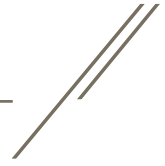




2021 REPORT ON
PRIVATE FOUNDATIONS —

Endowments

From the CEO



We are pleased to share our **2021 Report on Private Foundations – Endowments**, which functions as a companion to **2021 Report on Private Foundations – Grantmaking** issued earlier this year. The two reports work together to provide a complete picture of the core giving and funding activities at the heart of private foundations.

While we have seen rays of hope during the second year of the COVID-19 pandemic, we continue to navigate a shifting and unpredictable landscape that impacts people, businesses, governments and nonprofits, and we remain committed to sharing our insights with philanthropists to help them make educated, strategic decisions in the pursuit of their charitable missions.

In this quantitative study, **we analyzed the endowment activities of more than 1,000 private and family foundations** across 2019 and 2020 to better understand the asset allocation, portfolio performance, fees and various financial transactions that allow foundations to endure and continue their ongoing charitable work.

Every foundation has unique investment objectives to consider when designing their portfolio. The endowments in this study **invest more than half of their assets in equities**, which is consistent with a long-term horizon and institutional-quality investment strategies. They also rely on a complement of other asset types to round out their portfolios and address other priorities such as liquidity, risk mitigation, and, in some cases, aligning their investments more closely with their mission.

High allocations to equities allowed foundations to **benefit from strong markets and realize solid growth**. At the same time, donors continued to replenish their endowments with additional contributions helping to fund the increased grant activity we observed in earlier reports and indicating ongoing philanthropic intent. As such, we believe **the outlook for future giving is encouraging**.

So, where do we go from here? While it may be true that the only constant is change, at Foundation Source, we will continue to serve as the trusted partner for philanthropic foundations as we have for the past 20 years. We hope that our *2021 Report on Private Foundations – Endowments* helps inform your views and guides your philanthropic vision and activities as we follow this journey together.

Thank you,

Sunil Garga

President and CEO of Foundation Source

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Key Findings

Endowments experienced **double-digit growth in both 2019 and 2020**, which is consistent with strong market performance and contribution rates into foundations, both of which helped to fund the increased grant activity seen in 2020 and set the stage for future giving.

Overall investment performance was strong with foundations achieving average portfolio growth of 20.0% in 2019 and 12.7% in 2020 on a gross-of-fees basis. While absolute performance was down on a year-over-year basis, the trend is consistent with the performance of the US equity markets and cumulative performance is positive.

Equities remain the largest portfolio allocation for endowments at approximately 55%, followed by fixed income at 16% and alternatives at 12%.

The average amount paid for investment-related services across the foundations in our study **decreased from 54 basis points to 50 basis points** from 2019 to 2020.



SMALLER FOUNDATIONS had the highest allocation to cash at 19%, likely to support their higher grantmaking volumes and associated liquidity needs.

MID-SIZE FOUNDATIONS had the highest allocation to equities at 60%.

LARGER FOUNDATIONS had the highest allocation to alternatives, far outpacing the exposure of smaller and mid-size foundations to similar asset types.

About This Report



As the nation's largest provider of management solutions for family, corporate and professionally-staffed foundations, Foundation Source is uniquely positioned to provide insights into the grantmaking and endowment activity of private foundations.

For more than 10 years, we have collected and analyzed transaction-based data to provide a timely, quantitative benchmark for the nonprofit sector and the businesses that support private foundations to help them optimize their operations and, ultimately, magnify their impact.

According to publicly available data from the IRS, there are approximately 100,000 private non-operating foundations in the US and just 1% of them have more than \$50 million in assets.

This report provides a year-over-year analysis of endowment activities including changes in asset values, portfolio performance, asset allocation and investment fees for foundations with \$50 million or less in assets, as they represent the vast majority of all US-based foundations.

US-BASED PRIVATE NON-OPERATING FOUNDATIONS BY ASSET LEVEL

\$ ASSETS	# FOUNDATIONS	% TOTAL
<1M	62,599	62.9
1-10M	28,566	28.7
10M-50M	6,316	6.3
50M+	2,097	2.1
TOTAL	99,578	100.0

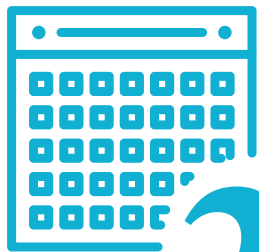
Source: IRS Business Master File, May 2021

NOTE: Foundation Source is committed to protecting the confidentiality and privacy of our clients, and we have implemented rigorous policies to safeguard the information with which they have entrusted us. This report uses only aggregated data, and we do not make reference to any individual foundation.

