

Balancing Purpose, Payout, and Permanence: Strategy Guide

AUGUST 2020



NATIONAL CENTER FOR
FAMILY PHILANTHROPY



COUNCIL *on* FOUNDATIONS

BALANCING PURPOSE, PAYOUT, AND PERMANENCE

AUGUST 2020

“The strength of a funder’s grantees at the end of this crisis will be a much better measure of the significance of a foundation than the size of its endowment. Unprecedented challenges require unprecedented responses – and a casting aside of traditional norms and approaches.”

Those sentences closed the [Statement Encouraging Increased Giving in the Time of Crisis](#), published in April 2020 by the Council on Foundations, National Center for Family Philanthropy, and seven other philanthropy serving organizations.¹ It was an early contribution to a growing number of opinion pieces and advocacy efforts encouraging donors, foundations, donor-advised funds, companies, and others to increase their giving in response to the COVID-19 pandemic and global recession.

At the time of this publication there is still great uncertainty about the progression and long-term effects of the pandemic and recession. Additionally, a global movement for racial justice is underway, leading many within the philanthropic community, specifically ABFE: A Philanthropic Partnership for Black Communities, to [call for action against anti-Black racism](#). We do know that in the ‘next normal’, disruption and compounded challenges will be more common, as will increased criticism of philanthropy and wealthy donors.

Those issues motivated the development of this Strategy Guide, which examines options for how private foundations can approach financial stewardship, especially in troubled times. In this period of uncertainty and anxiety, more private

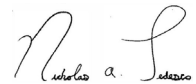
foundations are revisiting questions of why, when, and how to respond to short-term and long-term crises. They are finding new flexibility and creative solutions as they examine the soul of their institutions and their role as stewards.

We encourage your foundation to thoughtfully consider how you will balance permanence, payout, and purpose in the future. You will find inspiration and sage advice from your peers and other experts in this Strategy Guide and the accompanying Discussion Guide.

Please don’t hesitate to contact us if you have questions about this publication or want to share the results of your foundation’s decisions.



Kathleen Enright
President & CEO
Council on Foundations



Nick Tedesco
President & CEO
National Center for
Family Philanthropy

¹BoardSource, The Center for Effective Philanthropy, Council on Foundations, Grantmakers for Effective Organizations, Hispanics in Philanthropy, Independent Sector, National Center for Family Philanthropy, National Committee for Responsive Philanthropy, and United Philanthropy Forum.

OVERVIEW

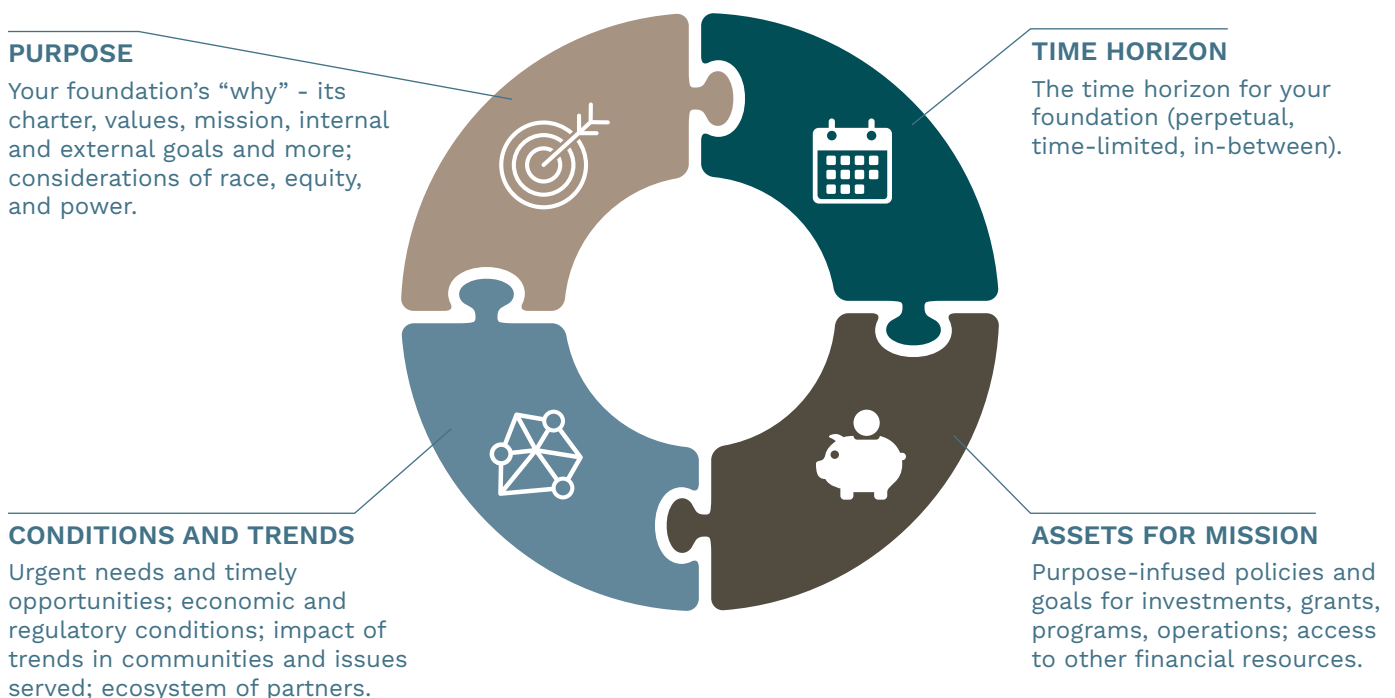
“How much should we spend?” This is one of the essential questions for foundations, and one of the most complex.

“Whatever the IRS requires” is the common answer for many well-established foundations. This minimum required distribution was set at 6% by the Tax Reform Act of 1969 and lowered to 5% in 1976. A growing industry of investment managers and other professionals dedicated to asset preservation reinforced spending only, or close to, the minimum.

But a 5% payout was never universal or sacrosanct among private foundations. Over time, foundation donors have begun to see their role as prudent investors and investment stewards more holistically, sometimes theologically. To various degrees, they are considering the following factors when it comes to spending (see Figure 1):

- **Purpose** – fully living out the values, hopes and passions that animate founders and their successors; and increasingly including considerations of race, equity, and power.
- **Conditions and trends** – giving primacy to the changing conditions in the communities and interest areas they serve, especially when faced with natural, man-made, economic, health and other crises; watching trends in the economy and tax laws.
- **Time horizon** – questioning if perpetuity must mean asset preservation at all costs, questioning perpetuity itself, and/or basing time horizon decisions on other purposes and trends.
- **Assets for mission** – more closely tying spending policies and investment policy statements to the other three factors; considering access to other resources (family donations, leveraging other funders, line of credit, etc.); impact investing options.

Figure 1: Reconsidering Foundation Spending and Stewardship



This Strategy Guide invites you to reflect more deeply on how your foundation chooses to balance those four factors, especially in times of greater crisis or opportunity. It leaves the final decision to you, without judgment for your payout amount, lifespan, or mission. To aid you in the journey into the soul and stewardship of your philanthropic assets, you will find guidance on:

- Section I:** Strengthening the stewardship and governance of your portfolio
- Section II:** Challenging assumptions about perpetuity and payout
- Section III:** Understanding the spectrum of choices foundations use to balance purpose, conditions and trends, permanence, and spending
- Section IV:** Leading more intentional board conversations
- Appendix 1:** Resources for improved investment stewardship
- Appendix 2:** Thinking outside the box on spending and time horizons

On the National Center for Family Philanthropy's and the Council on Foundations' websites, you will also find the ***Balancing Purpose, Payout, and Permanence: Discussion Guide*** and other related resources.

Please note, this Strategy Guide is written primarily for US-based private foundations—family and independent—and the donors who have, or are considering, founding them. It leaves questions about perpetuity vs. limited life to other resources. And though we quote legal and investment experts, it is not a substitute for qualified legal or investment advice.



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I. STRENGTHENING INVESTMENT STEWARDSHIP AND GOVERNANCE

“Stewardship is a term that is healthily disciplining, but it is also too passive: it does remind us of the specific trusts we have accepted, but it does not suggest the creative roles we inescapably play. We are stewards not merely of money, but of a tradition – a tradition [of philanthropy] that is still evolving. And that makes us accountable not only for what we preserve but for what we create.”

– Dr. Paul Ylvisaker in *The Spirit of Philanthropy and the Soul of Those Who Manage It*

IN THIS SECTION

This section summarizes a modern approach to the responsibilities of board and staff members as investment stewards. It offers advice for fulfilling those responsibilities when the foundation wishes to consider the factors described in the introduction and for increasing accountability of investment advisors. [Appendix 1](#) provides additional resources and examples.

1. Reconnecting Assets to Purpose

In economic downturns and other crises, foundations can reduce governance of their philanthropic assets to concepts of “we don’t have enough” and “we won’t have enough.” Even in good times, foundation boards, committees, and staff can easily forget their more fundamental duties as *investment stewards*. The investment steward’s essential responsibility is as a *fiduciary*, a person or organization that manages assets on the behalf of others. The three basic duties of a fiduciary are the same as those of all nonprofit board members:

1. The *duty of care* drives most conversations about investment of, and spending from, endowed funds, interpreted in the US through the Uniform Prudent Management of Institutional Funds Act (UPMIFA)¹. UPMIFA requires boards to prudently balance financial factors, economic conditions, and the purposes of the charity when making decisions.
2. The *duty of loyalty* requires board members to make decisions that are in the best interest of the organization and its mission, avoiding possible conflicts of interest and

¹On the date of this publication, all states (except Pennsylvania) and the District of Columbia have passed UPMIFA laws. Pennsylvania has its own rules related to investments of assets.

related-party transactions. It means placing the goals and needs of the foundation over loyalty to a particular investment advisor or the investment goals of related entities (e.g. a business or family trust).

