COUNCIL on FOUNDATIONS commonfund

Increasing Giving During COVID-19: Thoughts for Philanthropy

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The Council on Foundations has acted to support its members, their nonprofit partners, and the people and communities hit hardest by the impacts of COVID-19 by asking members to sign a pledge of action. The Pledge, which over 750 foundations have signed so far, commits foundations to be more flexible with their grantees.

A group of leaders of philanthropy-serving organizations (including the Council) also issued a call for philanthropy to increase their giving to nonprofits.

As foundations consider whether to increase giving from their endowments in response to the growing needs of the COVID-19 public health crisis, we offer four key considerations:

Revisit stress tests and liquidity needs:
It is critical to understand where the stresses are and the liquidity sources in your portfolio. Liquidity, in the context of wanting to spend more, means that foundations have to discern where they will get the extra cash to spend from their portfolio. For example, due to the lag in reported valuations of private assets (i.e. private equity, real estate) vs public assets (stocks and bonds), many portfolios will see an increase in percentage of illiquid assets over the short term. This may put pressure on your liquid assets to serve as your primary source of cash to fund increased grantmaking at a time when public market values are depressed. A full stress and liquidity test analysis of how liquidity in your portfolio can change in times of major stress events like this pandemic can provide important insight into how and when a foundation can spend more. Done right, the model should consider more than just the impact of a stock market drop. It should also factor in how other assets might be impacted (hedge funds limiting withdrawals, for example). Each foundation will have its own unique set of circumstances to consider.

Review your Asset Allocation Policies:
Foundations who are considering spending more will have to pay attention to their asset allocation, especially when the organization is looking for sources to be able to increase spending. Committing to spending more is one thing but identifying where in the portfolio is best to raise cash is another. In the near-term, rebalancing your portfolio (maintaining a balance of asset classes to manage risk and return potential) to your investment policy targets[1] following a sizeable downturn may help boost long term investment performance, even beyond the historical average, as it forces the discipline to "buy low, sell high". With that said, any short or longer-term changes to your policy should be driven by dynamics at your foundation, not a view on the market. History has proven unkind to those that try to time the market through changes in asset allocation. Look no further than the past two months for a good example. Those that were motivated to sell stocks and put more in cash after the dramatic sell-off in March have missed one of the sharpest rebounds in the history

[1] The investment policy statement (IPS) is a document that serves as a strategic guide in the planning and implementation of an investment program. When implemented successfully, the IPS anticipates issues related to governance of the investment program, planning for appropriate asset allocation, implementing an investment program with internal and/or external managers, monitoring the results, risk management, and appropriate reporting.

of the U.S. equity market in the six weeks that followed.

Revisit your Spending Policy:
In a typical crisis, there's often a tension between reducing spending due to lower portfolio values and increasing spending due to higher community need. During the depths of the 01-02 recession, Commonfund worked with many clients who wanted to spend more if it meant sustaining the mission. Although nonprofits are long-term oriented institutions and investors, you also have to survive the short term to make it to the long term. Understanding how your spending policy will behave, i.e. how much you will have vs. how much you may need to spend in the coming years to meet your commitments, is paramount to spending more now and being prepared for the future.

Your foundation may want to move away from the rolling average formula toward a weighted average spending calculation. [Commonfund research] has shown that a weighted average formula can result in a more consistent, less volatile payout than the rolling average formula. We conducted a simple analysis of a $100 million portfolio that invested 70/30 in the S&P 500 and Bloomberg Barclays U.S. Aggregate Bond Indices. We calculated the dollar spend using a 5 percent rolling three-year calculation and using a weighted average formula that considers both inflation (CPI +1 percent) and market value. Interestingly, both spending formulas produced roughly the same level of aggregate spend yet the paths were quite different. The rolling average formula resulted in a decline in spending of more than 20 percent from 2000 to 2004 and took 13 years to reclaim the high-water mark of 2000. The weighted average spend calculation didn't reach the same heights yet also didn't experience the same decline. Or more simply stated, it resulted in a more consistent (i.e., less volatile) payout than the rolling average formula.

Like asset allocation, changing your spending formula is a decision that should be considered in the context of institutional objectives, constraints, and risk profile. Also, like asset allocation, it is something that should be evaluated on a regular basis. A weighted average formula can help foundations who want to spend more now smooth out their spending rate and perform more precise scenario planning

A newer approach devised by Dimple Abichandani, the Executive Director of the General Service Foundation, in conjunction with her foundation's board is the "balancing test". In an interview with Commonfund Institute Director of Research George Suttles, Abichandani explained that a balancing test approach allows boards to fully explore and then weigh a set of factors that allows for complex and nuanced decision-making with a focus on both "meeting the moment" and longer-term sustainability of endowment resources.

They arrive at their spending rate by weighing and balancing seven factors. Three of the factors are seen in traditional spending policies: investment returns as expressed in the three-year rolling average, operating expenses and perpetuity. They added four new factors: growth goals, meeting the moment, organizational values and mission, and grants and programs. Abichandani says, "The factors that we consider in the spending policy are not only diversified and expanded, but importantly, they include our mission as well as external factors like the conditions in the world that affect our work." For foundations trying to meet the Pledge, the balancing test approach may be worth serious consideration. [Learn more here].

Regardless of your approach, these decisions have important ramifications for your foundation. While they are undoubtedly easier to wrestle with at the end of a long economic expansion than in the midst of an economic crisis, they are worth considering deliberately to help you achieve your goal.

Review internal governance documents and state UPMIFA guidelines:
For many foundations, there may be restrictions in the bylaws or respective state UPMIFA[2] guidelines that point to a certain spending percentage deemed as prudent. During this time, review those internal governance documents and UPMIFA guidelines to ensure that you are considering any changes to spending within applicable UPMIFA regulations and internal governance document guidelines.

In this time of crisis, foundations are holding two truths: portfolio values are lower and increased grantmaking to communities is as important as ever. Given current market conditions, it is easy to lose sight of the fact that as long-term investors, we have investment time horizons that will allow for certain levels of resiliency. Portfolios will suffer but hopefully weather the storm. After the 2008 economic crisis, foundation portfolios benefited from a decade long robust market that saw portfolios generate an average annual ten-year return of 8.4 percent. (For more information on historical portfolio performance, see the 2018 Council on Foundations– Commonfund Study of Investment of Endowments for Private and Community Foundations®). But now, foundations have an opportunity to consider spending more on mission so that your communities have a fighting chance to be just as resilient. This may be the rainy-day foundations have been waiting for, it may be time to make uncomfortable and bold decisions.

[2] Uniform Prudent Management of Institutional Funds Act

About the Council on Foundations
The Council on Foundations exists to help philanthropy 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 givers of all kinds are sophisticated and vital players in creating more equitable communities and a better world.

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. In addition, the Commonfund Institute teams with the Council on Foundations to produce the **Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations®** (CCSF). Fielding for the 2019 survey will begin the week of June 8, 2020. If you have questions or need more information, please visit https://www.commonfund.org/commonfund-institute/