Report Methodology & Sample Demographics

The findings in this report are based on our analysis of the activities of a sample of 1,157 US-based private, non-operating foundation clients with assets of less than \$50 million. Our data are drawn from transactions, returns and balances 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.)

Each of the foundations in our sample met the following criteria:



ACTIVE across
the two years of
the study period:
2019 and 2020

2 yrs



IN EXISTENCE
for at least

3 yrs

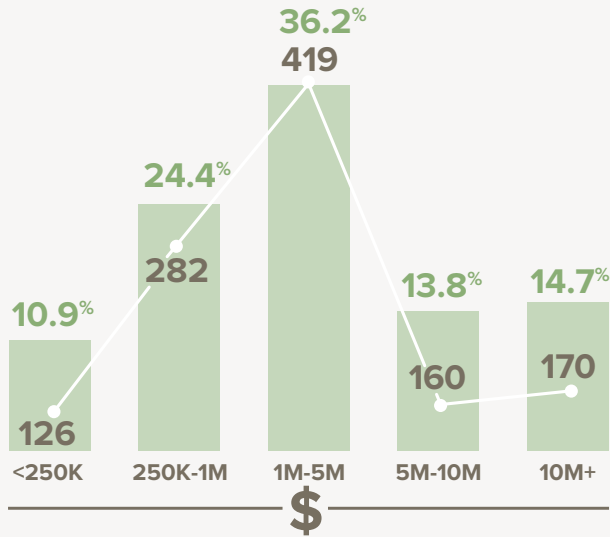


ASSETS of less than

\$50M

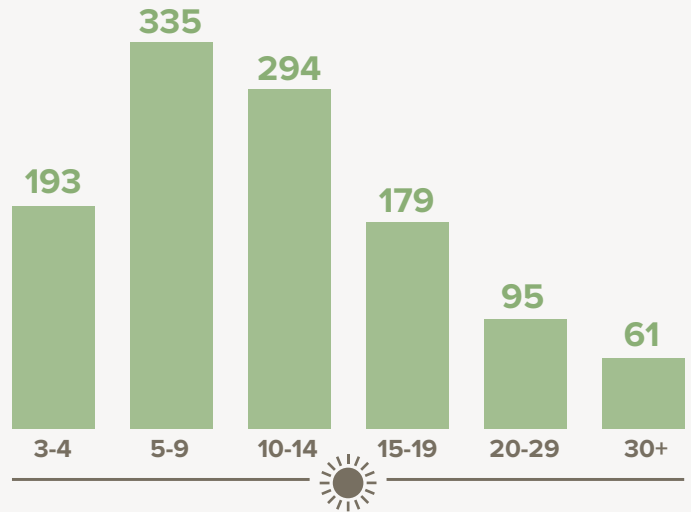
Here is a closer look at the 1,157 foundations we analyzed in this report.

COMPOSITION BY **ASSET SIZE**



The vast majority, or **71.5%**, of the foundations analyzed have endowments of **\$5 million or less**. Within this group, foundations with \$1 million to \$5 million in assets represent the largest group and total **36.2%** of the sample. Meanwhile, **foundations with \$5 million or more represent 28.5% of the total number of foundations analyzed**. This sampling breakdown is consistent with the sample in our previous reports and the overall universe of US-based private foundations, as noted on page 5.

COMPOSITION BY **AGE**



Although the report includes foundations ranging in age from three years to more than 30 years, **most of the foundations in our sample (71.0%) have been in existence fewer than 15 years**. The largest sub-group of foundations (335 of the 1,157) have been in existence between five and nine years.

Additionally, these foundations are most likely to be led and managed by a founder, patriarch, wealth creator or family member, and not professionally staffed.

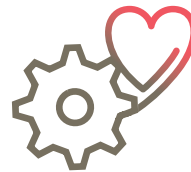
Throughout the report, we present both the aggregate results for the entire study group, as well as the results for subsets of foundations, based on the following three asset bands:



SMALLER FOUNDATIONS:
assets of less than **\$1 million**



MID-SIZE FOUNDATIONS:
assets between **\$1 million and \$10 million**



LARGER FOUNDATIONS:
assets between **\$10 million and \$50 million**

The foundations in our sample had a **MEDIAN AGE OF**

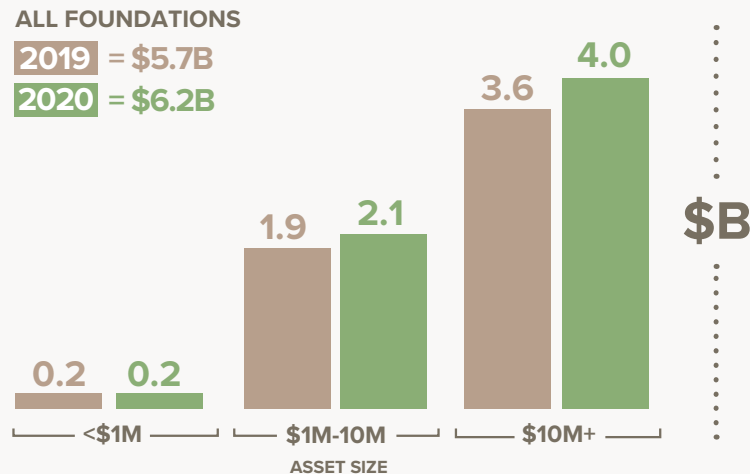
11 yrs

and average assets of **\$3.4 million**.

Asset Growth

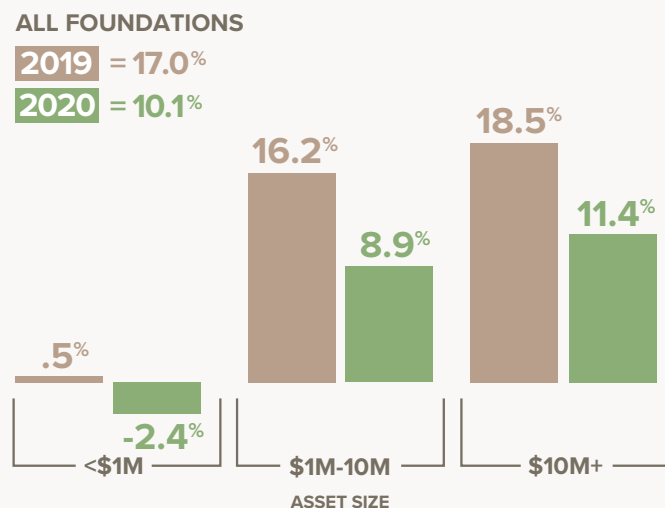
Collectively, the foundations in our study saw growth in their endowments and, at the end of 2020, held \$6.2 billion in assets.

TOTAL ASSET BALANCE BY FOUNDATION SIZE



Even accounting for grants and expenses, the foundations in our sample showed **an overall net increase in their endowments of \$500 million between 2019 and 2020.** As foundations grant out funds quite generously relative to their assets (see *2021 Report on Private Foundations – Grantmaking* for more information), the increase depicted on these charts represents investment results, additional funding or both.

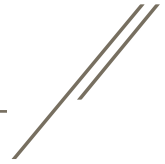
ANNUAL GROWTH BY FOUNDATION SIZE



Foundations have experienced appreciable growth in their endowments for the 24-month period that encompassed 2019 and 2020. While the increase in 2020 was less pronounced than it was in 2019, both years delivered double-digit growth.