3. The *duty of obedience* requires board members to continually seek to fulfill the purposes of the organization. Attorney Keith L. Johnson wrote, “fiduciaries of foundations and endowments owe legal duties of obedience to both the organization’s charitable mission and the social benefit purposes required of nonprofits.”² He believes that under UPMIFA, that duty of obedience includes assessing how economic, societal, and environmental developments affect the foundation’s investments and the sustainable delivery of its public benefits.

Your foundation moves from fulfilling a basic fiduciary role into true *investment stewardship* when it takes all the factors in those three duties and in Figure 1 into an open-hearted discussion about the purposes of investments and spending.

Investment stewards are also increasingly being asked to discuss the sources of the wealth in their portfolios and how those sources contributed or still contribute to injustices and inequities in society. The sources of wealth and current investment portfolios may present conflicts with a foundation’s values and how it wishes to live out those values.

HOW CAN A FOUNDATION ALIGN SPENDING WITH PURPOSE?



George Suttles, Director of Research with the [Commonfund Institute](#) says, “First ask ‘What’s your mission?’ Your endowment is in service to that answer.” He explains, “When Commonfund thinks about stewardship, we frame it as ‘You’re responsible for everything in the institution—the community served, human resources, finances, other volunteers, and more.’ The concept of stewardship makes the broader responsibility more evident.” Suttles added, “The investments are a means to an end, and trustees and directors are stewards of the

investments, in ultimate service of the mission.”



PUTTING VALUES INTO ACTION

Your foundation’s purpose, and therefore the purpose of your assets, is based on a set of values, whether written or not. “Values matter. And that’s where we all need to start,” advised Anne Wallestad, President & CEO of BoardSource, in a speech to the 2017 BoardSource Leadership Forum. “But the mistake that we cannot afford to make is to stop there. Our values must serve as a platform for

shared commitment and action. Because without real action, our values simply measure the distance between who we are and who we aspire to be.”

She continued, “For values to mean something, they have to go beyond platitudes and hollow commitments. They should be deeply held principles that are central to who you are as an organization. They must guide the way that your organization makes decisions, does business, and operates in the world. Values should not be generic statements with which no one could possibly disagree. Values are the things that define us. The things that guide the way that we show up and lead in the world. And the things that we’re willing to defend.”

²(Johnson, 2015)

2. Leaning into Better Investment Governance

“For a family to be successful in philanthropy, they must acknowledge they are stewards of public funds. The family often feels like the foundation or donor-advised fund is money still in their wallet. But the tax deduction received for donating assets to that foundation or fund means less money for schools, parks, and roads. So, your fiduciary responsibility is to your neighbors, particularly the least fortunate among us.”

– Nick Tedesco, President & CEO, NCFP

Most volunteer and paid leaders of foundations do not have a background in institutional investing, which requires different knowledge and skills than personal investing. Seeing the complexity of investment oversight and management, they defer to paid investment advisors or to board and family members with real experience and/or the loudest opinions.

An executive director of an anonymous family foundation, who is also related to the deceased founder explains, “I’ve felt comfortable to push harder on changes to grant programs and strategies, but not the investments. The executor of the estate is a strong, steady voice, and his position in the transfer of wealth in the family means he is listened to. But his decisions do not always seem good for the foundation.”

“A founder often appoints someone—an attorney, wealth advisor, or friend—to explicitly or implicitly stand in her shoes after she is deceased,” notes John A. Warnick, an attorney and founder of the [Purposeful Planning Institute](#). “However, there are only a minority of them who are truly focused on aligning capital with purpose and values. They can become conflicted and compromised because they’ve gained power and influence due to their connection to the founder.”

Suttles stresses, “Foundations need to understand that the board’s job is to set strategy, which should include mission or purpose of the investments. It is the investment advisors’ and managers’ jobs, given the nature of the partnership, to provide guidance and implement the organization’s board-directed strategy. At the end of the day, the organization is the client and the investment managers/consultants are paid to provide a service.”

PURPOSEFUL INVESTMENT POLICIES



Keith Beverly, CFA, CFP®, founder of [Grid 202 Partners](#), counsels that ideally “When an advisor talks with their client about governance and stewardship, the advisor

has to be grounded in ‘What is the organization’s charitable mission? What type of progress does it want to see? What is its theory of change?’ From there, build out an investment policy statement and portfolio that answers ‘How do these tools help us help grantees and communities over the long term?’”

Increasing Accountability and Alignment

[John O’Halloran](#), an independent Asset Owner Advocate, says that effective investment stewardship and governance includes the concept of *superintend*. “It’s a higher responsibility than supervision. It means holding everyone involved in decision-making accountable to the policies the board sets and the ‘why’ of the money.” O’Halloran suggests foundations and nonprofits use three tools to strengthen their investment stewardship and governance (see [Appendix 1](#) for samples and more information):

1. **Investment Beliefs Statement** – Fundamental perceptions about the nature of financial markets and the roles the decision-makers and organization play within those markets. An effective investment advisor should be able to survey decision-makers about beliefs, use the results to develop education sessions and materials, and help the family create a more unified statement of beliefs.
2. **Values or Principles Statement** – What many families may already have in place for the foundation or grantmaking and which can be adapted to finances (e.g. embedding racial equity into purchasing decisions or screening investments for environmental impact).

3. **Decision-Based Performance Attribution Analysis** – A deeper analysis to explain the positive or negative consequences of each active decision made by the board, investment advisor, or investment managers. The analysis further calculates the probability if skill or luck contributed to performance above benchmarks (e.g. “alpha”). The analysis can also provide clarity to justify the fees being paid.

All three tools increase alignment and clarity among board and staff members, investment advisors and managers, and other family members or related entities. Results of the first two tools should be included in an Investment Policy Statement and drive changes to it. The third tool strengthens the foundation’s duty of care and duty of obedience.

Suttles and O’Halloran both caution that too few investment advisors and managers are fully equipped to support a foundation in use of those tools. Emilie Cortes, *Treasurer of the Compton Foundation* and CFO of Toniic, agrees, “Traditional investment advisors and managers can use the term ‘fiduciary duty’ as a crutch, an excuse to not incorporate a client’s values into a portfolio, to not do the extra work required.” She continued that as prudent investors, “they should already be using multi-factor models to assess risks in a portfolio. Those models can easily add in factors such as environmental damage or racial equity” consistent with a foundation’s purpose.

Matt Orsagh, Senior Director, Capital Markets Policy at the [CFA Institute](#), says that Chartered Financial Analysts® (CFA®) are increasingly being trained in beliefs and values statements and are learning to conduct performance attribution analyses. Cortes notes that considering environmental, social, and governance factors is also part of the fiduciary duty of CFA® designees.

If a foundation is not confident in the performance or accountability of its investment advisor, it can seek out an [Accredited Investment Fiduciary Analyst](#)®. AIFA® designees can help with the three tools described above, assist in advisor RFP processes, and can evaluate if the foundation, investment advisor, and/or investment managers comply with the highest fiduciary standards.

Ultimately it may fall on a foundation’s staff to demand better advice. “I kept being told by peers that my job as executive director was to focus on the 5%,” reports Elizabeth Phillips, Executive Director of the [Phillips Foundation](#). “At the same time, I was reading about impact investing and knew that we could do much more with the other 95%. I went to our local investment advisors, who had been recommended by the estate planning attorney [for the deceased founder]. They proposed traditional investment strategies and were not receptive to my requests to explore values-aligned impact investing other than broad-stroke negative screening tools.”

With board support, she changed investment advisors after a national RFP process. Phillips says, “We’re now with one of the largest female-led advisory firms in the financial industry. They’ve helped us implement a total portfolio activation strategy to align 100% of our investments with our values, and we are actually outperforming benchmarks. During the height of the pandemic in the spring, our portfolio was only down 5.5%. That gave us even more confidence to increase our grantmaking in 2020 to urgently fund community needs due to the pandemic.”

II. RECHECKING ASSUMPTIONS

“[P]erpetuity, staked to a 5% annual payout rate. It’s a commitment that sits at the center of philanthropic institutional identity. Yet like many orthodoxies, the veneration of perpetuity is often less a product of careful reflection on moral or civic responsibility than a substitute for it.”³

– Benjamin Soksis, Research Associate, Center on Nonprofits and Philanthropy at the Urban Institute

IN THIS SECTION

Like any profession, the management of foundations is filled with practices and assumptions that deserve to be re-examined and discussed more openly. As donors establish charitable foundations and funds, they may rely on advisors who have limited understanding of the diverse range of practices in philanthropy or who financially benefit from certain choices. Successor boards and generations may be led to believe that an internal practice is a legal or quasi-legal requirement. As you develop your budgets in both good and bad times, consider rechecking these three assumptions. Note that this Strategy Guide does not address the question of which lifespan best suits your foundation.

