

Private Foundation Model Portfolios, Investment Returns, & Payout Rates

Welcome!



TODAY'S FACILITATOR:

REGINA BELL

DIRECTOR OF GOVERNMENT RELATIONS AND
PUBLIC POLICY, CMF

For Today's Meeting

- › Questions are welcomed throughout the session and can be entered via the chat function.
- › Participants will be muted during the opening presentation portions of this program, however the final 20 minutes of our 60-minute session will include opportunities for conversation.
- › This webinar is being recorded. The link to the recording, and this PowerPoint presentation, will be sent to all registered participants after the webinar.

Agenda

- › Introduction and Background
Kyle Caldwell, CMF and Teri Behrens, Johnson Center
- › Summary of Prior Research
Brittany Kienker, CMF
- › Historical Investment Returns
Casey Veach, PMFA
- › Foundation Payouts
Jeff Williams, Johnson Center
- › Projected Investment Returns & Payout Scenarios
Casey Veach and Jeff Williams
- › Next Steps
Brittany Kienker
- › Conversation Space



Key Outcomes

- › We **create space for conversation** with the leaders and research teams from CMF, the Johnson Center and Plante Moran Financial Advisors and with peers in the field, where we **welcome diverse perspectives**.
- › We **grow our shared understanding** of the findings and what the data tells us.
- › We **provide clarity** to those still processing the information in the written study, recognizing we learn in different ways.
- › We **help to advance conversations in your own organization** around how this data comports or contrasts with your policies and practices.
- › We **offer data insights that can help you to forecast** your own immediate and long-term goals for your investment returns, impact investing strategies and grantmaking.

Our hope is that these insights are helpful for the full philanthropy ecosystem – foundations, nonprofit partners, policymakers and more – all those who are working together to catalyze equitable systemic change for the good of all.