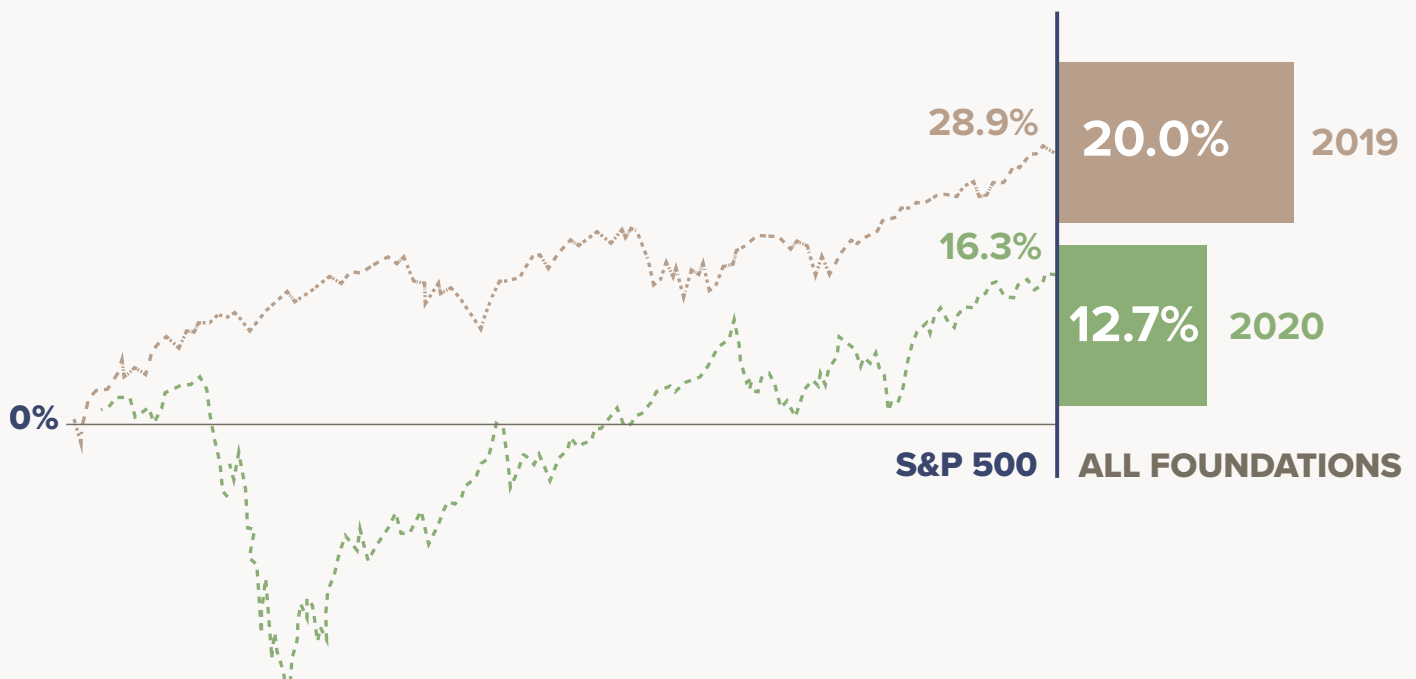
Growth was not, however, evenly realized across foundations of all sizes. The smallest foundations declined in value by 2.4% in 2020 – in part because they gave at three times the minimum distribution requirement, outpacing the percentage increase in capital value – while mid-size and larger foundations grew at 8.9% and 11.4% respectively.

Portfolio Performance



To examine how the foundations in our sample fared relative to the market, we looked at the change in their investment portfolios due to capital gains, unrealized gains, and dividend and interest income.

PORTFOLIO PERFORMANCE (GROSS-OF-FEES)



Source: <https://www.macrotrends.net/charts/stock-indexes>

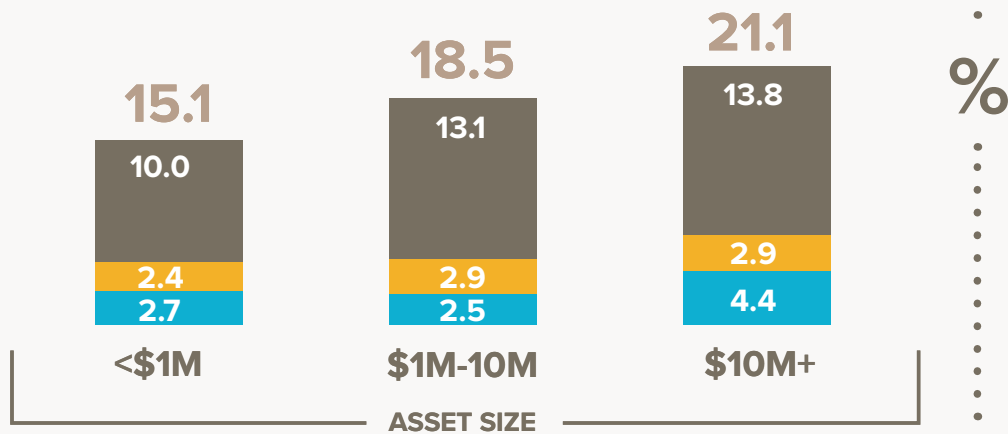
Overall portfolio performance was strong for the 24-month period of the study, with foundations achieving 20.0% average growth in 2019 and 12.7% average growth in 2020, gross-of-fees. While absolute performance was down on a year-over-year basis, the trend is consistent with the performance of the US equity markets and cumulative performance is positive.

PORTFOLIO PERFORMANCE BY FOUNDATION SIZE (GROSS-OF-FEES)

Annual investment performance was solid across foundations of all sizes and, in both years, larger foundations experienced proportionately more growth than smaller foundations which is likely the result of a combination of factors including investment strategy, compounding on higher asset bases and lower fees. Growth ranged from 8.9% in smaller foundations to 14.1% in larger foundations for the 2020 calendar year, helping to further bolster endowments for future giving.

