



# Asset Declines and Investment Strategy Changes by Family, Independent, and Public Foundations

Results of a Survey by the Council on Foundations

February 2, 2009

Given the overall decline in the stock market last year of 38.5 percent, as measured by the S & P 500 Index, how have family, independent, and public foundations been affected? How have they responded? Have they increased or decreased their diversification? Changed their asset mix? Become more conservative or more aggressive in their investment strategy? Also, have they changed who manages their investments? To gain insight into these questions, the Council on Foundations conducted a survey of its family, independent, and public foundation members from January 16 through January 27, 2009.

The Council sought to benchmark the impact of the precipitous drop in stock values on foundations' investment strategies, practices, and allocations. It also sought to determine what, if any, changes members had made or were contemplating to their investments or strategies since June 30, 2008. A total of 127 of the Council's members responded.

## Highlights

Overall, the Council found that its family, independent, and public foundation survey respondents experienced a 28 percent decline in the value of their assets over the course of 2008. This is not the same as a rate of return because it does not take into account the effects of grantmaking or infusions of additional assets into foundation portfolios. However, it does indicate the very different position that foundations find themselves in as they start 2009. The survey found that many foundations have not made major changes to their investment strategies, but that a substantial proportion are making changes in their investment managers, their diversification, or the aggressiveness of their investment strategies.

- While nearly half (47 percent) of assets were held in equities at the end of 2008, more than two-fifths (43 percent) of respondents noted that the share of assets held in equities had dropped. Also, more than a third (35 percent) noted an increase in the proportion of assets held in fixed-income securities and cash.
- At least 60 percent of foundations noted that their target allocations have not changed since June 30, 2008, yet a quarter had reduced their target allocations for equities and increased it for fixed-income assets (25 percent) and cash (17 percent).
- Of the two-thirds of foundations using investment consultants, a quarter had either already changed consultants (8.3 percent) or were considering a change (16.7 percent).
- While the use of investment managers is nearly universal (90 percent), nearly half had already changed managers (31.5 percent) or were considering making a change (17.1 percent)—in fact more than half (55 percent) of larger foundations (\$100 million or more in assets) had already made a change.



- Roughly three-quarters of foundations indicated that they would maintain their investment strategy, but those making changes generally are becoming more conservative in their investments (85 percent).
- While 80 percent of foundations reported maintaining their level of diversification, those making changes have generally increased their diversification.
- About 20 percent said that they were pursuing actions to reduce the investment fees associated with the management of their portfolios.

## Changes in the Value of Assets

Overall, the foundations responding reported that the value of their assets were 28 percent less at the end of 2008 as compared with where they started the year. This is not a true measure of a foundation's rate of return because it does not take into account disbursements for grantmaking or inflows of funds to the foundation from additional contributions. However, it gives an indication of the respondents' financial standing at the beginning of 2009, and how it compares to a year earlier. Family foundations reported a decline in asset value of 27 percent, while independent foundations reported that the value of their assets had declined by 29 percent. Public foundations reported less of a decline in assets: about 19 percent (Table 1). Smaller foundations (those with assets of less than \$25 million) reported less of a decline in their value of assets than the largest foundations (21 percent for foundations with \$10 million or less in assets and 24 percent for those with assets of between \$10 and \$25 million, as compared with a decline of 28.5 percent for those with assets of \$250 million or more) (Table 2).

**Table 1—Change in Asset Value by Foundation Type**

<b>Foundation Type<sup>a</sup></b>	<b>Value of Assets on December 31, 2007 (in millions)</b>	<b>Value of Assets on December 31, 2008 (in millions)</b>	<b>Change in the Value of Assets on December 31, 2008, as a percent of the Year Earlier Value</b>
<b>Family</b>	\$7,903	\$5,749	-27.2%
<b>Independent</b>	\$14,642	\$10,447	-28.7%
<b>Public</b>	\$876	\$711	-18.9%
<b>Total</b>	\$23,422	\$16,908	-27.8%

a This analysis is based on 126 foundations that provided asset information for both 2007 and 2008.

**Table 2—Change in Asset Value by Foundation Size**

Foundation Size Asset Value on December 31, 2007 (in millions)	Number of Foundations	Decline in Value of Assets on December 31, 2008, as a percent of the Year Earlier Value
\$250 or more	16	-28.5%
\$100–\$249.9	20	-26.9%
\$50–\$99.9	21	-24.5%
\$25–\$49.9	17	-27.8%
\$10–\$24.9	25	-23.8%
Less than \$10	27	-21.3%
<b>Total</b>	126	-27.8%

## Investment Mix

Allocations among asset types at the beginning of 2009 show that, on average, nearly half (47.1 percent) of the portfolio values were held in equities, with three times more held in domestic equities rather than international (35.2 percent versus 11.9 percent) (Table 3). Another third of assets were held in fixed-income investments (22.5 percent) and cash or cash equivalents (11.4 percent). About 18 percent of assets were held in alternatives such as hedge funds, real estate, and other instruments. Roughly half of foundations reported that the proportion of assets they currently hold in each asset type is about the same as it was on June 30, 2008. For a substantial proportion of foundations, however, the current allocation differs from what it was before the precipitous drop in the market. Forty-three percent of foundations have a lower proportion invested in domestic equities than they had a year ago; while a third of foundations have a lower proportion of assets invested in international equity holdings. For 37 percent of foundations, the share of holdings in fixed-income assets and cash has increased.