Assumption #1: Endowment and Growth Are Mandatory

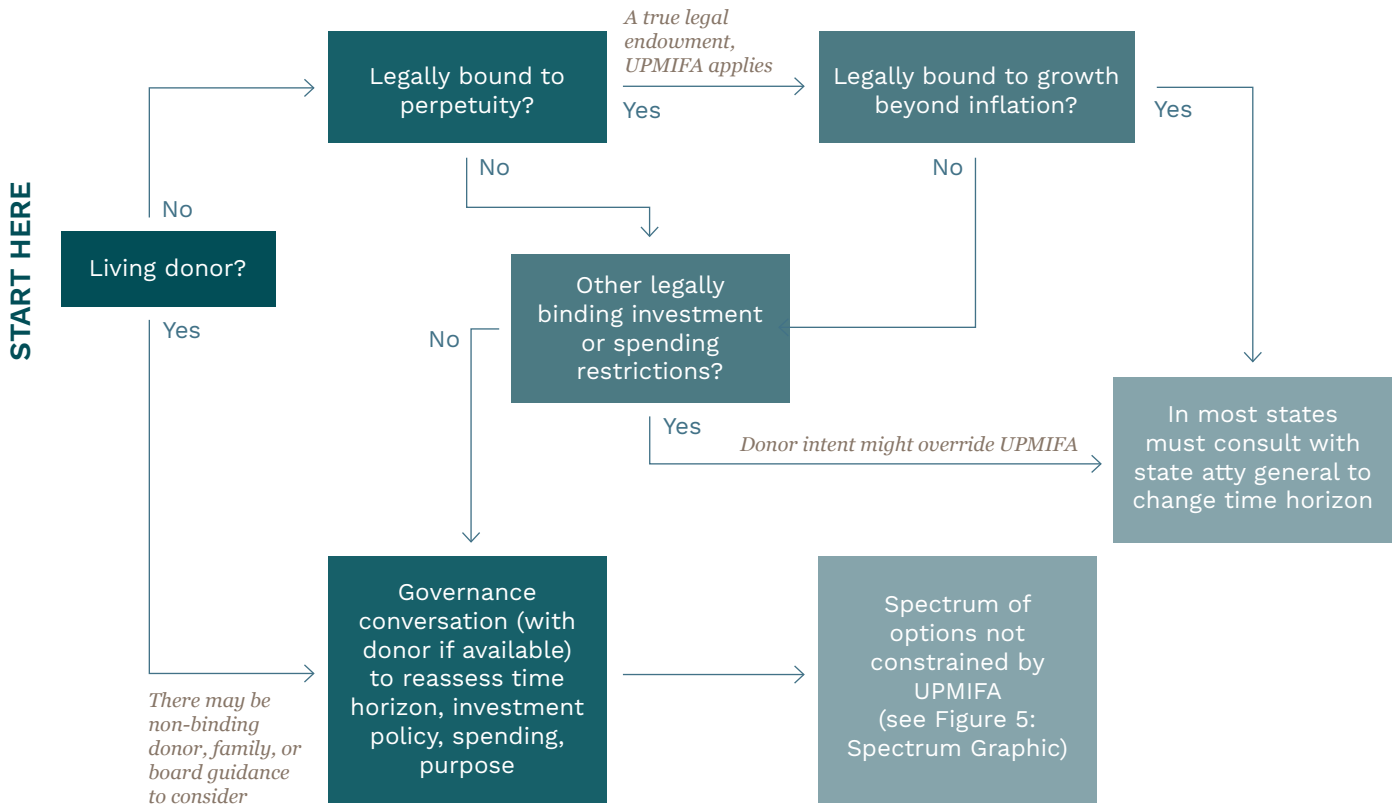
Is the goal of a perpetually growing endowment truly mandatory for your foundation? The answer, as shown in Figure 2, is “maybe not.” The Council on Foundations writes that under UPMIFA Section 4, “Endowment funds may be intended to last in perpetuity, for a fixed term of years, or until the foundation achieves a specified objective.”⁴ They are only “restricted endowments” or “true endowments” if the founding donor(s):

- a) Designated the gift as an “endowment” or otherwise imposed a spending restriction in a written document such as a gift agreement, estate plan, articles of incorporation, or bylaws; or
- b) The donor(s) responded to a written request for gifts to an “endowment” (e.g. an endowed fund at a community foundation or a college).

³ (Soksis, 2020)

⁴ (Reid & Eney, 2017)

Figure 2: Is Perpetuity Actually Mandated?



The foundation is *not legally bound to perpetuity or endowment* if:

- The donor only recommended or verbalized that intent;
- A trusted legal or financial advisor imposed the idea after the donor’s death; and/or
- A board or family later made the decision to treat the funds as endowed.

In each of those cases, the current board is not bound by UPMIFA and has the full authority to create different policies and procedures for investing and spending its assets.

Through ongoing governance conversations, the board—and donors if still living—could still choose to treat the funds as permanently endowed, also known as a “board-designated endowment.” It can make that choice to meet a long-term charitable purpose, create and honor a legacy, provide a vehicle for family philanthropy

and learning across generations, and more. And it can revisit that choice from time to time.

The founding donor(s) may have placed *written* restrictions on the type of investments to be made or how the funds are spent. Depending on its specificity, the written donor intent may override the guidance provided by UPMIFA. Lacking donor restrictions, the board has more flexibility to set a long-time horizon for its investments. Mark Kramer, Co-Founder and Managing Director of the consulting firm FSG, wrote that even under UPMIFA, “there is no requirement whatsoever to increase the value of the assets beyond the rate of inflation if another course of action would further the donor’s charitable intent. In other words, for private foundations, the normal fiduciary obligation to grow the endowment as much as is prudently possible does not take priority over the charitable mission.”⁵

⁵ (Kramer, 2020)

CONSIDERING LEGACY IN TERMS OF IMPACT



Kimberly Dasher Tripp, Founder, Strategy for Scale and NCFP Board Member, advises, “I think there’s an opportunity to revisit legacy in terms of impact.

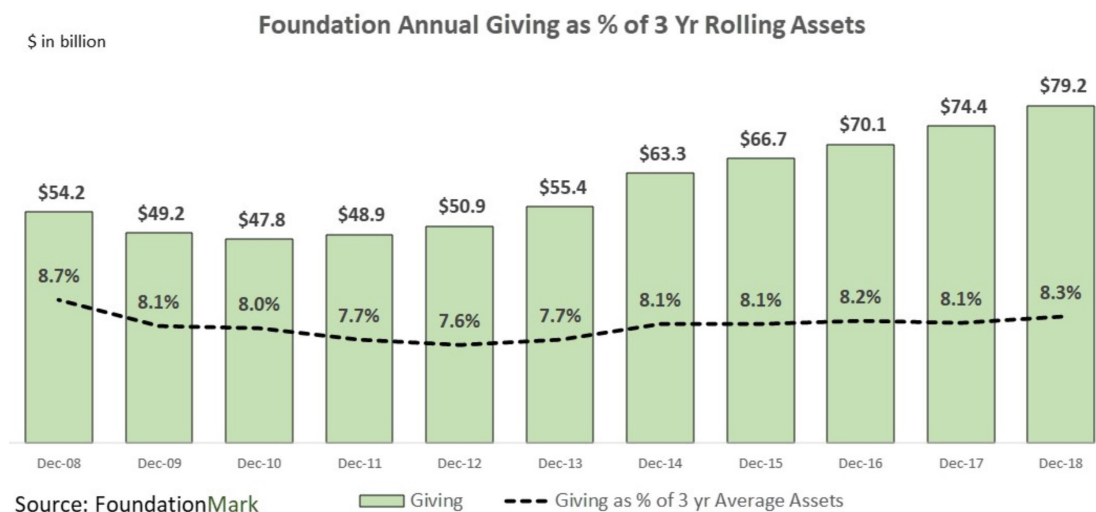
What does legacy mean in terms of living out our values or driving toward our intended impact? Families can get more creative in their thinking, beyond the status quo perpetuity practice, which may make it easier for them to think in terms of whether their goals require decades or generations.”

Assumption #2: Private Foundations Spend Only 5%

Old traditions and under-researched public critiques lead both foundation boards and nonprofit fundraisers to believe that most private foundations pay out just the minimum required distribution of 5%. That has not been true for more than three decades. In fact, spending more than 5% is more the norm:

- In statistically valid national samples of family foundations, NCFP’s *Trends Studies* showed that 40% of family foundations paid out only 5% from 2013-15 and just 34% did so in 2018. Around 42% paid out 5.1-8% and 13% paid out more than 8%.
- Foundation Source’s annual reports on the activities of 900+ foundations under \$50 million in assets consistently show average payouts well exceeding the minimum, with smaller foundations averaging well above 8%.
- In FoundationMark’s data for 40,000 private foundations⁶, average payout for 2007-18 was between 7.8% and 8.1% depending on how assets were calculated (see Figure 3).
- A summary of academic research⁷ on foundation spending reported approximately 70% of private foundations paying out more than 5% in 2003 and 21-55% paying more than 6% in the decade before that.

Figure 3: Private Foundation Payout



⁶ (Seitz, 2020)

⁷ (Rooney, Sansing, & Bergdoll, 2020)

In general, foundations increased their payout rates during the 2008-09 Great Recession, but portfolio losses then dragged overall grantmaking down:

- The Foundation Center (now Candid) studied 979 endowed private foundations that granted at least \$2 million annually from 2007-09⁸. The study revealed a median payout rate of 5.8% though total money granted rose in 2008 and fell in 2009. Family foundations and all foundations under \$50 million had higher median payout rates, with 44% paying 6% or more.
- The National Committee for Responsive Grantmaking studied grantmaking of the largest 1,000 foundations of all types in the US⁹. Benchmarked against 2007 levels and adjusted for inflation, their domestic grantmaking decreased 5% in 2008 and 14% in 2009 and didn't recover to 2007 levels until 2014.

Note that during economic downturns, increased payout percentages are partly inflated because they are based on decreased assets.

Assumption #3: Spending More Damages Intergenerational Equity

Stewards of endowed funds commonly choose to at least achieve *intergenerational equity* in their investment policies—that is, their returns meet or exceed spending, plus inflation, plus investment fees. Board members and investment advisors often limit conversations about endowments to only financial returns and worry that spending beyond 5% will harm intergenerational equity in the funds. There is continued debate about that assumption.