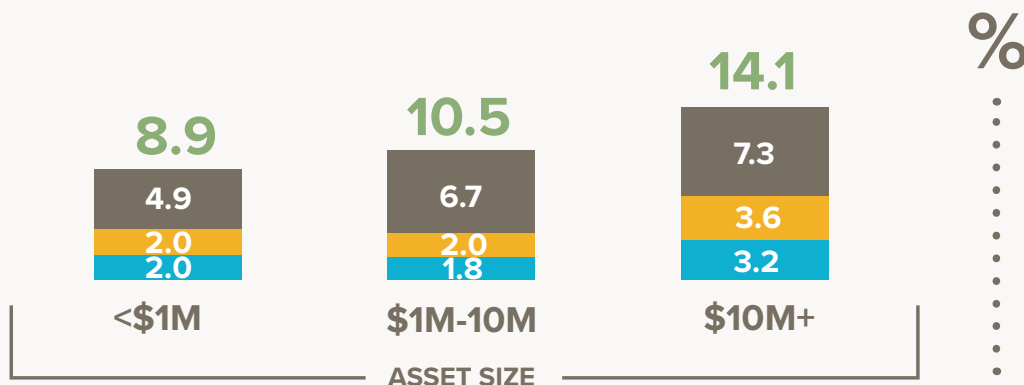
2019

- Unrealized Gains
- Income
- Realized Gains



2020

- Unrealized Gains
- Income
- Realized Gains










Net Asset Changes

Another measure of foundation endowments — net assets — takes into account donor contributions and outflows of grants and expenses.

The foundations in our study increased their net assets in 2020 by 10.1%. In addition to solid investment results, donors contributed 57 cents to their foundations for every 83 cents they disbursed as grants and charitable expenses, indicating an ongoing philanthropic intent.

As with other metrics, that growth was inconsistently distributed across the three foundation cohorts. These different outcomes cannot fully be attributed to investments. Instead, as shown below, disparate rates of outflows in the form of grants and expenses also account for a good part of the variation in their asset values.

		%		
		2019	2020	CHANGE IN NET VALUE
NET CHANGE IN ASSET VALUES (ALL FOUNDATIONS)	CONTRIBUTIONS 	6.3	5.7	↓
	GRANTS 	-7.5	-6.4	↓
	EXPENSES 	-1.5	-1.9	↑
	REALIZED GAINS 	3.7	2.7	↓
	INCOME 	2.9	3.0	↑
	UNREALIZED GAINS 	13.4	7.0	↓
	NET 	17.2	10.1	↓

It's also interesting to note that grants exceeded contributions in 2019 for the first time in the company's history. This was true for foundations of all sizes and the trend continued in 2020.

Some foundations included in the research sample own investments in partnership interests requiring Schedule K-1s. There may be changes in asset balances due to K-1 activity reported after publication of this report.

NET CHANGE IN ASSETS BY FOUNDATION SIZE



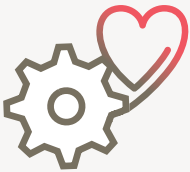
SMALLER FOUNDATIONS (<\$1M)

Because smaller foundations are energetic grantmakers, they rarely post the same gains as their larger foundation cohorts. As they routinely distribute a higher percentage of their net assets than their larger counterparts and have higher expenses when measured as a percentage of assets, their aggregate net assets declined by 2.4% in 2020.