Introduction and Background

KYLE CALDWELL
PRESIDENT AND CEO, CMF



DR. TERI BEHRENS
EXECUTIVE DIRECTOR,
DOROTHY A. JOHNSON
CENTER FOR PHILANTHROPY



Digging into the Data

BRITTANY KIENKER, PH.D.
KNOWLEDGE INSIGHTS EXPERT
IN RESIDENCE, CMF



CASEY VEACH, CFA
MANAGER, PLANTE MORAN
FINANCIAL ADVISORS



JEFF WILLIAMS
DIRECTOR OF THE
COMMUNITY DATA AND
RESEARCH LAB,
DOROTHY A. JOHNSON
CENTER FOR
PHILANTHROPY



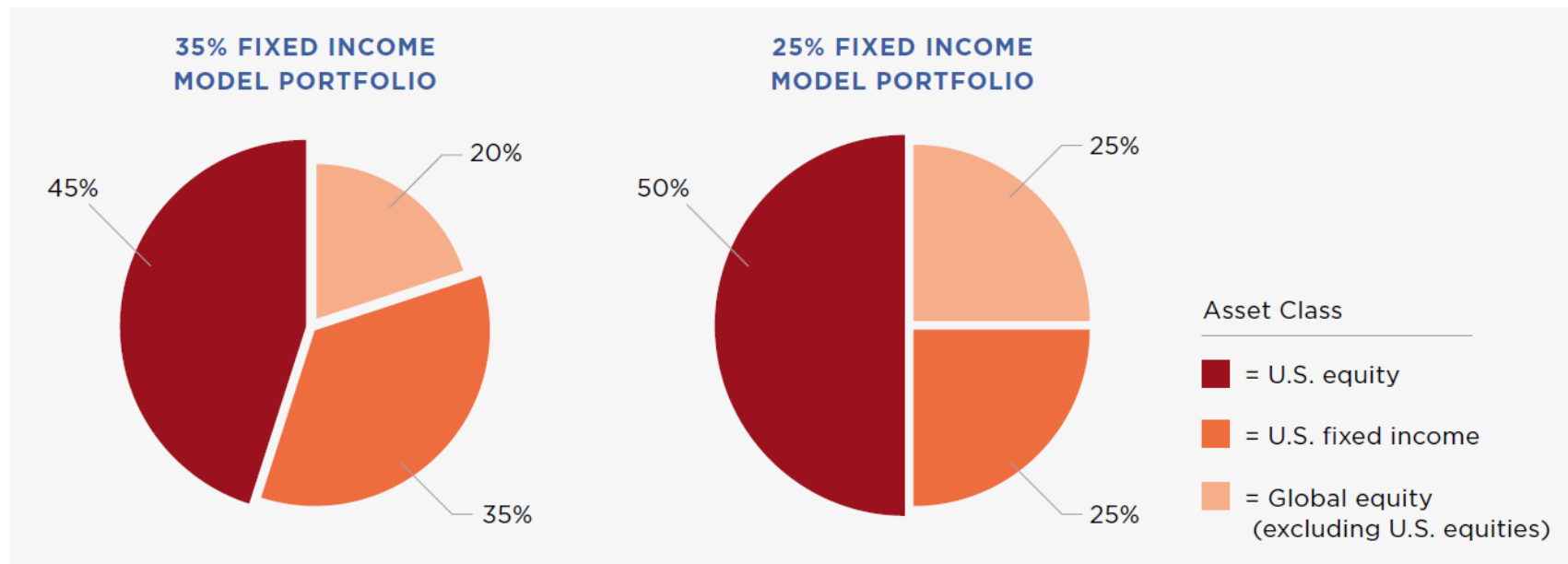
Summary of Prior Research

- › Cambridge Associates
 - › Four prior studies in 2000, 2004, 2013, and 2016
 - › Based on a sample of 48 Michigan foundations over a 30-year period

- › Key changes in this report
 - › Comprehensive database of private foundations
 - › Roughly 80% of the private foundation universe in the U.S. (number of foundations and by assets)
 - › Model portfolio includes international equities
 - › Calculate investment returns and payout rates—then model key changes to both returns and payout rates for analysis

Historical Investment Returns

MODEL PORTFOLIO



Historical Investment Returns

Table 2	35% Fixed Income	25% Fixed Income
1973 – 2002	5.2%	5.2%
1973 – 2014	5.4%	5.6%
1986 – 2009	6.2%	6.4%
2014 – 2019 (including international equities)	5.6%	6.0%

Table 3	2014	2015	2016	2017	2018	2019
35% fixed income	6.1%	-1.2%	5.5%	13.5%	-6.8%	18.5%
25% fixed income	5.9%	-1.6%	6.1%	15.5%	-7.8%	20.2%

Important note:

- › For simplicity, all returns and asset balances on all slides refer to inflation adjusted, real returns or values unless otherwise specified.
- › In addition, all time periods longer than one year reflect annualized returns