For perpetual foundations, “time heals all financial wounds,” explains Jeff Williams, Director of the [Community Data and Research Lab](#) at the Johnson Center for Philanthropy. He used Monte Carlo simulations to predict the median impacts of greater spending in an economic downturn and shared the simplified results in Figure 4. In the chart, the rows represent baseline average market returns and then increasing economic shocks to those returns. The columns represent the impact of two different scenarios of increased payout (one year of 15% and three years at 15%, 12%, and 8%) over three time periods (5 years, 10 years, 40 years). It assumes historical market averages continue.

Figure 4: Payout and Economic Forecast Scenarios from the Johnson Center

Median change to 1/1/2020 value of endowment	End Dec. 2024	End Dec. 2029		End Dec. 2039	
	15% in 2020, then 5% to end	15% / 12% / 8% for 3 years, then 5% payouts to end	15% in 2020, then 5% to end	15% / 12% / 8% for 3 years, then 5% payouts to end	15% in 2020, then 5% to end
Baseline (historical averages)	14%	31%	38%	94%	112%
Bad year (-15%)	-6%	6%	16%	58%	77%
Short pain (-15%, 2 year recovery)	-9%	5%	10%	53%	60%
Horrible year (-30%)	-20%	-8%	3%	44%	56%
Long pain (-30%, 4 year recovery)	-23%	-13%	-4%	34%	52%

Assumes 70/30 asset mix and 3-year trailing average. All figures in current dollars (not inflation adjusted)

⁸ (Renz, 2012)

⁹ (Schlegel, 2020)

The bottom line? Increased spending brings an endowed fund below its original value in the short term. But stewards of endowments are asked to look across decades, and if they do so, they see continued opportunities to exceed intergenerational equity. Williams also stresses that “the size and duration of the economic shocks have a bigger impact than the payout rate choices in all the scenarios.”

Three economics researchers at Indiana University and Dartmouth College reached similar conclusions using Monte Carlo simulations in 2017¹⁰. They determined that foundations could easily sustain the long-term value of their endowments with a supplemental 2% payout during recessions. In an article in the *Chronicle of Philanthropy*¹¹, Georgetown Law professor Brian Galle said his study of foundation investments over 28 years ending in 2013 showed average inflation-adjusted returns of at least 9%, leaving much room for spending more than 5%.

However, an ongoing study by the Council of Michigan Foundations and Cambridge Associates reaches a different conclusion¹². The study compares the experiences of a set of Michigan-based private foundations with national data and two model portfolios. Last updated in 2016, the Michigan-based foundations saw inflation-adjusted average annualized returns of 5.27% from 1973 through 1998, 5.08% through 2002, and 5.28% through 2015. At the same time, their spending rates had frequently averaged above 5%. The authors continued to advise that the history of actual returns didn’t support spending more than 5%. They did note that the age of the foundations was a factor, as returns for portfolios starting in 1986 were closer to 6.5% through 2009 and 2012.

Beyond Financial Intergenerational Equity

Intergenerational equity doesn’t just apply to financial results. The fundamental concept puts the rights and well-being of future generations at the heart of any decision-making and maintains that future generations should not suffer because of decisions made today. George Suttles from Commonfund wrote that, for stewards of investments:

“Fundamentally, intergenerational equity is centered on fairness and justice between generations. To go a step further, consider that the term fiduciary—acting on behalf of another or in the best interest of others—could potentially articulate our mandate not only as stewards of capital, but the planet, when thinking of the future and making decisions.”

Broader considerations of intergenerational equity can lead to questions such as:

- Is the good we could achieve today worth more than the good that could be achieved in the future? E.g. if we triple our spending to cure a disease, will that lead to reduced impact of that disease on future residents in our community and reduced impact on the economy?
- Is it more important for our family foundation to leave future generations a legacy of impact or leave them a corpus of the same value as today?

In the next section of this Strategy Guide, you will find stories of foundations with a variety of perspectives on the issues presented in Sections I and II. Many reconsidered their positions on payout as they reacted to the Great Recession of 2007-09, the pandemic and recession in 2020, increasing calls for action on racial or economic justice, and other opportunities and challenges.

¹⁰ (Rooney, Sansing, & Bergdoll, 2020)

¹¹ (Daniels, 2017)

¹² (Cambridge Associates, 2016)

III. A SPECTRUM OF CHOICES

IN THIS SECTION

This section is a window into the variety of decisions founders and boards of endowed private foundations have made about current spending and long-term asset growth. All are equally valid interpretations of their roles as prudent investment stewards and cultivators of philanthropic legacies. As you reflect on your own goals, you will find inspiration in their stories and in the additional creative solutions in [Appendix 2](#).

Figure 5: Spectrum of Choices for Private Foundations

	Traditional	“New Norm”	“The creative zone”			Not permanent	
Spending	Around 5% annually	Above 5% regularly and/or more in times of crisis	Treating investment growth flexibility - e.g. ‘balancing test’ or putting \$ into a rainy day fund	Flexible to meet changing demands	Tied to time horizon	Spend some, most, or 100%	
Time Horizon	Perpetuity	Perpetuity	Perpetuity	Long-term	TBD or flexible	Time-limited	TBD or flexible
Investment Goal	Maximize growth	Go for growth, willing to sacrifice some	At least maintain inflation-adjusted value	OK to erode principal to maximize purpose	Many options	Tied to time horizon (any options to the left)	Liquidity (pass-through fund)

Maximize money out the door →

← Maximize wealth and asset preservation

The chart doesn’t include additional options to achieve your purpose, e.g. impact investments, bond financing, new gifts to the fund or collaboration with other funds and donors.

How do other private foundations balance payout, perpetuity, and purpose? The answers are more varied than most boards and donors realize, and a new spectrum of choices has emerged (Figure 5).

On the left of the spectrum are “traditional” foundations bound to perpetuity in their founding documents or steadfastly choosing to pursue perpetuity. Their boards choose to maximize their chances to preserve and grow their assets so they can meet long-term impact goals; involve multiple generations in a collaborative family enterprise; build enduring institutions that retain top talent; or other reasons.

Next, in the “new norm” column are the large numbers of perpetual foundations who spend more than 5% in certain years or regularly spend 6-8%. They strive for intergenerational equity or something close to it, but they are more optimistic about “time healing all wounds” in their portfolios.

In the middle “creative zone” are foundations that seek perpetuity or long-term time horizons but are more flexible about how quickly their assets grow. They sometimes choose to significantly erode principal to ensure they can achieve their purposes and serve grantees and communities, particularly in times of crisis or need. This creative zone also includes foundations that have not yet decided on a lifespan (often newer foundations) or are basing that decision on certain benchmarks such as the level of involvement or agreement within future generations or reaching a programmatic milestone.

To the right of the spectrum are foundations who have decided against permanency. Some are time-limited by their founders, also known as spend-down or limited life foundations—now more than 9% of family foundations in the US¹³ Others, often newer, are operating more like checkbooks than savings accounts. This paper does not explore these last two options. To learn more about limited-life foundations, see NCFP’s [Strategic Lifespan Content Collection](#).

“Grantmakers can consider a range of options when it comes to current spending and long-term asset management. We hope this publication, which shares the stories of donors and funders operating at various points along the spectrum, will encourage you to pause and consider the near and long-term impact such choices may have on your assets, your mission, and your grantees.”

– Kathleen Enright, President & CEO, Council on Foundations
Prioritizing Asset Preservation

Spending 5-ish Percent

The [William & Flora Hewlett Foundation](#) prioritizes maintaining and growing its endowment over temporary or long-term increases in spending. Foundation President Larry Kramer [wrote in 2020](#) that the foundation does this both to honor the founder’s intentions for perpetuity and to honor the foundation’s belief “that solving the problems we seek to address takes time and depends on efforts that pay off slowly.” Those problems include such issues as climate change and women’s reproductive rights around the globe.

Kramer [wrote in 2018](#) about the foundation’s strategy for responding to large economic downturns, based on its experiences during the Great Recession. It commits 60% of its annual grants budget to a stable, predictable base budget for its six program areas. Many grantees in those programs receive multi-year grants and operating grants. The remaining 40% stays flexible for short-term initiatives in those programs and unexpected opportunities. That flexible pool also helps it deal with economic downturns.

The spending strategy calls for the Hewlett Foundation to maintain its full approved grants budget in the year of an economic downturn, meaning it would pay more than 5% of a reduced endowment value. The next year it would budget 5.1% of the new endowment value—a decrease in total grantmaking that prioritizes maintaining its base program budgets. In 2020, it made grants from its flexible funds to Bay Area relief efforts. Kramer wrote to grantees in 2020 that the strategy, “enables us to manage the immediate hit to our endowment and to maintain ongoing support going forward while still moving more than a half billion dollars to meet your needs this year.”

¹³ (Born, 2019)

The New Norm: Spending More

Data in Section II showed most private foundations pay more than 5%, even 6-8%, annually. Those foundations believe long-term investment returns will continue to grow their endowments, if more slowly than foundations that constantly pay less.

Foundations commonly increase their spending during times of crisis. They step up to help families and communities survive natural and man-made disasters. They help key grantees avoid reducing programs and laying off staff, then their grantmaking returns to normal levels. Phil Buchanan, President of the Center for Effective Philanthropy, described this *counter-cyclical grantmaking* approach as strategically increasing grantmaking to “offset reductions in individual contributions, government funding, and other earned revenue.”

One example is [The Frist Foundation](#), a family foundation and place-based funder dedicated to growing a strong civic infrastructure and nonprofit community in Metropolitan Nashville. Like the Hewlett Foundation, values and legacy drive the Frist Foundation’s decision-making. However, the founding directors left the foundation’s lifespan up to their successors. Those successors chose to strive for perpetuity, and as the largest funder in the region, to be a long-term institution builder.

