fundraising
training ltd

Fundraising Training Ltd
Kemp House
152-160 City Road
London EC1V 2NX
info@fundraisingtraining.co.uk
+44 (0) 1491 202070
www.fundraisingtraining.co.uk

Keep Calm and Carry On……

Giving

2020 – How are Foundations Reacting?

What can we now learn from the 2008-9 financial crisis to understand the present and predict the future of Foundation giving.

Introduction

We are in a period of unprecedented social and economic uncertainty. In February 2020, most of the world became engulfed and locked down by a global pandemic. Across two weeks in February, stock markets plunged by 30%. At the start of November 2020, most were close to their pre-collapse levels (except in Europe). And then a vaccine announcement sends stock markets in a sharp ascent.

However, corporate profit warnings are everywhere, over a third of UK quoted companies have materially lowered their profit forecasts at least once in 2020[1]. But within this picture, there are winners and losers (Amazon or the airline industry).

The supply lines of cash that drive foundation philanthropy are looking vulnerable and, most certainly, unpredictable. But, in some ways, we've been here before – and not so long ago. The purpose of this article is to capture what we have learnt from and since the previous financial crash to help navigate our way through this one. We hope to equip fundraisers with an evidence-based assessment of the current world of Foundations, so that they can make informed strategic and tactical decisions at a most turbulent time.

We will concentrate on the world's largest Foundation marketplaces: the US and the UK. We are drawing our conclusions from an analysis of three recent reports:

1. '<u>Reframing the Ask - trends which will shape giving and fundraising post-COVID19</u>'. This was published in June 2020 by the Institute of Fundraising in the UK. It draws upon research undertaken by Cass Business School and the University of Dundee. Within this report there is a two-page section on Foundations, based upon an analysis of the annual Foundations Giving Trends, published by the ACF[2]. These reports look at grantmaking by the top 100 Family Foundations in the UK.
2. '<u>Foundations and the Great Recession: context for our current crises.</u>' by Larry McGill and published by Candid, in the US, on March 30, 2020[3]. This explores the lessons that can be learnt from the US Foundation response to 2008-9 and draws upon 10 research papers/articles.
3. <u>The Brutal Facts: Arguing with the Wind</u>[4]: A report published by Fundraising Training Ltd in June 2020. This is based upon primary research into the accounts of 100 Foundations in the UK, from 2014 to 2018. This is a 'diagonal slice' of the UK Foundation market, including all sizes of Foundations.

We will consider these questions:

1. The Impact of 2008-9 on Foundation Assets and Philanthropy.
2. The Intervening Years: from 2010-2018.
3. Money Management by Foundations
4. Philanthropic Reactions
5. Lessons for Grantseekers

[1] https://www.ey.com/en_uk/strategy-transactions/profit-warnings.
[2] https://www.acf.org.uk/downloads/publications/ACF_Foundation_Giving_Trends_2019.pdf
[3] https://blog.candid.org/post/foundations-and-the-great-recession-context-for-our-current-crises/
[4] https://www.fundraisingtraining.co.uk/courses/the-brutal-facts/

The Impact of 2008-9

Following the financial crash, US Foundations lost 20% of their asset values, compared with a 36% decline in the Dow Jones. In the UK, Foundations lost 12.5-19% of their assets, compared with a 36% drop in the FTSE100. Amidst these losses, US Foundation giving only shrunk by 2%; and, in the UK, the decline was between 2-9%. In both of these countries, financial markets and Foundations assets recovered these losses, with Foundations taking more time to recuperate than the financial markets.

Another important source of income: donations and bequests, decreased around the time of the financial crisis. In the Brutal Facts study these 100 trusts had received 29% of their income from non-investment sources from 2004 to 2007. This slumped to 18% from 2008 to 2012. Patterns of personal wealth have an impact on Foundations.

For Foundations, the financial shocks are less extreme than for other investors, but the recovery period is longer. Furthermore, there is little evidence that asset losses are converted into reduced giving – in the short term.

The Intervening Years: from 2010-2018

Foundation Assets then recovered from 2010 to 2018. In the US, Foundations' investments increased in value by 58% - but this compares with 140% growth of the Dow Jones index. In the UK, Foundation assets rose by 32%-68%, a better performance than the FTSE100, which grew by 47%. The lower figure is for the top 100 Family Foundations.

Over the same period, US Foundations increased their grantmaking by 75%. In the UK, this increase was between 16%-31%. The lower figure, for the top 100 Family Foundations, includes a sharp drop from a peak in 2017. This peak doesn't appear in the Brutal Facts study.

Increased grantmaking was partly funded by an increase in non-investment income. In the Brutal Facts study, these sources accounted for 18% of UK Foundation income from 2008-2012. This rose to 36% for 2013-2018.

Across all the studies, we can conclude:

1. Foundations' finances are less volatile than the financial markets. Their peaks are smaller, their troughs are less deep.
2. Foundations don't convert asset and income losses into reductions in philanthropy. Nor do they convert gains into instant philanthropy.
3. Foundations take more time to rebuild their assets, but they get there in the end.

Let's explore the reasons for these behaviours.

Money Management by Foundations

US Foundations are obliged the spend 5% of their assets on grantmaking – the ‘payout rate’. To fund grants, they will tend to use the realised gains (share or property sales) from their assets, as well as investment income (dividends or rental income). In the UK, there is no obligation to spend a % on grantmaking, but Foundations often used their investment gains to fund grants, as well as investment income - this practice is known as an ‘Absolute Return Investment’ policy.

