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Study Finds Private Foundations Rebuilding Assets After Recession Declines

2012 Council on Foundations-Commonfund Study Shows

Gains Averaged 12.0% Following -0.7% Return in FY2011; Spending for Mission Increases

WILTON, CT, September 26, 2013 -- Data gathered from 140 private foundations for the 2012 Council on Foundations–Commonfund Study of Investments for Private Foundations (CCSF) show that these organizations’ endowments returned an average of 12.0 percent (net of fees) for the 2012 fiscal year (January 1 – December 31, 2012), a significant improvement over the FY2011 return of -0.7 percent.

The 2012 CCSF represents the first fruits of collaboration between the Council on Foundations and Commonfund Institute: the most comprehensive annual survey of its kind by two leading authorities on foundation investment practices and governance.

When the 2012 CCSF return data are viewed by size of participating foundation, the highest return, 12.4 percent, came from organizations with assets between \$101 and \$500 million. Foundations with assets over \$500 million realized an average return of 11.9 percent in FY2012, while foundations with assets under \$101 million produced an average return of 11.4 percent.

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Looking at multi-year results, the 2012 Study shows that trailing three-year returns for participating foundations averaged 7.9 percent in 2012 compared to 2011's 10.3 percent; the decline reflects the fact that 2009's strong returns have now been dropped from the three-year calculation. Trailing five-year returns averaged 1.8 percent versus 1.4 percent in the prior year, reflecting the continuing inclusion of FY2008's losses in the five-year number. For the trailing 10-year period, returns averaged 7.9 percent compared with last year's 5.2 percent, as the losses from FY2002 are now no longer included. (All returns are net of fees.)

2012 COUNCIL ON FOUNDATIONS-COMMONFUND STUDY OF FOUNDATIONS

Average One-, Three-, Five- and 10-Year Net Returns for Fiscal Years 2011 and 2012

<i>numbers in percent (%)</i>	Total Institutions		Over \$500 Million		\$101-\$500 Million		Under \$101 Million	
	133	140	26	18	73	71	34	51
	'11	'12	'11	'12	'11	'12	'11	'12
FY annual total net return	-0.7	12.0	1.6	11.9	-1.0	12.4	-2.0	11.4
3-year net return	10.3	7.9	10.0	8.6	10.5	8.3	10.3	7.1
5-year net return	1.4	1.8	2.0	2.0	1.5	2.1	0.4	1.2
10-year net return	5.2	7.9	6.5	8.3	5.4	8.1	3.9	7.3

John S. Griswold, Executive Director of Commonfund Institute, said, "After a mildly negative 2011, private foundations secured double-digit gains in 2012, restoring much needed growth to their endowments. Even more heartening is the higher 10-year return, an average of almost 8.0 percent. Last year's 10-year return, in the 5 percent range, was simply not high enough to sustain spending levels once inflation and investment management costs are taken into account."

President and CEO of the Council on Foundations Vikki Spruill said, "A study like this helps enhance our understanding of key trends in the field and of investment practices of private foundations." Spruill and Griswold noted that the proportion of participating foundations that

increased their mission-related spending in dollar terms continued to grow, with an average of 47 percent of foundations reporting an increase in dollar spending. “We are encouraged to see growth in mission-related investing, and even more encouraged that giving is increasing even though the economic recovery has remained unevenly,” said Spruill.

Domestic equities and international equities were the greatest contributors to FY2012’s 12.0 percent return, the latter leading all asset classes with a 17.5 percent gain and the former close behind at a 16.3 percent return. Among other asset classes, fixed income returned 7.1 percent, alternative strategies returned 7.0 percent and short-term securities/cash/other returned 1.0 percent. Within the broad category of alternative strategies, distressed debt returned 14.7 percent, followed by an 8.0 percent gain from marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event driven and derivatives). Just 30 basis points behind at 7.7 percent was private equity (LBOs, mezzanine and M&A funds, and international private equity). Returns from other subcategories were private equity real estate (non-campus), at 6.7 percent; venture capital, at 6.5 percent; energy and natural resources, at 4.6 percent; and commodities and managed futures, at 1.3 percent.

2012 COUNCIL ON FOUNDATIONS—COMMONFUND STUDY OF FOUNDATIONS

Average Return by Asset Class for Fiscal Year 2012

<i>numbers in percent (%)</i>	Total Institutions
Average FY2012 total return	12.0
Domestic equities	16.3
Fixed income	7.1
International equities	17.5
Alternative strategies	7.0
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	7.7
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivative)</i>	8.0
<i>Venture capital</i>	6.5
<i>Private equity real estate (non-campus)</i>	6.7
<i>Energy and natural resources</i>	4.6
<i>Commodities and managed futures</i>	1.3
<i>Distressed debt</i>	14.7
Short-term securities/cash/other	1.0
<i>Short-term securities/cash</i>	0.6
<i>Other</i>	5.4

The 140 foundations participating in the 2012CCSF represent \$78.7 billion in assets. Additional information about private foundation investment performance, asset allocation, governance and related topics follows.