The foundation has a general rule of spending around 5% annually. However, President and CEO Peter F. Bird, Jr., says the three generations active in its governance “won’t turn their back on a glaring need. If we find a way to powerfully impact our community, we’ll give more.” As an example, he notes the foundation paid out around 10% after 2001 to fulfill its obligation to launch a new art museum and saw its portfolio recover fully before the Great Recession.

In reaction to the steep decline in its portfolio in the first part of 2020, the foundation temporarily cut its grantmaking budget by about 20%, primarily by postponing large capital gifts and not accepting new capital requests. In alignment with its values, it focused first on helping key nonprofits adapt to remote work and services. It then initiated a process for about 30 organizations to receive intensive analysis of their financial positions and projections.

The foundation will likely increase its grantmaking budget as the market recovers. “We’re worried about the effects of donor fatigue and lower fundraising this year and next year,” says Bird. As it watches the financial health of those 30 organizations, he notes, “We’ll be prepared to step up and plug gaps, even if that means 7% or 9% spending. Partnership with our nonprofits doesn’t mean we throw money and run away. It can mean that we’ll go over the cliff with you.”

THE RALPH M. PARSONS FOUNDATION



Ralph M. Parsons, founder of a global firm specializing in engineering and construction, established [The Ralph M. Parsons Foundation](#) in 1961. He left little guidance on timeframe and purpose. The initial board chose perpetuity, and in 2011 the foundation became a place-based funder focused on Los Angeles County. The board had for a long time carried excess distributions to help minimize taxes paid.

President and CEO Wendy Garen says the board had set a 5.7% spending policy for 2020 (approximately \$18 million in grants), “with the understanding that if there’s something bold or a stretch, we’re here to listen to it.” The stretch came with the pandemic and market downturn. The foundation approved nearly \$500,000 in emergency grants. It later made additional grants of \$2.5 million, including a \$2 million multi-year commitment to a new, \$20 million collaborative arts relief and recovery fund. That is one of the largest grants in the foundation’s history. She relates, “When envisioning the future, the foundation wants to be here forever, and we also want Los Angeles to be here, too. Next year’s payout will be around 7% just to maintain existing efforts.”

“We’ll be prepared to step up and plug gaps, even if that means 7% or 9% spending. Partnership with our nonprofits doesn’t mean we throw money and run away. It can mean that we’ll go over the cliff with you.”

– Pete Bird, The Frist Foundation

Entering the Creative Zone

Some private foundations strive to be around for multiple generations but remain flexible on the growth of the assets under their care. In addition, around 63% of family foundations have neither fully committed to perpetuity nor to a limited life.¹⁴ They either have not yet decided or revisit the question periodically. All these foundations are living in a “creative zone” of balancing mission, impact, asset preservation, timeframe, and more.

Slower Growth is OK

Ryan Schlegel, Director of Research at the National Committee for Responsive Philanthropy, interviewed¹⁵ two perpetual, endowed private foundations, [Lumina Foundation](#) and [The California Endowment](#), that saw opportunities to lean into their respective missions during the Great Recession. Lumina granted 98% more in 2009 than in 2007 and its assets declined from \$1.7 billion in 2007 to \$1.3 billion 10 years later. The inflation-adjusted value of its original gift (\$770 million in 2000) in 2017 was \$1.1 billion. The California Endowment gave 23% more in 2009 than in 2007 and its assets declined from \$5.7 billion in 2007 to \$3.8 billion 10 years later. The inflation-adjusted value of its original gift (\$800 million in 1996) in 2017 was \$1.25 billion.

“Protecting the corpus for future generations is a twenty-to-thirty year issue and responding to the acute needs communities are dealing with today is a now issue,” Robert K. Ross, President and CEO of The California Endowment, told Schlegel. “The combination of our values and the abject pain and suffering that vulnerable communities were suffering made the difference in our board room conversations.”

“Protecting the corpus for future generations is a twenty-to-thirty year issue and responding to the acute needs communities are dealing with today is a now issue.”

– Robert K. Ross, The California Endowment

Lumina Foundation President and CEO Jamie Merisotis explained, “The board said ‘Lumina has a long-term goal, and with that long-term goal we think the investments we’re making now are too important to worry about just meeting the 5% payout requirement.’”

THE JEROME FOUNDATION



The [Jerome Foundation](#) is grounded in the spirit and values of founder Jerome Hill, an Academy Award-winning filmmaker, painter, photographer, and composer who died in

1972. It makes multi-year grants to early career artists and the nonprofit arts organizations that serve them in Minnesota and New York City.

Ben Cameron, the foundation’s president, says the foundation’s board and staff have been thinking about how much the foundation’s investments have grown. Going into 2020, the endowment was worth approximately 40% above its inflation-adjusted value from more than 50 years ago. He asks, “Is that growth a rainy-day fund? When is it to be used and when is it to be husbanded? We’re running scenarios for differing market returns and how those will impact growth.”

The foundation has spent more than 5% for special opportunities. It saw donors and funders decrease support for the arts after the 2008–09 Great Recession and is planning for similar challenges in 2021–22 by both making extra grants in 2020 and planning for sustained grantmaking in future years.

¹⁴ (Born, 2019)

¹⁵ (Schlegel, 2020)

Schlegel reported that neither CEO expressed any regret about the multi-year endowment losses and both “spoke to the positive impact on their long-term goals and grantee relationships.”

David Wells, Sr. and his wife Georgia created the [Cricket Island Foundation](#), a family foundation, from the sale of their family business in 2000. They saw the foundation as way to bring their family together in service of creating positive change and to teach their grandchildren about the social responsibilities of wealth and social change. They passed on to the full board the ability to define the foundation’s mission, values, time horizon, and more.

Executive Director Elizabeth Sak recounts, “The family decided on perpetuity, but will revisit this periodically to see if it still makes sense and aligns with their values.” While the foundation generally spends between 5.5% and 5.7%, “the finance committee said when I arrived in 2008 that opportunities for impact should drive the spending, not administrative needs so we set a floor of 4% for our grantmaking with the ability to increase that as needed.”

“The family is very relationship-driven, with each other and with our grantee partners. And they understand patient investing and long-term change,” Sak explains. As the pandemic unfolded in 2020, the board chose to maintain all multi-year general operating commitments to its grantees. It also redirected additional money from program-specific grants and administrative savings to increase support to grantees. As the foundation looks ahead to payout options, Sak says, “We’re trying to think strategically about short, middle and long term how we can consistently support our grantees.”

Balancing and Integrating Many Factors

Some private foundations in the “creative zone” more tightly integrate conversations about purpose, time horizon, assets for mission and payout, and conditions and trends. While they plan to be around for generations, they may favor current impact over long-term portfolio value.

George and Jane Russell intended for [The Russell Family Foundation](#) to live on in perpetuity. Serving on the board are their children, their spouses, grandchildren, and independent community representatives. The foundation has averaged grants and direct charitable activities of around 6%, even in economic downturns, and spent more during the Great Recession and 2020 pandemic.

“We started with approximately a \$130M endowment, granted approximately \$135M in 20 years, and our endowment is now around approximately \$140M. The heart and mind of the family is to look at 5% as a floor, and typically grant a specific amount each year,” explains Kathleen Simpson, Interim CEO and CFO. The foundation’s and family’s investments are managed by Tiedemann Advisors. Investment discussions between Tiedemann staff, foundation staff, and the board members integrate program strategy, foundation and family values, and portfolio management

Iowa couple Clifton and Margaret Musser created the [General Service Foundation](#) in 1946. In a letter to the future board members, Clifton wrote that he believed few people “are smart enough to foresee the developments and changes that will occur in the next fifty years, so I think it best not to place any limitations on the life of the foundation or the work which you undertake.” Over time, the family foundation evolved its program areas to meet evolving family interests. Its spending policy had conformed with common practices, based on a three-year rolling average resulting in spending between 5.4% and 5.9%.

In the late 2010s, foundation staff saw that the traditional spending policy did not represent the founder’s desired flexibility and did not allow the foundation to adapt quickly to changing conditions in program areas. Executive Director Dimple Abichandani borrowed the concept of a *balancing test*, which allows courts to fully explore and weigh a set of factors in cases. The foundation’s new spending policy examines seven internal and external factors (see Figure 6). It is

Figure 6: General Service Foundation Balancing Test



a good example of the modern views on UPMIFA and investment governance described in Section I of this Strategy Guide.

The General Service Foundation increased payout in the Great Recession and saw its portfolio bounce back in the 2010s. Abichandani said in an [NCFP webinar](#), “I notice how much pride and purpose is in our trustees that they were there for our grantees in that time of need.” In an interview with Commonfund, she explained that as the foundation began working with its new spending policy, “We realized that we can meet our perpetuity goal and spend at a rate higher than what we had been doing.” With that pride and the new spending policy, the board increased its spending in 2020 and spent all its annual grants budget in its spring grants round. It then committed to spending 10% in each of the next four years.

“We realized that we can meet our perpetuity goal and spend at a rate higher than what we had been doing.”

– Dimple Abichandani,
General Service Foundation

Louis and Alfred Heinsheimer, two brothers active in Jewish society and causes, established the [New York Foundation](#) in the early 1900s. They and the founding board imbued the non-family private foundation with a culture of humility, nimbleness, and understanding problems from the view of people on the ground. They had no heirs and the foundation’s board has included a mix of professionals from the private, public, and philanthropic sectors, including former grantees.

The Heinsheimers did not mandate perpetuity. Over time, the foundation regularly spent more than 5%, knowing that in some years spending would exceed investment returns and that its endowment value would diminish in some years.