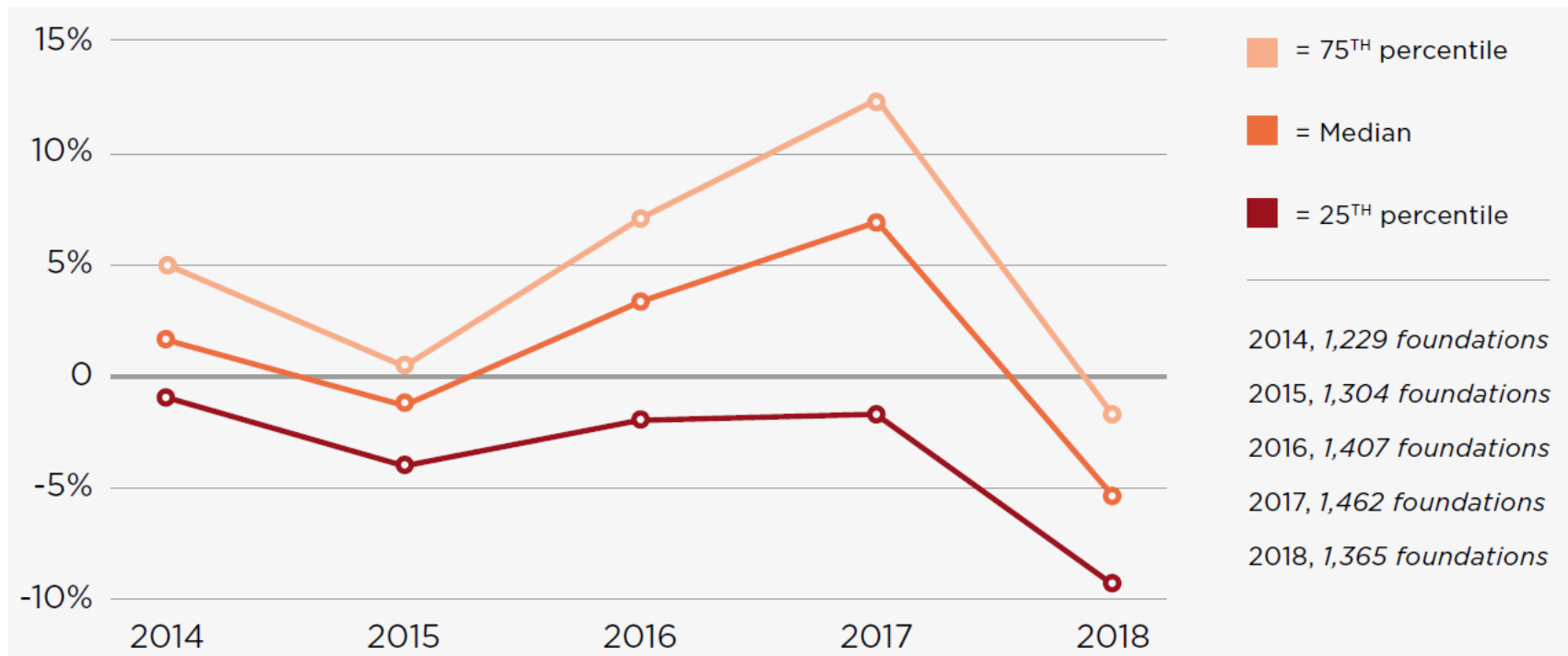
Calculated Investment Returns

MICHIGAN PRIVATE FOUNDATIONS

Table 4	Median Return, Michigan, IRS Form 990-PF Data	Global Equity, 35% Fixed Income	Global Equity, 25% Fixed Income
2014	1.8%	6.1%	5.9%
2015	-1.3%	-1.2%	-1.6%
2016	3.3%	5.5%	6.1%
2017	7.1%	13.5%	15.5%
2018	-5.5%	-6.8%	-7.8%
5-year annualized return	1.0%	3.2%	3.3%

Calculated Investment Returns

MICHIGAN RETURN RATES IN DETAIL (TABLE 5)



