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Foundation Assets Top \$1 Trillion, but Signs Point to Slump

By Maria Di Mento



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The assets of U.S. foundations have for the first time exceeded \$1 trillion, according to John Seitz, a former Wall Street portfolio manager who analyzes the investment performance of foundations.

Brad Smith, president of Candid, the nonprofit group that was formed with the merger of the Foundation Center and GuideStar, confirmed that figure.

Seitz said the increase in foundation assets accompanied a run-up in grant making from \$60 billion in 2013 to \$75 billion in 2017 for a total of more than \$320 billion over that five-year period.

Seitz's \$1 trillion figure comes from foundations' Forms 990-PF as of 2017, the most recent year for which data is publicly available.

Given 2018's market losses, Seitz said foundation assets probably declined that year and will likely stand at about \$950 billion when grant makers' 2018 tax forms are released. His preliminary estimates for foundation investment performance show a 5.6 percentage drop in median returns for the year ending on December 31, 2018.

A survey of 236 foundations conducted by the Council on Foundations and the Commonfund Institute backs up Seitz's estimate for 2018. The study found that private foundations suffered market losses averaging 3.5 percent, and community foundations lost an average of 5.3 percent, their worst market performance in a decade.

The S&P 500 stock index dropped 4.4 percent in 2018.

Uncertain Outlook

How do things look today? Seitz said that even though the stock market took a considerable beating in August, "foundation assets were up at least 10 percent in the first half of 2019 based on market returns so unless the stock market drops in the second half of the year, returns should be positive," he said.

What that might mean for grant making is unclear since there is rarely an immediate year-to-year correlation between investment returns and grant making, experts said.

"Giving takes place over time so if foundations are up over 10 percent, giving doesn't track that immediately because a lot of grants are funded on a three-year rolling basis," said Seitz.

What is clear is that foundation giving is probably not going to soar to new heights any time soon. One study published earlier this year found that 81 percent of foundations expected their grant making to remain flat or decline in 2019, a potentially worrisome situation for charities now that they are relying much more on foundation grants as donations from individuals have slowed in recent years, according to "Giving USA."

Big Number

How much is \$1 trillion? It exceeds the gross domestic product of Turkey and it's not far behind the GDP of Mexico.

The rise in endowment assets at foundations and some nonprofits has drawn attention from Congress in recent years. The tax-cut legislation passed in 2017 included a first-ever tax on university endowments. (It affected only a small number of institutions like Harvard that have endowments exceeding \$500,000 per student.)

Some critics have urged Congress to consider tax changes aimed at foundations designed to increase payout rates.

Concentrated Effect

Smith cautioned that most foundation assets remained concentrated in the largest 1,000 or so private grant makers out of the roughly 87,000 in the country. Nonprofits that rely on smaller foundations for funding may not notice much change.

"This huge growth is concentrated in a relatively small number of large foundations so I think it will result in more and more investments in big bets," said Smith. "We'll probably see an increase in groups like Blue Meridian, where you have large-scale philanthropy pooling their resources around specific big issues."

According to both the Foundation Center and Seitz's data analysis, the top five foundations by asset size are the Bill & Melinda Gates Foundation, the Ford Foundation, Lilly Endowment, the Robert Wood Johnson Foundation, and the William and Flora Hewlett Foundation. Together they hold assets of nearly \$98 billion. Of the five, Gates and Lilly achieved the best five-year investment performance, according to Seitz's analysis.

Sticking to the Minimum

Several experts told the *Chronicle* that hitting the \$1 trillion mark is unlikely to sway foundation leaders toward any major moves in how they invest their assets or give to grantees.

Smith points out that the 5 percent that foundations must give away every year is a floor rather than a ceiling, meaning grant makers can give more if they want to.

Most foundations, however, stick to giving away little more than their required 5 percent, said Christopher Shaw, the executive director of the George and Fay Young Foundation, which has about \$60 million in assets. It gives about 6.5 percent a year to education, health, animal welfare, and programs for families in the Dallas and Fort Worth areas.

Shaw says while the majority of U.S. foundations manage their grant making closely and are reluctant to exceed annual payout rates, he hopes the fact that foundation assets have topped the \$1 trillion mark will act as a reminder to the philanthropy world that "foundations control the purse strings of a vast amount of wealth and with that comes great responsibility," said Shaw.

Structural Resistance

Brian Galle, a law professor at Georgetown University who researches nonprofits and foundations, agrees that grant makers are not going to suddenly start giving away bigger or more grants.

"The structural resistance of the private-foundation management industry is such that foundation managers don't want to spend more money even though they should," said Galle.

Smith said that resistance is the result of foundations viewing the 5 percent payout rule as a way to keep grantees stabilized in an economic downturn. Thus, if the economy falters, such as it did in 2008 and 2009, grantees can still count on receiving the same or a similar amount of grant money as they received in previous years.

For example, said Smith, when the Great Recession hit in 2008, foundation assets dropped by 21 percent, but grant making decreased percentage-wise only by single digits.

Galle said reaching the \$1 trillion mark is, more than anything else, a key sign that the grant-making world is getting bigger and bigger and that growth should be seen as a warning to policy makers that they have not done enough to get foundations to give more.

"This tells us we're not going to run out of private foundation money any time soon," said Galle. "So if the worry among foundations is we've got to save more money for the future, that's patently wrong."

Alex Daniels contributed to this article.

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