New York Foundation Executive Director Maria Mottola knew Abichandani and proposed the balancing test to her board along with a more formal conversation about the foundation’s desired lifespan. She wanted to foster a deeper conversation about the foundation’s purpose and how spending and lifespan support that purpose, noting “I have a pretty big range of opinions on the board, including those who work for traditional institutions and people who are progressive activists.” Over a few months, the

“NONE OF US WANTS TO LOOK BACK IN 2021 AND WISH WE’D DONE MORE.”

Nicholas and Susan Pritzker created the [Libra Foundation](#) as a family foundation that promotes human rights and advances social justice. The board had already approved a large increase in its grantmaking budget for 2020 before the pandemic and recession hit. Executive Director Crystal Hayling said on an [NCFP webinar](#) the board and staff centered their response to the crises on this concept: “When we make a decision about payout, it should be based on our mission, on our values, on our strategy, on what we’ve done in the last year in terms of our endowment, how well we’ve done in the last few years, and what our projections are on how we think we’ll do in the future.”

The foundation’s Chief Investment Officer had noted that even in March 2020, the foundation’s endowment was at the same value as March 2019. The board and staff knew that endowments bounce back over time thanks to compounding returns. Hayling said on the webinar, “The foundation applied the same concept of compounding to philanthropy. The danger of losing so many of these important organizations has a compounding impact on the social good that we’re trying to do. And making sure that we’re investing in them now and investing through the downturn in philanthropy is an important concept that I think the family really came to embrace collectively.”

As a result, the foundation announced it would double its grantmaking in 2020, including increasing support for Black, Indigenous, and People of Color-led groups. Hayling related, “One of our board members, Susan Pritzker, said to the family—and it was just such an incredibly profound and moving moment—she said, ‘None of us wants to look back in 2021 and wish we’d done more.’”

board and staff weighed options and talked with other foundations and affinity groups. Mottola relates they used the analogy, “You know you’re going to face death someday, but you never think about it and plan for it. It is better you think about it and you live purposefully because of it.”

The foundation ultimately chose perpetuity as its desired time horizon, though remains flexible on the rate of spending and long-term value of the endowment. Staff, the board planning and evaluation committee, and the board treasurer now collaborate to use a balancing test to develop a budget that supports the upcoming year’s grant strategies. The board uses the balancing test to make its final decision. Mottola says the balancing test and new collaboration means the full board and staff now understand the intertwined role of investments, spending, and program strategies.

Donor Intentions for Flexibility

The [M.J. Murdock Charitable Trust](#) was founded in 1975 in the estate of Jack Murdock, an avid learner, innovator, and entrepreneur. He named three close friends as the first trustees, and against the advice of his lawyer, entrusted them and future trustees with decisions around lifespan, program areas, and operations. The second set of trustees, two of whom had known Murdock, decided to plan and work as if the foundation were perpetual. However, future trustees could change this policy.

Executive Director Steven Moore recounts that the foundation had started a previously planned retreat when the COVID-19 pandemic started shutting down the state of Washington. The trustees centered their discussions on the organization’s stated values and said, “Let’s not worry about the 5%. If we need go over it, go over it, but let’s take the long view and make adaptations as we learn more.” The foundation’s initial grants, above its planned budget, were for immediate relief and scientific research. It also expanded its support for capacity building, including making organizational coaches available to help nonprofits plan through the pandemic and recession.

As the foundation looks ahead, Moore says he knows it will continue leaning into capacity building and looking for neglected or underserved geographic areas and nonprofit sectors in its

five-state footprint. “We keep remembering that we’re not the only funder—we’re part of an ecosystem. We have a responsibility for both stewardship of the assets and for generosity—it is a both-and conversation.”

Resources: For additional examples of foundations living in this “creative zone,” see [Perpetuity Doesn’t Have to Be Forever](#) for examples from the Durfee Foundation and Aaron Diamond Foundation, and the Compton Foundation’s [recent decision](#) to change from perpetuity to limited-life.

THE PHILLIPS FOUNDATION



The [Phillips Foundation](#) has invested more than \$22 million of “Generational Grants” to “once-in-a-generation” initiatives in Greensboro, North Carolina, and the

surrounding area. Executive Director Elizabeth Phillips says her husband’s grandfather left an entrepreneurial legacy that has allowed them to “think outside of the box.” While he left broad intentions for the foundation to operate in perpetuity under family trustee’s leadership, he also allowed them much flexibility. To date, the family has chosen to maintain a long-term approach while also pursuing total portfolio activation strategy that includes grants, impact investments, and running programs it has developed. In 2020, for the first time, it granted \$500,000 between regularly scheduled board meetings to the local community foundation and United Way for COVID-19 relief and recovery efforts. Phillips said, “Our legacy in this moment will be the precedent of nimbly adapting to needs in real time while applying a sustainability lens.”

IV. GUIDING INTENTIONAL BOARD CONVERSATIONS

Board trustees fulfill trust “by ensuring that the organization actually puts its assets to good use in thoughtful service to advance the common good. The work of fulfilling trust is really the test of our relevance as trustees and of our resourcefulness.”

– David Dodson, President, MDC in *Splendid Legacy 2: Creating and Re-Creating Your Family Foundation*

IN THIS SECTION

As a donor to a foundation or leader of one, you hope to foster an environment of good decision-making, ideally focused on the joy and honor of being involved in the foundation. The first sections of this Strategy Guide offer resources and stories to both inspire and challenge your foundation’s discussions about balancing purpose, time horizon, conditions and trends, and assets for mission. Following are suggestions for making your board discussions on the topics more intentional, productive, and actionable. You can also use the Discussion Guide, available as a separate download.

Seek Human Connections

Charitable foundations and funds are born out of a spirit of generosity. But over time the business of running them can start to prioritize processes, facts and figures, and dispassion. In [Widespread Empathy: 5 Steps to Achieving Greater Impact in Philanthropy](#) by Grantmakers for Effective Organizations, foundations reported their decision-making improved by spending time with their board and staff on authentic community and interpersonal connections.

Several interviewees for this publication reached out to grantees and front-line responders to collect both heartbreaking and heartwarming

stories in the initial weeks of the COVID-19 pandemic. They invited grantees and responders to calls and video meetings with board members and shared stories on websites and social media. Many community foundations and intermediaries did the same for donors and local funders.

Some leaders in philanthropy see new opportunities for breaking down barriers between donors and recipients given the ubiquity of the COVID-19 pandemic and more widespread attention to injustices such as the murders of Breonna Taylor, George Floyd, and others. NCFP Fellow June Wilson observes, “The combined downturn and pandemic have made racial

inequities more profound and visible. Even starting with the basics of local restaurants and shops hurting—the real people behind them and the fragile nature of what we take for granted. The connection to unemployment problems is more real. The reality of inequities in healthcare are more apparent. People I talk with are feeling more blessed about what we do have, and more empathetic to the needs of others.”

Ashley Blanchard and Kelin Gersick from Lansberg Gersick & Associates wrote in a [blog post](#), “Inherent in philanthropy is an inescapable division between the providers and the receivers... But all of a sudden wealth is not a protection from an enormous threat. Donor families are, uncharacteristically, experiencing in their own lives the kind of vulnerability, plummeting net worth and helplessness that is ubiquitous for many of the grantees their generosity supports.”

However, blogger Vu Le writes that relying on empathy centers grantmaking and fundraising on a donor’s (or foundation board member’s) feelings and the types of people they most relate to and care about. This can lead to continuing inequities. He suggests instead centering grantmaking and grantseeking on trusting relationships and justice.

Resources

- [Leading with Empathy](#), National Council of Nonprofits, 2017
- [Staying Connected: How Five Foundations Understand Those They Seek to Help](#), Center for Effective Philanthropy, 2017
- [Widespread Empathy: 5 Steps to Achieving Greater Impact in Philanthropy](#), Grantmakers for Effective Organizations and Jump Associates, 2011

Ground Yourself in Values and Purpose

“Values should not be generic statements with which no one could possibly disagree. Values are the things that define us. The things that guide the way that we show up and lead in the world. And the things that we’re willing to defend.”

– Anne Wallestad, President & CEO, BoardSource

Interviewees consistently discussed the importance of grounding their board conversations in their organization’s values and mission, and the values of founders, before approaching

payout conversations. Joanne Florino, Vice President of Philanthropic Services at The Philanthropy Roundtable, sees clarity of purpose as vital to action, “If you have a firm mission or commitment to donor intent or a strategic plan, your foundation is typically ready to act and follow that clear mission in a time of crisis.”

Living donors should start conversations about values and purpose early and often. “I think the founder(s) don’t give enough attention to ‘What do we expect over time? How much should future generations be tied to original values and purposes?’” advises the Purposeful Planning Institute’s John A. Warnick.

He explained, “One of the great missing ingredients is spending more time articulating the values and goals well—and in the process, challenging the founder to think about the impact of the march of time, changing cultural influences, what is best for the personal growth and learning of responsibility by the rising generations.” He encouraged advisors and staff to “Take the blinders off to cause the founders to think more deeply about what they’re doing and why they’re doing it.”

The Murdock Charitable Trust’s Steve Moore noted in a Philanthropy Roundtable webinar that while Jack Murdock’s values and spirit drive the foundation’s work, “Two mistakes we [foundations] make on donor intent are talking about protecting it and guarding it. I think we need to talk about stewarding it and about growing and exercising it. It needs to be understood in a living way.”

“Two mistakes we [foundations] make on donor intent are talking about protecting it and guarding it. I think we need to talk about stewarding it and about growing and exercising it. It needs to be understood in a living way.”