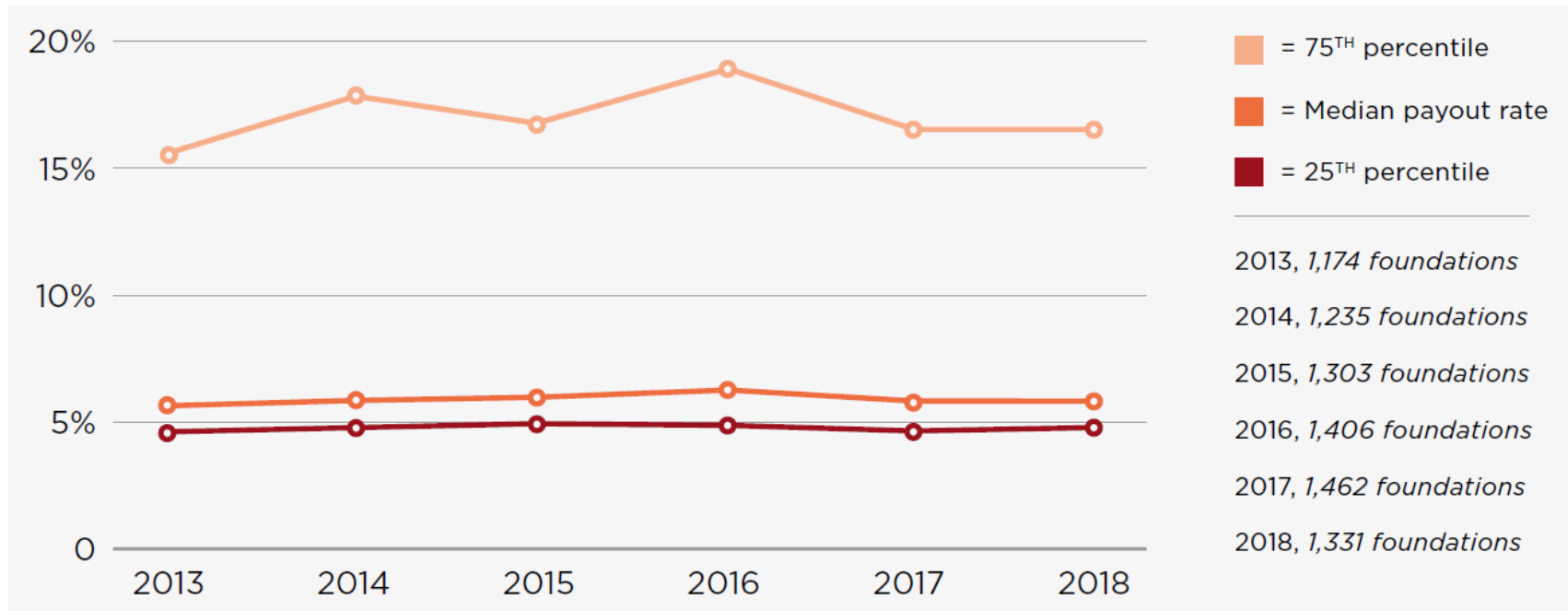
Special Note

MEDIAN RETURNS EXCLUDING CASH-HEAVY FOUNDATIONS (TABLE 6, TECHNICAL APPENDIX)

Year	Median Return, Michigan, IRS 990- PF	Median Return, USA, IRS 990-PF	Global Equity, 35% Fixed Income	Global Equity, 25% Fixed Income
2014	2.6%	3.0%	6.1%	5.9%
2015	-1.9%	-1.4%	-1.2%	-1.6%
2016	4.6%	4.6%	5.5%	6.1%
2017	9.1%	8.4%	13.5%	15.5%
2018	-6.7%	-5.8%	-6.8%	-7.8%
5-year Annualized Return	1.4%	1.6%	3.2%	3.3%