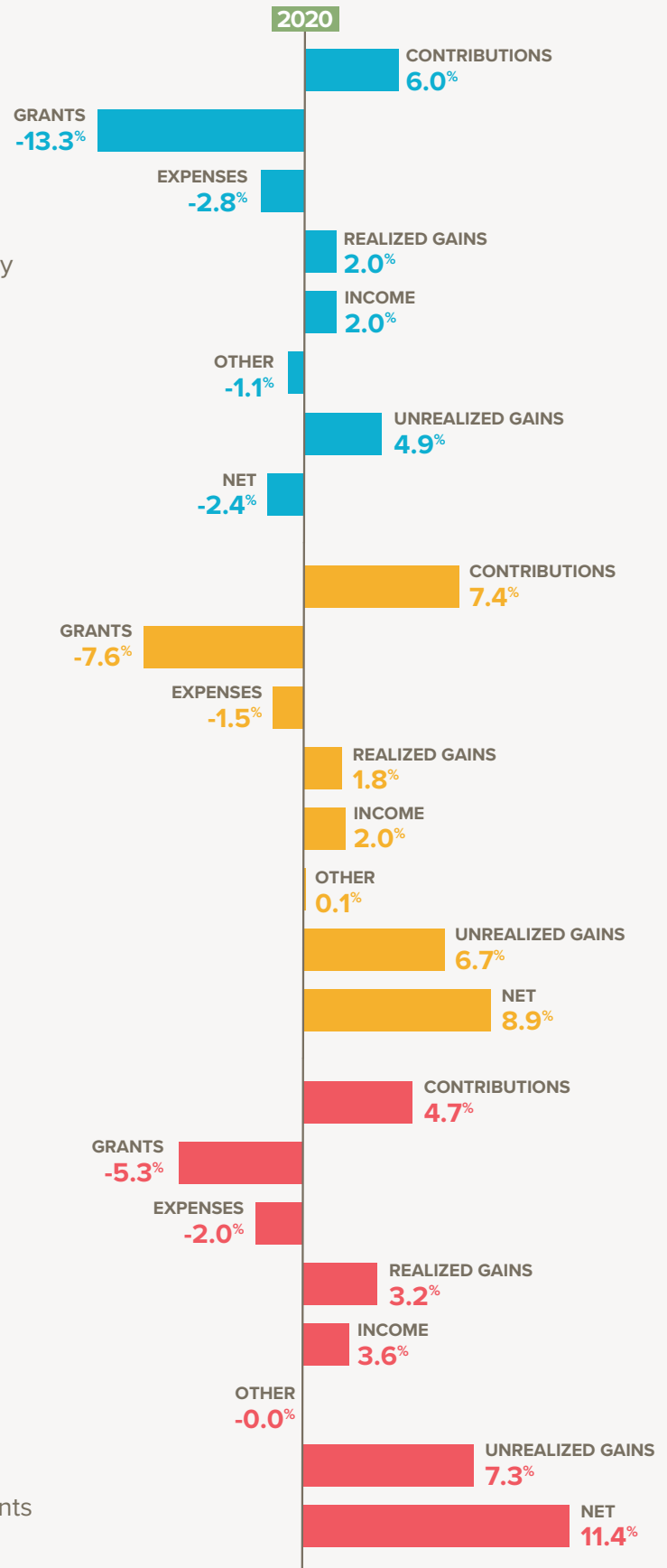
MID-SIZE FOUNDATIONS (\$1M-\$10M)

Mid-sized foundations experienced an increase in their overall assets, gaining 8.9% in net value in 2020. This increase was the combination of investment growth and new contributions, which were more than sufficient to cover the 9.1% that these foundations disbursed as grants and expenses.



LARGER FOUNDATIONS (\$10M-\$50M)

In 2020, the largest foundations experienced the greatest gain, adding 11.4% in net asset value. New contributions of 4.7% supplemented 10.5% in realized and unrealized gains, which was more than sufficient to keep pace with their disbursements of 7.3% in grants and related expenses.



Asset Allocation

The study analyzed foundation asset allocation across five broad categories:

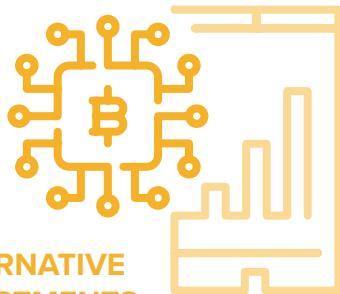
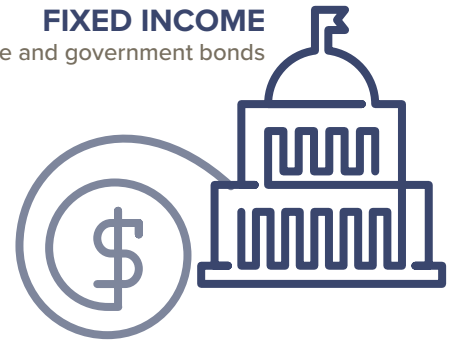