– Steve Moore, M.J. Murdock Charitable Trust

Resources

- [Splendid Legacy 2: Module 1 Values, Mission, and Legacy](#), NCFP
- [Clarifying Your Purpose](#), The Philanthropy Roundtable
- [Angels and Heroes Exercise](#), Purposeful Planning Institute

Consider the Ecosystem

“In response to lingering feelings of fear or hopelessness, it is a common reflex to seek control, which only reinforces the dominant mindset that violently excludes, disenfranchises and separates us from each other despite our shared fates as human beings. Recognizing this as emotional rather than logical in nature, we offer instead the idea that making sure to reflect, revisit our values, and learn in community with others allows us to act with intentionality for the long term – which for grantmakers seeking to create lasting change is going to mean giving up control rather than seeking more of it.”

– Marcus Walton, President & CEO, Grantmakers for Effective Organizations

Foundations and donor-advised funds are frequently asked to increase payout after a natural disaster, during an economic crisis, times of social or political unrest, and/or to solve a specific problem. Interviewees stressed the importance of understanding your place within an ecosystem of resources when answering such a call. In addition to talking with grantees, they talked with other funders, elected officials, and business leaders to understand gaps and trends in their communities.

As an example, after increasing their funding during the Great Recession, many foundations later reduced payout to build back depleted endowments, reduced the number of grantees, and/or quietly implemented rolling blackouts in the applications they would accept. If many other funders have those plans, your foundation may wish to elevate payout after a crisis to fill in gaps.

The Commonfund Institute’s George Suttles encourages foundations to ask, “Has our role in the ecosystem changed? Can we rely on other partners to do more now, or do we need to step up? How are other funders going to react in the next couple years?”

Steve Moore says of the 2020 pandemic and recession, “This crisis highlights the importance of a rich and diverse ecosystem of foundations that don’t all respond in the same way.” The Trust knew that as the fallout of those crises unfolded, it could be the only or largest future funder of issues such as healthcare access in rural areas of its five states.

NCFP Fellow June Wilson suggests bringing in funders and leaders of philanthropic or donor networks who think and act differently than your foundation to inspire new ideas and move your foundation out of a comfort zone.

Resources

- [Investing in the Nonprofit Ecosystem](#), Moore, 2019
- [Scanning the Landscape 2.0](#), Grantcraft, 2012
- [Systems Thinking Toolkit](#), FSG, 2017

Prime for Better Decision-Making

Times of crisis are most often communicated and felt through a framework of loss. Loss of lives, health, jobs, value of financial assets, and more. Our brains are wired to pay more attention to negative things, react to them more strongly, dwell on them, and later remember them more vividly. News sources focus on negative stories to maintain our attention, further distorting our world view and affecting our mental health. The resulting anxiety and fear impair our decision-making, especially regarding long-term planning, calculating risk and reward, and understanding and using rules and policies. To counter those challenges, it helps to spend time on one or more of these activities:

- **Counter cognitive biases** – We need to consistently take time to reflect on our own decision-making biases and actively help others do the same. The resources below provide advice for staff and advisors to foundations and philanthropic families.
- **Simplify options** – Kimberly Dasher Tripp, founder of [Strategy for Scale](#) and NCFP board member, advises “The human brain can’t make good decisions if there are more than 5 factors involved. The brain just shuts down. I like to work people through sets of levers to help clients understand who they are and what they want to do in relation to the size of their organization and the issue(s) they want to make a difference in. Once you have limited your options, ask yourself ‘Where can I make an outsize difference – on my own or in collaboration with others?’”
- **Tame uncertainty** – Decision-making consultant [Ian David Moss](#) shared in a [blog post](#) a matrix for choosing from four grantmaking strategies in times of great uncertainty, based on the funder’s knowledge

of the ecosystem. Other foundations are using scenario planning tools to prepare for acting on multiple versions of an uncertain future.

In a time of greater uncertainty, Jeff Williams from the Johnson Center encourages foundations to be clear about their signposts of progress, “When does the board decide our foundation and community are ‘back to normal?’ What do we (the board) mean by normal, is there broad agreement between board members? Is our definition the same as our grantees’ and communities’ views?”

Resources

- [COVID-19 scenario planning for nonprofit and philanthropic organizations](#), Monitor Institute, 2020
- [Demystifying Decision-Making in Family Philanthropy](#), Ann Shulman for NCFP, 2003, and related 90-minute webinar, 2016
- [Giving Strategically in Tumultuous Times](#) (41 minutes), Ian David Moss for The Philanthropy Workshop, 2020
- [How Shortcuts Cut Us Short: Cognitive Traps in Philanthropic Decision Making](#), Center for Evaluation Innovation, 2014
- [Scenarios: The World after the Pandemic](#), Jewish Funders Network, 2020

Lay Out Options

The previous steps in this section can pave the way for considering a broader range of choices for spending, in or outside a time of crisis. The spectrum graphic and related stories can provide new context for your board’s decision-making. When faced with external or internal calls for increased spending, common answers include:

- **Cut back** to focus primarily on capital preservation
- **Stay the course** with fairly level spending
- **Be a first responder** to meet immediate needs
- **Keep the powder dry** to respond later and not crowd out individual or government funding
- **Go deep and long** with increased spending over multiple years to ensure sustained impact
- **Get creative** in leveraging resources (see Appendix 2 for ideas)

Cricket Island Foundation Executive Director Elizabeth Sak recommends: “The key is to think longer-term and not be dominated by ‘in-the moment reaction’ without thinking

about implications. Understand unintended outcomes and how those align with or contradict your values and hopes. Is the Board wanting to increase funding now but decrease later? Ask what decisions mean for grantees and communities and how they impact us relationally and financially. Pose to your board ‘There’s no wrong answer but here are the choice points and what they could mean’ and empower them to make more informed decisions.”

George Suttles reiterates the need to look both at intergenerational impact of finances and community improvement. He advises, “If you made a 30-year concentrated effort on a couple issues and solved them, then you’ve taken those problems off the table for the next generations. You should revisit if intergenerational equity of your finances is harmful to the communities and issues you care about. Ask ‘Are we in the impact business or in the investment business?’”

Prepare for the Longer-Term

Economies and markets will continue to see periodic downturns and recessions. And those will continue to coincide with natural disasters, disease outbreaks, and other challenges. It can be easier to do long-term planning when you are recovering from an economic downturn or in good economic times. It is in those times, Matt Orsagh of the CFA Institute suggests that boards and investment committees are most encouraged to challenge their hidden investment biases. Going through an investment belief exercise and subsequent education (see Section I) is one solution.

Orsagh reports for most boards, “We’ve seen the enemy and they are us. We all know there are going to be crises or recessions at some point. We need to plan for them. We can have discretion to deviate from that plan if needed, but a plan should be in place so we are better prepared when a black swan event appears. We should discuss in advance our reactions—e.g. stay the course, pay out more, 50/50 split between savings and current impact, etc.—and how our biases influence those decisions. Once we know our reactions, decide who has the authority to move faster (or not) when things are changing quickly, to implement the “disaster plan” for when times are bad.”

[New York Foundation](#) Executive Director Maria Mottola suggests developing a more diverse investment committee. She recounts that the

foundation's investment committee over time was "dominated by people with direct investment expertise, but who had little connection to, or knowledge of, the social justice work our grants supported." To better align investments and purpose, Mottola and the board diversified the committee by gender, personal and professional experiences, community connections, and connections to finance. The new committee brings a more balanced perspective on the purpose and use of the foundation's portfolio.

Family foundations will want to help family members re-examine their money narratives—the beliefs, emotions, experiences, and behaviors people absorb and are sometimes taught as children. These personal narratives spill over into decisions about the family's grantmaking, foundation investments, and more. Families will also want to clarify their values around wealth in and outside of a philanthropic tool. All generations should have a clear understanding of how the family hopes to use resources to live fulfilled lives and make a difference.

Some family foundations work on money issues and investment know-how through regular education sessions. For example, the Russell Family Foundation has conducted several learning summits for the third generation of its family. Those summits have included discussions of philanthropic and personal values, topics of wealth management, and the management of mock investment portfolios.

Kimberly Dasher Tripp from Strategy for Scale believes the year 2020 could be a catalyst for changing practices in philanthropy. As she has talked with clients and peers, she has seen "an increased trust in intermediaries, at least at the local level. And there has been some re-consideration of legacy and perpetuity. In the Bay Area, for example, donors are oriented to getting money out quickly. They have been asking, 'Who are you saving the resources for?' in the face of the pandemic or another existential threat like climate change. Legacy has traditionally been framed in terms of the preservation of capital, which has no impact in the community. But they're now reframing legacy in relation to the problems that exist, and the impact funders may have on them."

"Legacy has traditionally been framed in terms of the preservation of capital, which has no impact in the community. But [foundations are] now reframing legacy in relation to the problems that exist, and the impact funders may have on them."

– Kimberly Dasher Tripp, Strategy for Scale

Resources

- [Money and Values Content Collection](#), NCFP
- [Share Save Spend®](#) money and meaning materials
- Also see [Appendix 1](#)

"There is not one "right way" to balance purpose, permanence and payout. What is important is that you thoughtfully consider the impact of your decisions and on both your short-term goals and long-term legacy. We hope this publication challenges our assumptions about perpetuity and payout and sparks you to continually assess whether your investment strategy and spending policies are in alignment with your foundation's values and hopes for the future."

– Kathleen Enright, President & CEO, Council on Foundations

APPENDIX 1: RESOURCES FOR IMPROVED INVESTMENT STEWARDSHIP

The Council on Foundations, the National Center for Family Philanthropy, and experts interviewed have curated this list of resources to help foundation leaders learn more about the ideas presented in Section I of this Strategy Guide.