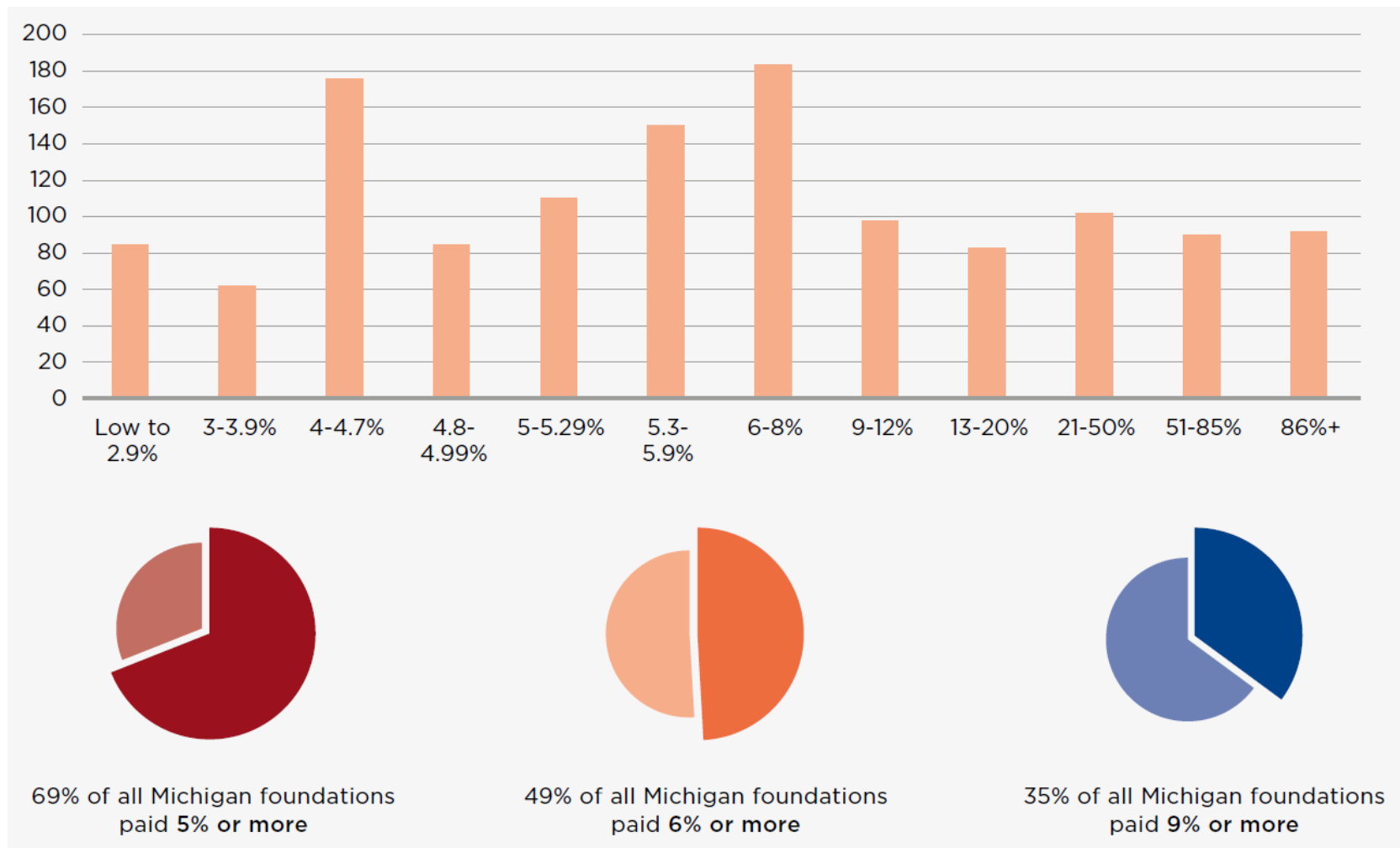
Foundation Payouts

ANNUAL PAYOUT RATES, MICHIGAN PRIVATE FOUNDATIONS (TABLE 7)



Foundation Payout Detail

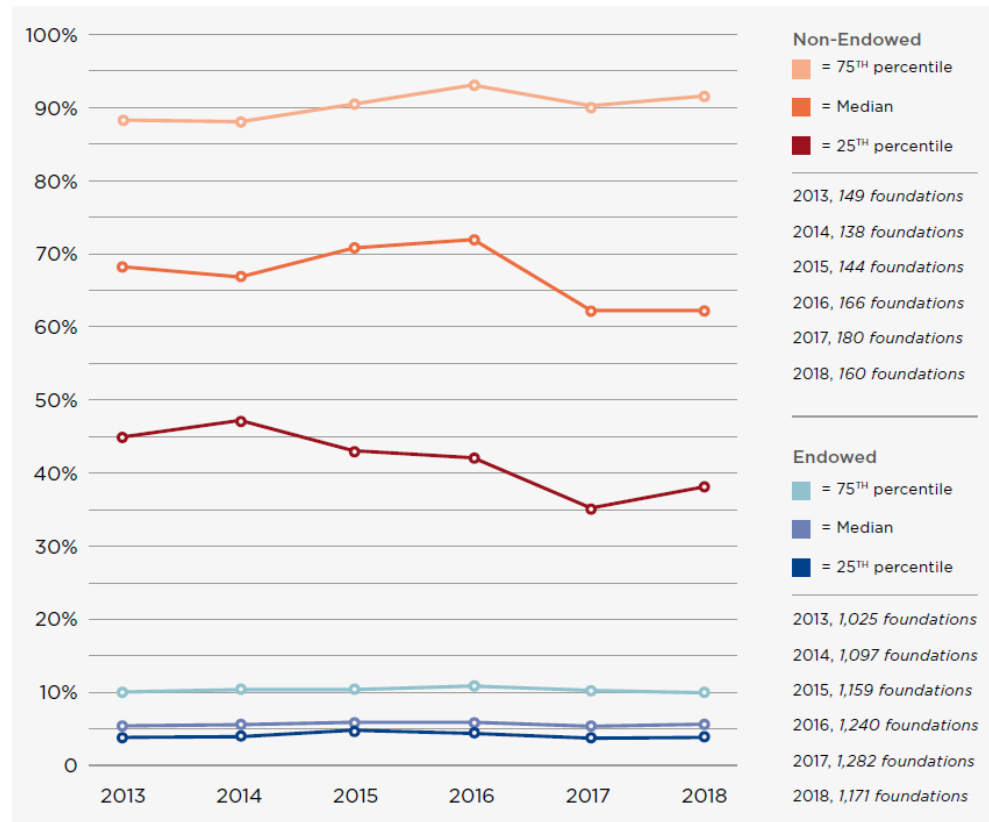
ANNUAL PAYOUT RATE, MICHIGAN PRIVATE FOUNDATIONS, 2018 (TABLE 8)