During 2008-10, there was a lot of evidence that US Foundations increased their payout rates to shore up grantmaking. However, only one Foundation, Bill and Melinda Gates, publicly stated their intention to increase grantmaking during the recession (but they did account for 7% of all Foundation giving in the US).
In the UK, there is a similar pattern of Foundations increasing their equivalent of the ‘payout rate’. In the Brutal Facts study, the ‘payout rate’ was 3.7% in 2007, rising to 4.4% from 2009 to 2012. By 2018, it had returned to 3.4%.

The ability and the intention to use asset gains to protect giving helps to protect Foundation philanthropy during challenging times.

Parallels with the FTSE100 and the Dow Jones Index performances are slightly flawed. The 5% payout obligation for US Foundations restricts their ability to use investment income and gains to increase their assets, so they will inevitably grow at a slower rate than the Dow Jones. Also, Foundations are in receipt of non-investment income, such as donations from founders and bequests. These sources of income increase both grantmaking capacity and assets. For the Brutal Facts study group, non-investment income averages at 25.7% per annum from 2004 to 2018.

Another factor is the increasing use of rolling averages to set giving levels - helping to ‘smooth’ giving. This is where a Foundation sets its expenditure budget based upon an average of previous years’ income, rather than the previous or current year. When assets are rising, the past five-year average is less than the most recent year; when assets are falling, the past five-year average is higher than the most recent year. This is a policy adopted by 25% to 33% of US Foundations and is common practice amongst large and medium sized UK Foundations.

‘Smoothing’ means that the best income years are spread across the future and the worst are also spread – another driving factor for reduced volatility.

Philanthropic Reactions

The Candid paper provides an insight into changes to grantmaking purposes in 2008-9, the other two sources don't shed a direct light on this aspect. In the US, 40% of Foundations surveyed by Candid (then the Foundation Center) said they had adjusted funding priorities to react to the crisis. Later studies showed that this probably amounted to only 1% of total giving. As the report states, "Foundations tended to stay true to their missions, even under changing circumstances."

In the US, it was Community Foundations that led the way in diverting and expanding grantmaking to react to the recession. It is interesting to note that, as well as the Community Foundation network, the most prominent Foundations in the UK to announce new COVID-19 funding streams are the leading community focussed Foundations, such as the National Lottery, Esmee Fairbairn and City Bridge. Other sector specific funders have announced COVID-19 funds, but they are for activities within their existing sector, such as the Clore Duffield Foundation's extra £2.5 million for arts organisations.

It is probable that the reaction of UK Foundations in 2008-9 was very similar to their US counterparts; and, it probably will be the same in 2020. The Association of Charitable Foundations (ACF) in the UK has recently announced that 63% of its members have adjusted giving to react to COVID-19. Whilst these announcements come from the largest Foundations (and they attract a lot of attention), if the pattern of 2008-9 is to be repeated, there will be very little structural change to grantmaking purposes.

Looking beyond 2008-9, the Candid report points to Foundations initially reducing operating costs, in order to maintain grantmaking. But, these costs haven't risen as income has been restored, meaning that more has been available for grantmaking.

This fact aligns with the finding from the Brutal Facts study which reveals three stages from 2008 to 2018:

a) Immediate divergent behaviour – they will all react in different ways. It will be difficult to see patterns and extrapolate the behaviour of a few Foundations across the many.

b) Restoration – once the economic turmoil has stabilised, then Foundations are likely to re-establish their own finances and ways of working, before converting any additional income into increased grantmaking.

c) Growth – once they have their own houses in order then, if the markets allow, then could be a period of sustained income growth and increases in grantmaking.

Lessons for Grantseekers

The purpose of this paper is to equip grantseekers to be more successful, through an informed understanding of the global market they are operating in. So far, we have presented mainly facts and we'll allow the readers to draw their own conclusions for their context. However, we have these key points we'd like to emphasize:

1. This is a very resilient funding market - it is not going to collapse.
2. Giving purposes will largely remain the same – the arts funders will continue to fund the arts and they will probably have the same level of funds available. The announcements of extra and diverted funds for the crisis are more 'noise' than evidence of radical changes.
3. During the crisis, the overall picture of stability is the product of many divergent and counter-balancing behaviours. Therefore, don't make assumptions about your key funders, you need to identify their individual behaviours.
4. After the crisis, you need to help funders to rebuild their programmes. Assume that they will have more funds, but reduced operating costs. You will be more successful by informing them than constantly asking for money.

We are undertaking several research assignments into grantseeking and you can find out more by visiting our *Brutal Facts* page on our website:

https://www.fundraisingtraining.co.uk/courses/the-brutal-facts/

The Author

Bill Bruty is the Founder and Director of Fundraising Training Ltd. Bill has over 36 years of fundraising experience and is a Fellow of the Chartered Institute of Fundraising in the UK.

Fundraising Training Ltd is the world's leading learning organisation for grantseekers, offering an extensive range of online workshops and consultancy services for grantseeking organisations, including MSF, Cancer Research UK and the Advocacy Accelerator, based at AMREF in Kenya; to grantmakers, including the Segal Family Foundation and Porticus.