CASH
cash and cash equivalents

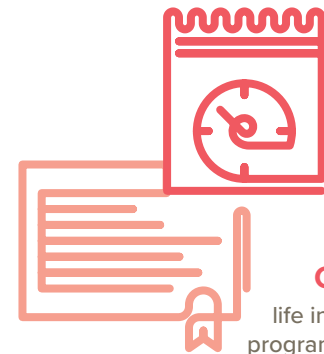


EQUITIES
domestic and international

FIXED INCOME
corporate and government bonds



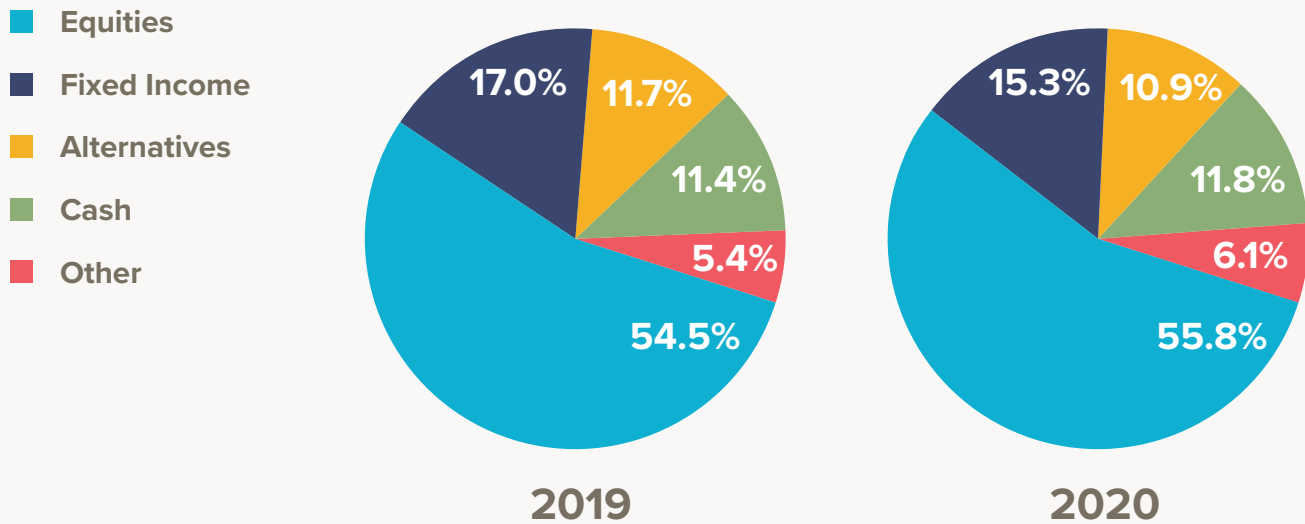
ALTERNATIVE INVESTMENTS
private equity, hedge funds,
publicly traded partnerships,
real property and cryptocurrency



OTHER
life insurance,
program-related
investments, receivables,
closely-held stock,
annuities and inventory

Over the 12 years that Foundation Source has issued these reports, equities have consistently represented the largest share of endowment portfolios. The latest figures indicate that foundations maintained their enthusiasm for equities in 2020, which makes sense given the long-term investment horizon for most foundations.

ASSET ALLOCATION (ALL FOUNDATIONS)



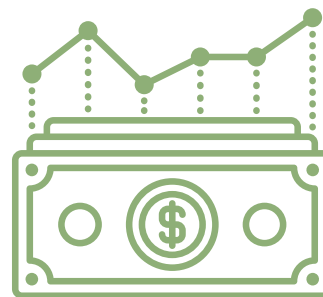
ASSET ALLOCATION BY FOUNDATION SIZE

Year	Foundation Size	Equities	Fixed Income	Alternatives	Cash	Other
2019	<\$1M	54.5	15.9	4.1	19.8	5.7
	\$1M-10M	59.3	18.6	4.8	11.7	5.5
	\$10M+	51.9	16.5	15.8	10.8	5.3
2020	<\$1M	56.7	14.4	3.8	18.7	6.4
	\$1M-10M	60.3	16.2	5.1	12.1	6.2
	\$10M+	53.4	14.9	14.3	11.4	6.1

In 2020, the foundations in the study continued to invest the largest share of their portfolios in equities, allocating 55.8% of their endowments to that asset class, up slightly from 2019 while allocations were shifted away from fixed income and alternatives.

SMALLER FOUNDATIONS (<\$1M)

Smaller foundations also increased their allocation to equities from 54.5% in 2019 to 56.7% in 2020. **Compared to their larger cohorts, however, smaller foundations had the largest cash holdings.** Because these foundations disburse a larger percentage of their assets in grants and expenses, they need to maintain liquidity to fund their activities.



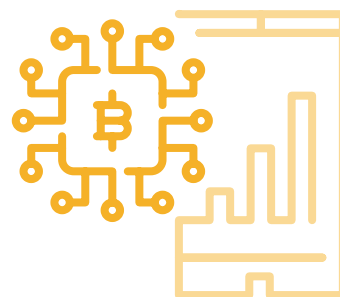
MID-SIZE FOUNDATIONS (\$1M-\$10M)

Compared to their smaller and larger foundation cohorts, **the mid-sized foundations allocated the greatest share of their assets to equities in both 2019 and 2020.** In 2020, equities represented fully 60.3% of their assets while they decreased their exposure to fixed income to 16.2%, down from 18.6% in 2019.