Variation by Endowment Type

ANNUAL PAYOUT RATES, MICHIGAN PRIVATE FOUNDATIONS (TABLE 9)

Year	Median Payout, Endowed	Median Payout, Non-Endowed
2013	5.4%	68.9%
2014	5.5%	67.1%
2015	5.7%	71.1%
2016	5.7%	72.3%
2017	5.4%	62.7%
2018	5.5%	62.5%



Q & A

(part 1)

Projected Investment Returns

ANNUALIZED RETURNS, THE INTERNET ERA (1989-2019)

Table 10	Nominal Return	Standard Deviation
Inflation	2.5%	1.6%
U.S. fixed income	6.2%	4.0%
U.S. equity	10.6%	15.7%
Global equity (excluding U.S. equities)	5.2%	18.0%

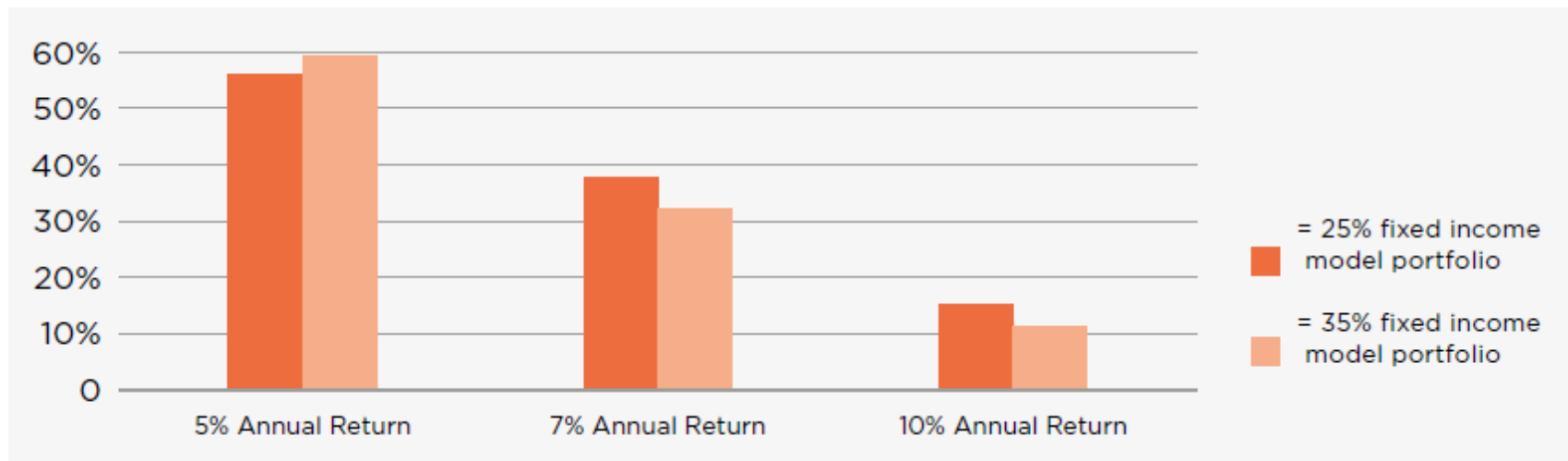
Projected Investment Returns

INTERNET ERA VERSUS PRIOR STUDY PERIODS

Table 11	35% Fixed Income Model Portfolio	25% Fixed Income Model Portfolio
1973 – 2002	5.2%	5.2%
1973 – 2010	4.8%	4.9%
1973 – 2014	5.4%	5.6%
1989 – 2019 (including international equities)	5.7%	5.8%

