purpose, remained true to form.

General vs. Specific Purpose Grants (All Foundations)



General vs. Specific Purpose Grants by Foundation Size





Assets/Endowment

All investments, cash, and other property held by the foundation for investment purposes at a given moment in time, generally the last day of the year, unless otherwise noted. Our definition does not include property used directly in carrying out the foundation's charitable mission, such as land used to operate a camp for disadvantaged youth or a building used as a community center.

Average Investment Assets

The assets against which the 5% mandatory distribution requirement is measured. It is calculated by valuing all investments periodically throughout the year (monthly for most liquid assets) and taking the average of those values. This number does not include assets used in carrying out the foundation's charitable mission, such as buildings, art, property, or equipment used directly for charitable activities.

Charitable Expenditures

All funds expended by the foundation in furtherance of its charitable purposes, including all grants and all reasonable and necessary administrative expenses. These expenditures do not include investment expenses or other expenses attributable to producing income.

Contributions

New gifts to the foundation. These gifts are typically from the founder or parent company (in the case of a company foundation), but they may also come from family members, related businesses, and others close to the organization. While some foundations also conduct occasional fundraising events, the amounts collected at such events typically do not represent a significant source of new revenue. Because of somewhat complicated IRS rules that can discourage foundation-to-foundation transfers, contributions generally do not include funds from other private foundations.

Expenses

All amounts spent by the foundation including administrative expenses, investment management fees, compensation paid to employees, rent, fees for services, and all other program and operational expenses; but not including grants.

Grants/Giving

Funds distributed to individuals, charitable organizations, or other organizations that are used exclusively to support charitable activities. Money spent on rent, to purchase supplies, or in any other quid pro quo transaction—even if entered into to further the charitable programs and mission of the foundation—is considered an expense, not a grant.

Mandatory Distribution Requirement

The federal tax laws require that private foundations distribute a certain amount each year for charitable and administrative purposes. That amount is equal to 5% of the foundation's average investment assets, less a few minor modifications and credits set forth in the tax regulations.



Conclusion

Although their net asset balances declined, the 987 foundations in our study collectively gave almost as much in 2018 as they did in 2017, awarding close to \$300 million in grants in each year.

As they have for every year of the past decade that we've collected data for these reports, charitable distributions by foundations of all sizes consistently and significantly exceeded the 5% minimum distribution requirement in 2018. The foundations in our sample distributed an average of 7.3% of their assets. Meanwhile, the smallest foundations, those with assets of less than \$1M, disbursed an astonishing 14.2% of their assets.

Whether the market growth evident in January of 2019 portends a positive trajectory for the remainder of the year or more challenging conditions prevail, we are confident that this community of committed philanthropists will continue to provide significant support for the causes and institutions they champion.

ABOUT FOUNDATION SOURCE

www.foundationsource.com

Foundation Source is the nation's largest provider of comprehensive support services for private foundations. Our complete outsourced solution includes foundation creation (as needed), administrative support, active compliance monitoring, philanthropic advisory, tax and legal expertise, and online foundation management tools.

Now in our second decade, Foundation Source provides its services to more than 1,500 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, accounting firms, and family offices as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut.

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