Investment Stewardship and Governance Basics

- [Endowment Code of Conduct](#) by the CFA Institute clearly outlines ethical responsibilities and legal duties.
- [Foundation Finance and Investment Management](#), by the Council on Foundations examines UPMIFA and other laws governing financial assets.
- [Fiduciary Duty in the 21st Century](#) by the United Nations Principles for Responsible Investment outlines how incorporating ESG factors meets essential fiduciary duties.
- [Increasing Giving During COVID-19: Thoughts for Philanthropy](#) by the Council on Foundations and Commonfund Institute examines what foundations should consider when increasing giving from their endowments.
- [Principles of Investment Stewardship for Nonprofit Organizations](#) and other free [white papers](#) by Commonfund, a nonprofit that manages money for other nonprofits and educate nonprofits about investing and endowment management.

Diving Deeper into Investment Stewardship

- [Commonfund Institute](#) offers annual educational forums and a four-day investment Stewardship Academy.
- [Fiduciary Essentials for Foundations & Endowments](#) course and [Prudent Practices for Investment Stewards](#) guide by CEFEX, the Centre for Fiduciary Excellence. Through CEFEX, investors can [search for investment advisors](#) that adhere to its Global Fiduciary Standard of Excellence and voluntarily undertake annual audits by independent experts.
- [Investment Governance for Fiduciaries](#), a free reference guide, the online [Investment Foundations Program](#), and [Positions on Environmental, Social, and Governance Integration](#) by the CFA Institute all help non-finance staff understand the world of finance.

Investment Beliefs Statements

- [Fiduciary Investment Personality Questionnaire](#) by Bank of America Merrill Lynch
- [Investment Beliefs: Governance Bedrock for Investment Committees](#) by Pavilion, a Mercer Practice.
- [Investment Beliefs Statements](#) by the Initiative for Responsible Investments includes samples from a variety of institutions.
- The [AJL Foundation](#), a small private foundation in Colorado founded in 2011, has shared [on its website](#) its process for incorporating investment beliefs, foundation values, and decision-based attribution into its Investment Policy Statement and portfolio.

Independent investor advocates are consultants and firms that have investment consulting and management experience but do not currently work in that space. Such providers can offer conflict-free guidance to nonprofits on investment policy development, investment beliefs, governance, RFP management, and third-party assessment of current portfolios. Some have earned the Accredited Investment Fiduciary Analyst® (AIFA®) designation and are listed on the [Fi360 website](#). Note that some AIFA® designees are not fully independent in that they also manage investments or retirement plans.

APPENDIX 2: THINKING OUTSIDE THE BOX

In addition to the spectrum of choices in Section III, our research and conversations highlighted some less common but useful options for connecting your foundation's purpose, assets, and time horizon.

Set Aside the Surplus

When a foundation's investment portfolio has outperformed basic intergenerational equity (spending plus inflation plus investment fees) through time, Investor Advocate John O'Halloran suggests treating that outperformance as "surplus." A foundation could choose to make different decisions about the surplus, including granting to a donor-advised fund and using that fund in leaner times to smooth out payout or grant to relief funds. Mark Kramer from FSG wrote¹⁶ that the California Community Foundation has used a version of this practice, dividing its "surplus" in a year between a one-time addition to its endowment and one-time addition to its current grantmaking budget. Economist Perry Mehrling developed a similar stabilization fund strategy for university endowments.¹⁷

Encourage Additional Giving

At the Cricket Island Foundation, each generation of the family must provide an agreed-upon contribution to the foundation as part of their eligibility to become full voting members of the Board. This encourages future generations to feel more fully invested in the ownership of the foundation.

Maintain a Line of Credit

The Russell Family Foundation maintains an open line of credit as a tool to sustain grantmaking, operations, or direct programs in a down market. "This tool allows us to be measured in our investment and spending approaches during a down market", says Interim CEO and CFO Kathleen Simpson. The board had not yet chosen to use the line of credit as of the date of this publication.

Issue Bonds

Three large private foundations—Ford Foundation, John D. and Catherine T. MacArthur Foundation, and Doris Duke Charitable Foundation—announced in 2020 that they would issue long-term bonds to boost current grantmaking. MacArthur Foundation President John Palfrey said in a public statement, "The pandemic is wreaking tragedy across the world and, in particular, in African American communities. In the face of an extraordinary social and economic crisis, our city, country, and global communities require a transformation. Our response to the pandemic will focus on supporting the reinvention of systems that create a more just, equitable, and resilient world."

The Ford Foundation was the first to issue its taxable social bond, with the sale being well-oversubscribed. According to the foundation, the \$1 billion bond carried an Aaa/AAA credit rating and included 30-year and 50-year maturities at a fixed rate of 2.415% and 2.815%, per annum, respectively. The net proceeds allow the foundation to pay out what equates to more than 10% of the value of its endowment in 2020 and 2021.

Fully Integrate Your Values in Your Portfolio

A few people interviewed for this Strategy Guide noted that impact investing strategies had helped their investment portfolios before and during the 2020 recession.

- The Phillips Foundation's [diversified portfolio](#) is now 100% committed to impact. Elizabeth Phillips says, "Being based both in Texas and North Carolina, we see many of our peers suffering significant financial loss owing to investment in oil and gas and other hard-hit industries during recent recessions. Our total portfolio activation strategy has protected our foundation's endowment from the volatility of the financial markets, while allowing us to measure positive social and environmental impact across the full endowment and not just with our grantmaking."

¹⁶ (Kramer, 2020)

¹⁷ (Mehrling, 2004)

- Kathleen Simpson of the Russell Family Foundation notes that “Our portfolio is about 89% impact across a spectrum of classes and approaches. We’re beating the blended benchmark by about 2% this year.”
- GRID 202 founder Keith Beverly advises to look beyond the investment portfolio: “If there’s a mission that is important, then it should be reflected in all aspects of an organization. If something like gender equity is important, I should be able to walk into your office and see it at work, be able to look at your grantee list and your portfolio and see it at work. There are so many more options now to live your values through the whole organization.”

Consider “Competing Forward”

Your founders or board may want to have a long-term philanthropic vehicle but worry about maintaining its relevance and vibrancy. Consider a *Competing Forward Assessment*¹⁸, developed by estate planning attorneys John A. Warnick, J.D. and Timothy J. Belber, J.D., AEP®. In the assessment process, the family would first develop ideal performance measures for future involvement (family and other volunteers), community impact, and investment performance. One example for involvement might be “at least 75% of G3 members are actively and effectively collaborating on grants to our home city.”

The founders or initial board then appoint an independent, nonfamily professional or team charged with assessing the foundation’s performance every 3-5 years. The foundation would have the next review period to address sub-par performance. If sub-par performance continues, founding documents give the independent assessors the power to trigger a sunset plan. Warnick suggests that the conversations to develop the performance measures create a more unified vision of success while the accountability ideally encourages continual renewal of dedication to that vision.

The Jerome Foundation has a variation of this idea in place. Its founding documents call for 3-5 corporate members, at least one of which must be part of the founder’s extended family. Those members elect the board, have the sole right to revise bylaws and articles of incorporation, and hold veto power over the board if they feel the foundation is straying from the founder’s values and goals. The members can appoint liaisons to committees and attend board meetings.

¹⁸ (Warnick, 2010)

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CREDITS

About the National Center for Family Philanthropy

Established in 1997, the National Center for Family Philanthropy (NCFP) is a catalyst for the greater good; it provides donors and their families with comprehensive resources, expertise, compassionate support, and community. We are rooted in the belief that family participation enriches philanthropy and that philanthropy strengthens families. We empower donors and their families to define and pursue their purpose, establish thoughtful policies and practices, and build community to make a positive impact through their giving. NCFP is a national network of donors and their families, community foundations, and philanthropy-serving organizations. For additional information about joining NCFP's network of funders and partners, please email ncfp@ncfp.org or visit ncfp.org/join.

About the Council on Foundations

The Council on Foundations exists to help philanthropy to be a strong and trusted partner in advancing the common good. Building on our 70-year history, we are charting a course for the field where funders display high integrity, earn and maintain the public's trust and serve as excellent stewards of philanthropic resources. We imagine a world where philanthropy is a trusted partner in advancing the greater good. For additional information about joining the Council, please email membership@cof.org or visit cof.org/membership.

About the Author

Tony Macklin, a Chartered Advisor in Philanthropy®, consults with donor families, grantmakers, and their advisors about purpose, use of resources, action planning, and learning. As executive director of the Roy A. Hunt Foundation, he facilitated changes in visioning, impact investing, grantmaking, trustee education, and back-office management. In twelve years at the Central Indiana Community Foundation, he led grantmaking initiatives, advised wealthy donors, attracted \$39 million, and launched a social enterprise. Tony also serves as senior program consultant for NCFP, senior consultant with Ekstrom Alley Clontz & Associates, senior advisor to the Impact Finance Center, and peer reviewer for The Foundation Review.

Special Thanks

We express our deep gratitude to the foundations and experts who agreed to contribute their perspectives to this paper. We also thank the following individuals for serving as reviewers: Ashley Blanchard, Lansberg, Gersick & Associates and the Hill-Snowdon Foundation; Julie Boudreau, John and Wauna Harman Foundation; Audrey Jacobs, The Sarafina Group; Scott Koch, The Reissa Foundation; Andras Kosaras, Arnold & Porter; Katherine Lorenz, Cynthia and George Mitchell Foundation; Susan Crites Price, ThePricesWrite; Kris Putnam-Walkerly, Putnam Consulting; Jen Rainin, Kenneth Rainin Foundation; and Bob Reid, JF Maddox Foundation.

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