Asset Allocation

At December 31, 2012, participating institutions' asset allocations (with comparable FY2011 allocations in parentheses) were:

Domestic equities: 26 percent (23 percent)

Fixed income: 11 percent (13 percent)

International equities: 16 percent (12 percent)

Alternative strategies: 42 percent (44 percent)

Short-term securities/cash/other: 5 percent (8 percent)

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2012 COUNCIL ON FOUNDATIONS—COMMONFUND STUDY OF FOUNDATIONS

Asset Allocations[†] for Fiscal Years 2010, 2011 and 2012

<i>numbers in percent (%)</i>	Total Institutions			Over \$500 Million			\$101–\$500 Million			Under \$101 Million		
	132	133	140	30	26	18	80	73	71	22	34	51
	'10	'11	'12	'10	'11	'12	'10	'11	'12	'10	'11	'12
Domestic equities	25	23	26	24	21	25	30	32	28	38	34	32
Fixed income	12	13	11	11	11	8	17	17	17	20	21	22
International equities	15	12	16	14	11	15	17	15	20	21	18	18
Alternative strategies	40	44	42	42	48	47	31	30	30	17	22	23
Short-term securities/cash/other	8	8	5	9	9	5	5	6	5	4	5	5

†dollar-weighted

2012 COUNCIL ON FOUNDATIONS—COMMONFUND STUDY OF FOUNDATIONS

Alternative Strategies Asset Mix[†] for Fiscal Years 2011 and 2012

<i>numbers in percent (%)</i>	Total Institutions		Over \$500 Million		\$101–\$500 Million		Under \$101 Million	
	110	122	22	16	60	67	28	29
	'11	'12	'11	'12	'11	'12	'11	'12
Responding Institutions								
Type of investment								
<i>Private equity (LBOs, mezzanine, M&A funds and international private equity)</i>	26	22	27	22	20	19	11	11
<i>Marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, event-driven and derivatives)</i>	35	39	32	37	50	51	61	58
<i>Venture capital</i>	8	10	9	11	3	5	3	3
<i>Private equity real estate (non-campus)</i>	11	11	11	12	11	9	9	12
<i>Energy and natural resources (oil, gas, timber, commodities and managed futures)</i>	13	11	13	10	12	14	15	14
<i>Distressed debt</i>	7	7	8	8	4	2	1	2

†dollar-weighted

Spending

The effective spending rate among participating foundations – derived by dividing the amount spent on mission by the market value of the foundation at the beginning of the year -- declined slightly to 5.4 percent in FY2012 from 5.5 percent in FY2011. This is a normal result in a year with strong investment returns, since many institutions use a moving-average formula to calculate market values for purposes of determining spending and the results can lag behind a rapidly rising market. When the data are viewed by endowment size, foundations with assets over \$500 million had the lowest effective spending rate, at 5.2 percent, while those with assets between \$101 and \$500 million and those with assets under \$101 million had the same effective spending rate of 5.4 percent.

Among all participating foundations, 34 percent reported an increase in their effective spending rate, 22 percent reported a decrease and 14 percent reported no change. (Thirty percent gave no answer or were uncertain.)

Spending in dollar terms continued to increase on average, with 47 percent reporting increased dollar spending in FY2012 while 32 percent reported a decrease. Fifteen percent reported no change, with another 6 percent not answering or being uncertain. In last year's Commonfund Benchmarks Study, 57 percent reported increasing spending in dollars while 23 percent reported decreasing it and 9 percent reported no change.

Debt

Continuing the deleveraging trend of recent years, for FY2012 the 13 foundations reporting that they carried debt had an average debt level of \$46.5 million versus \$54.1 million in FY2011.

Median debt was somewhat higher, however, rising to \$14.6 million in FY2012 from \$14.0 million in FY2011.

Resources, Management and Governance

The number of full-time professional private foundation staff members devoted to investments averaged 1.4 full-time equivalents (FTEs), a modest decline from last year's average of 1.5 FTEs. Twenty-three percent of Study participants reported having a chief investment officer, a figure that rose to 72 percent among the largest participating foundations with assets over \$500 million. Eighty percent of Study participants reported using a consultant compared with 76 percent a year ago. Thirty-eight percent of respondents said they have substantially outsourced their investment function, a measurable increase from last year's 30 percent.

The average number of voting members on participating foundations' investment committees was unchanged year over year at 5.4. The average number of investment committee members who are investment professionals was 2.5, down slightly from 2.6 last year, while investment committee members with alternative strategies experience was unchanged at 1.7.

Research Process and Methodology

The design of the 2012 Council on Foundations–Commonfund Study of Investments for Private Foundations (CCSF) took place in the winter of 2012. Field interviews with the participating institutions followed in the first and second calendar quarters of 2013.

Online interviews were supported by extensive telephone contact, a research technique that assures greater integrity in the data gathering process. Respondents were the ranking business officers at participating institutions.

Data from the Study's research populations were segmented into three size categories to permit analysis of the policies and practices of foundations of differing sizes. The size categories were: institutions with assets over \$500 million; institutions with assets between \$101 million and \$500 million; and institutions with assets under \$101 million.

The initial CCSF will be made available to all participants. The report will also include a comprehensive written analysis setting the data in the context of the current financial environment and recent trends.

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About The Council on Foundations

The Council on Foundations (www.cof.org), formed in 1949, is a nonprofit membership association of grant-making foundations and corporations. Members of the Council include more than 1,700 independent, operating, community, public and company-sponsored foundations, and corporate giving programs in the United States and abroad. The Council's mission is to provide the opportunity, leadership, and tools needed by philanthropic organizations to expand, enhance and sustain their ability to advance the common good.

About Commonfund Institute

Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. In addition to teaming with the Council on Foundations to produce the CCSF, Commonfund also produces the NACUBO-Commonfund Study of Endowments (NCSE) and the Commonfund Benchmarks Study series of research reports. Commonfund Institute also provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research and publications, including the Higher Education Price Index (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

About Commonfund

Commonfund was founded in 1971 as an independent nonprofit investment firm with a grant from the Ford Foundation. Directly or through its subsidiaries Commonfund Capital and Commonfund Asset Management Company Commonfund today manages close to \$25 billion for endowments, foundations and pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, Commonfund provides extensive investment flexibility using independent investment sub-advisors for discretionary outsourcing engagements, single strategies and multi-asset solutions. Investment programs incorporate active and passive strategies in equities and fixed income, hedge funds, commodities, private equity, venture capital and natural resources. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.