**Table 3—Asset Allocations and Change in Allocation since June 30, 2008**

Asset Type	Average Percent of Assets December 31, 2008	Percent of Foundations Holding Assets	Percent of Foundations with a Greater Share of Assets Held	Percent of Foundations with a Lower Share of Assets Held
Domestic Equities	35.2	93.5	5.8	43.3
International Equities	11.9	81.3	8.4	34.5
Fixed-income	22.5	88.6	37.3	11.9
Cash/Cash Equivalents	11.4	83.7	37.0	8.4
Hedge Funds	7.9	40.7	8.0	11.6
Real Estate	3.4	44.7	11.4	9.6
Other Alternatives	7.0	48.8	15.8	3.5
Other	0.8	7.3	3.3	4.3

Over 80 percent of foundations reported that they held assets in domestic and international equities, fixed-income investments and cash or cash equivalents. Half or fewer of foundations reported that they held assets in hedge funds (40.7 percent), real estate (44.7 percent) or other alternatives (48.8 percent). While 60 percent or more of foundations noted that their current target allocation had not changed since June 30, 2008, more than a quarter (27.7 percent) reported that their target allocations for domestic equities had been reduced, and nearly a quarter (23.3 percent) reported reducing their allocation to international equities (Table 4). In contrast, a quarter noted that their allocation to fixed-income securities had increased, and 16.9 percent had a higher allocation to cash. Of the half of foundations that had a target allocation to hedge funds, twice as many said their target allocation was lower than those that were increasing it. This trend was similar for real estate holdings as well: of the 45 percent that had an allocation, twice as many had lowered their target allocation than had increased it.

**Table 4—Changes in Target Asset Allocations since June 30, 2008**

<b>Asset Type</b>	<b>Percent of Foundations with a Higher Target Allocation of Asset Type</b>	<b>Percent of Foundations with a Lower Target Allocation of Asset Type</b>
<b>Domestic Equities</b>	5.0	27.7
<b>International Equities</b>	7.8	23.3
<b>Fixed-income</b>	24.6	8.5
<b>Cash/Cash Equivalents</b>	16.9	10.2
<b>Hedge Funds</b>	3.6	7.3
<b>Real Estate</b>	2.7	5.4
<b>Other Alternatives</b>	3.5	3.5
<b>Other</b>	0.0	1.2

## Investment Consultants

Two-thirds of the foundations responding to our survey reported that they had investment consultants<sup>1</sup> who advised them on their investments and investment strategy. Family, independent, and public foundations had similar rates of use of these consultants. Yet, the use of investment consultants varied by foundation size. Larger foundations (those with \$100 million or more in assets) were more likely to have such consultants as compared with smaller foundations: 85 percent for those with \$100-\$250 million in assets, and 77 percent for those with \$250 million or more in assets, compared with 55 percent to 65 percent for smaller foundations.

Twenty-five percent of foundations reported to us that they had either changed investment consultants (8.3 percent) since the end of June 2008, or were considering changing their consultants (16.7 percent). While smaller foundations are less likely to have investment consultants, they are more likely to have changed their consultants recently or are considering such a change. Forty percent of foundations with less than \$25 million

<sup>1</sup> An investment consultant is someone outside the foundation who handles investment performance monitoring, calculation, and attribution; develops asset allocation and spending policies; and does manager search, selection, and termination, among other services.

in assets reported that they had either changed their investment consultant (16.7 percent) or were considering such a change (23.3 percent). In contrast, only 17 percent of larger foundations (those with \$100 million or more in assets) reported that they had or were considering changing consultants. Family foundations were most likely to be staying with their current investment consultant (80 percent) while independent foundations were a little less likely (72.2 percent) and public foundations were least likely (62.5 percent).

## Investment Managers

Roughly 90 percent of foundations reported to us that they had outside investment managers<sup>2</sup> for their portfolios. This was true for all sizes of foundations, and only public foundations were less likely to have outside investment managers (83 percent). In the last six months, 31.5 percent of foundations noted that they had changed managers and another 17.1 percent that they were considering making a change. Thus, nearly half of our respondents (48.6 percent) had either changed investment managers or are considering such a change. This was true across the three foundation types surveyed. Two-thirds of larger foundations, those with \$100 million or more in assets, have already changed (55 percent) or are considering such a change (12 percent). In contrast, only 41 percent of those foundations with less than \$100 million in assets had changed or reported that they were considering changing managers.<sup>3</sup>

## Investment Strategy

Overall, about three-quarters (73.2 percent, or 93 of the 127 foundations responding) of respondents specified that their investment strategy is relatively unchanged since last summer. Nearly all those who did change said that they were adopting a more conservative strategy (29 of the 34 foundations noting that they were changing their strategy). Slight variations by size were evident. The largest foundations were less likely to be changing their strategy, while the smallest foundations (those with less than \$25 million in assets) were slightly more likely to report that they were changing their strategy—23 percent said they have adopted a more conservative approach, while 10 percent said that they are more aggressive with their investments.