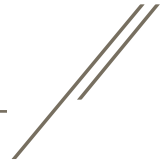


LARGER FOUNDATIONS (\$10M-\$50M)

Like the other cohorts, the largest foundations in the sample devote the greatest share of their assets to equities. However, as these foundations may have investment opportunities that are unavailable to smaller investors, **they devoted roughly 15% of their assets to alternative assets in both years—**nearly tripling the exposure achieved by both smaller and mid-sized foundations.



Investment Expenses



Most foundations incur expenses to maintain their investment assets. These expenses include banking or brokerage fees, fees paid to an investment advisor and costs to maintain real property held for investment or rental income within the foundation's endowment.

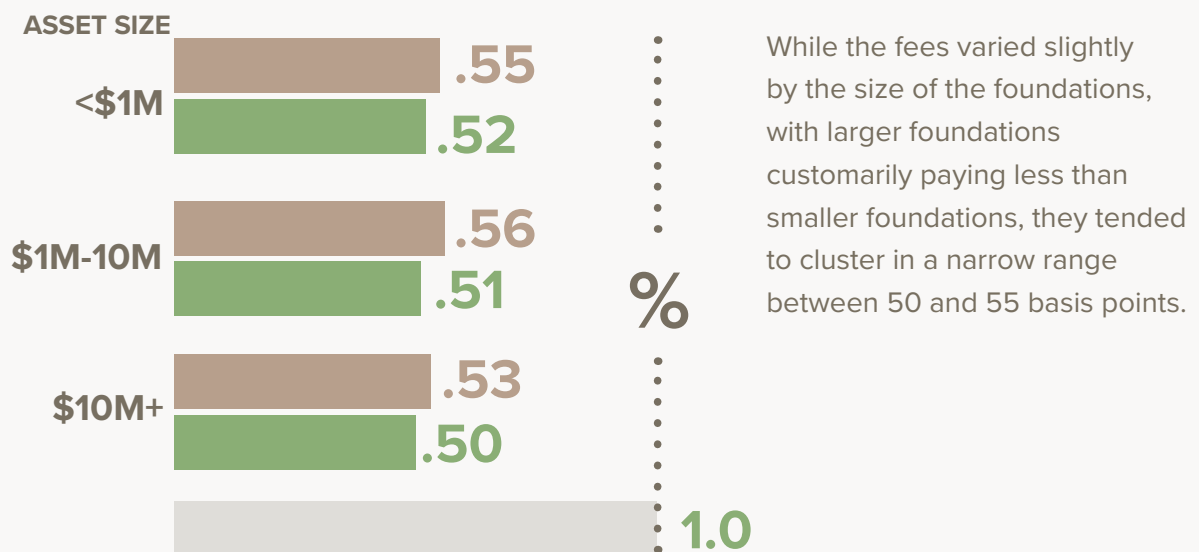
Of note, these expenses are not counted towards satisfying a private foundation's annual 5% minimum distribution requirement, but are an offset to a foundation's excise tax on gross investment income and net capital gain income (including dividends, rents, royalties, interest and capital gains), which was 1.39% in 2020.

The average amount paid for investment-related services across the foundations in our study decreased from 54 basis points to 50 basis points from 2019 to 2020. This decrease is consistent with the year-over-year increase in asset balances (which may result in a decrease in tiered asset-based fees) and the year-over-year decline in investment returns (which may result in a decrease in performance-based fees).

ALL FOUNDATIONS

2019 = .54%

2020 = .50%



Terminology



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% minimum 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.

BASIS POINTS

A unit of measurement used in finance equal to 1/100th of a percent. 100 basis points equals 1%.

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 related to producing income.

CONTRIBUTIONS

New gifts to the foundation. These gifts are typically from the founder or parent company (in the case of a corporate 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.

MINIMUM DISTRIBUTION REQUIREMENT

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

ABOUT FOUNDATION SOURCE

Foundation Source is the nation's largest provider of management solutions for private foundations. We empower people and companies to create a better world with their philanthropy through a configurable suite of administrative, compliance, and advisory services complemented by purpose-built foundation management technology and private foundation experts.

We work in concert with financial advisors, legal and accounting professionals, consultants, and family offices, as well as directly with individuals, families, and corporations to bring philanthropic visions to life. As we celebrate our 20th year of service, Foundation Source supports nearly 2,000 family, corporate, and professionally staffed foundations of all sizes and has enabled more than \$7 billion in charitable grants.

Have a question? Call 800.839.0054 or send us an email at info@foundationsource.com.

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