## Diversification

About 80 percent (78.6 percent) of respondents said that the amount of diversification in their portfolio currently is about the same as it was on June 30, 2008. Family foundations were more likely to report having a change in their diversification—22 percent saying that their diversification had increased and 7 percent reporting that it had decreased. About 83 percent of independent foundations said that their diversification was about the same; 15 percent said that it had increased. Eight percent of public foundations had increased their diversification since June 30, 2008, with 92 percent leaving it relatively unchanged.

<sup>2</sup> An investment manager or management firm is someone or a firm outside the foundation who manages the investment portfolio.

<sup>3</sup> We don't have a direct comparison for family, independent, and public foundations for other time periods. However, in 2008, 44.4 percent of community foundations indicated that they intended to change their investment manager. In addition, the likelihood that they intended to make a change increased with foundation size. See Table 4.8 in *2007 Investment Performance and Practices of Community Foundations*, Jay Burke and Michael Miller, Colonial Consulting, LLC, and Judith Kroll, Council on Foundations, 2008.

### Investment Fees

About 20 percent of foundations (or 23 of the 123 grantmakers responding to this question) noted that they had made changes to reduce investment fees for their portfolio. Public foundations were much less likely to report having taken such actions (8 percent versus 22 percent for family and independent foundations). Approximately 25 percent of the largest foundations (those with \$250 million or more in assets), the smallest foundations (those with less than \$10 million in assets), and foundations with \$50–\$100 million in assets, were most likely to report taking such actions.

### Investment Policy

Overall, 84 percent of foundations reported that they had a written investment policy, and another 6 percent noted that they would be adopting one soon, thus indicating that 90 percent or more will soon have written policies. (Table 5) Family foundations were less likely to have a written policy (81.7 percent), but about 88 percent will have one soon, and all public foundations will have one. The smallest foundations (less than \$10 million in assets) were least likely to have a written policy (63 percent), but an additional 22 percent reported that they would be adopting one soon, thus bringing the proportion with a written policy up to 85 percent. Ninety-six percent or more of foundations with assets of \$25 million or more reported that they already had a written policy. Twenty five percent of those with a written policy noted that they have modified their investment policy since June 30, 2008. Roughly similar proportions of foundation types noted that they had modified their policies. Smaller foundations, those with less than \$100 million in assets were most likely to have modified their policy.

**Table 5—Foundations with Written Investment Policies**

Foundation Type	Have a Written Policy	Will Adopt One Soon	Total
Family	81.7%	6.7%	88.4%
Independent	87.0%	3.7%	90.7%
Public	83.3%	16.7%	100.0%
Total	84.1%	6.3%	90.4%

## About the Survey

The Council on Foundations surveyed its family<sup>4</sup>, independent<sup>5</sup>, and public<sup>6</sup> members to determine what, if any, changes they had made or were contemplating to their investments, strategies, policies, or practices since June 30, 2008. Of the 127 foundations that responded to the survey, 48 percent are family foundations that had an average of \$172 million in assets at the end of 2007 (Table 6). Independent foundations represented 43 percent of respondents and had a higher average asset value of \$271 million. Public foundations made up 9 percent of respondents and had assets averaging \$73 million. Overall, the findings are based on a response rate of 12.7 percent of the Council's members in these areas. Collectively, they account for 11.7 percent of the assets held by these three foundation types.

**Table 6—Survey Respondents**

Foundation Type	Number of Foundations Surveyed	Total Assets (in millions)	Number Responding	Total Assets of Respondents December 31, 2007 (in millions)	Average Value of Assets on December 31, 2007 (in millions)
Family	564	\$50,438	61	\$10,523	\$172
Independent	297	\$142,386	54	\$14,642	\$271
Public	138	\$29,817	12	\$876	\$73
Total	999	\$222,641	127	\$26,042	\$205

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<sup>4</sup> **Family foundations** have boards that are usually controlled by founding family members. The programs that are funded often reflect the personal interests of the family. Example: David and Lucile Packard Foundation.

<sup>5</sup> **Independent foundations** tend to be larger, more well-established institutions with their own endowments, often originating from a single donor. However, relatives of the original donor rarely serve on the boards of independent foundations. Example: The Ford Foundation.

<sup>6</sup> **Public foundations** raise funds like community foundations but they are not restricted by geographic focus. Example: Tides Foundation.