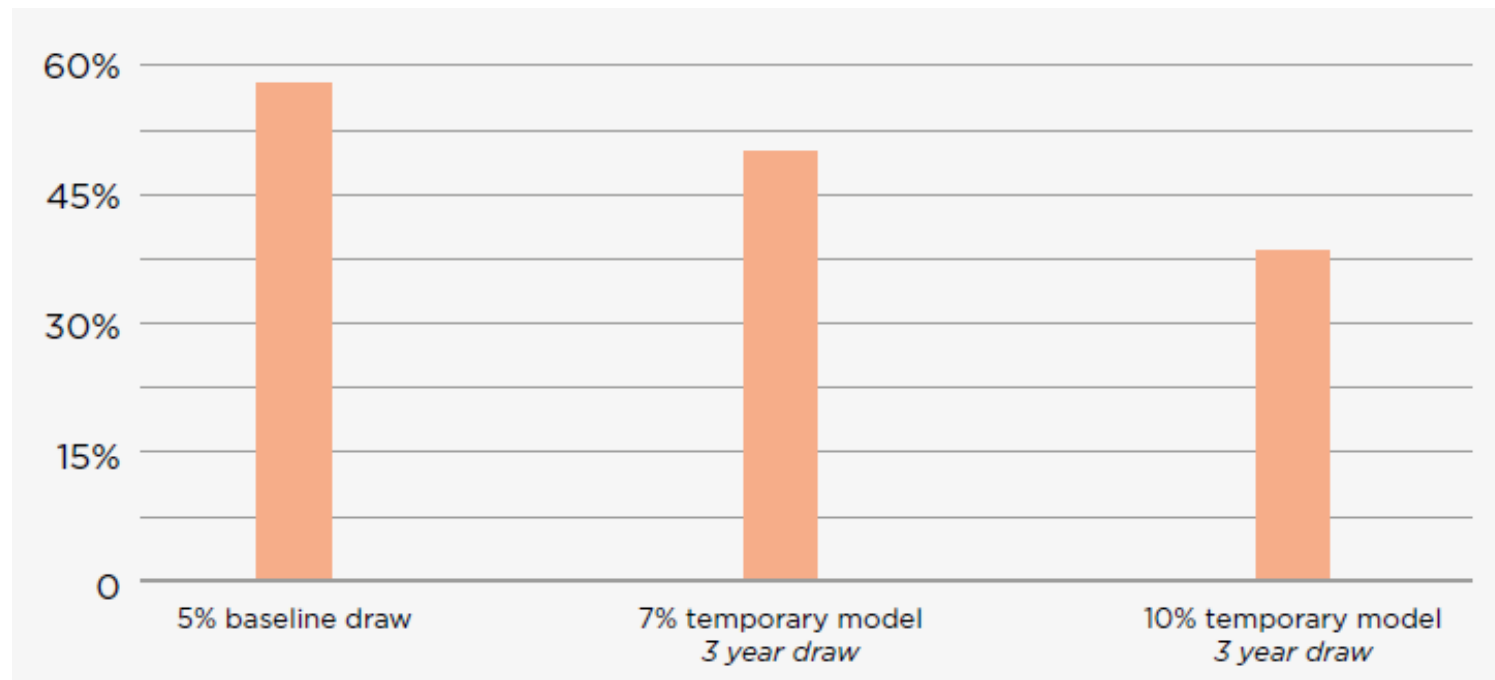
Probability of Achieving Specific Investment Returns

10-YEAR PERIOD (TABLE 13)



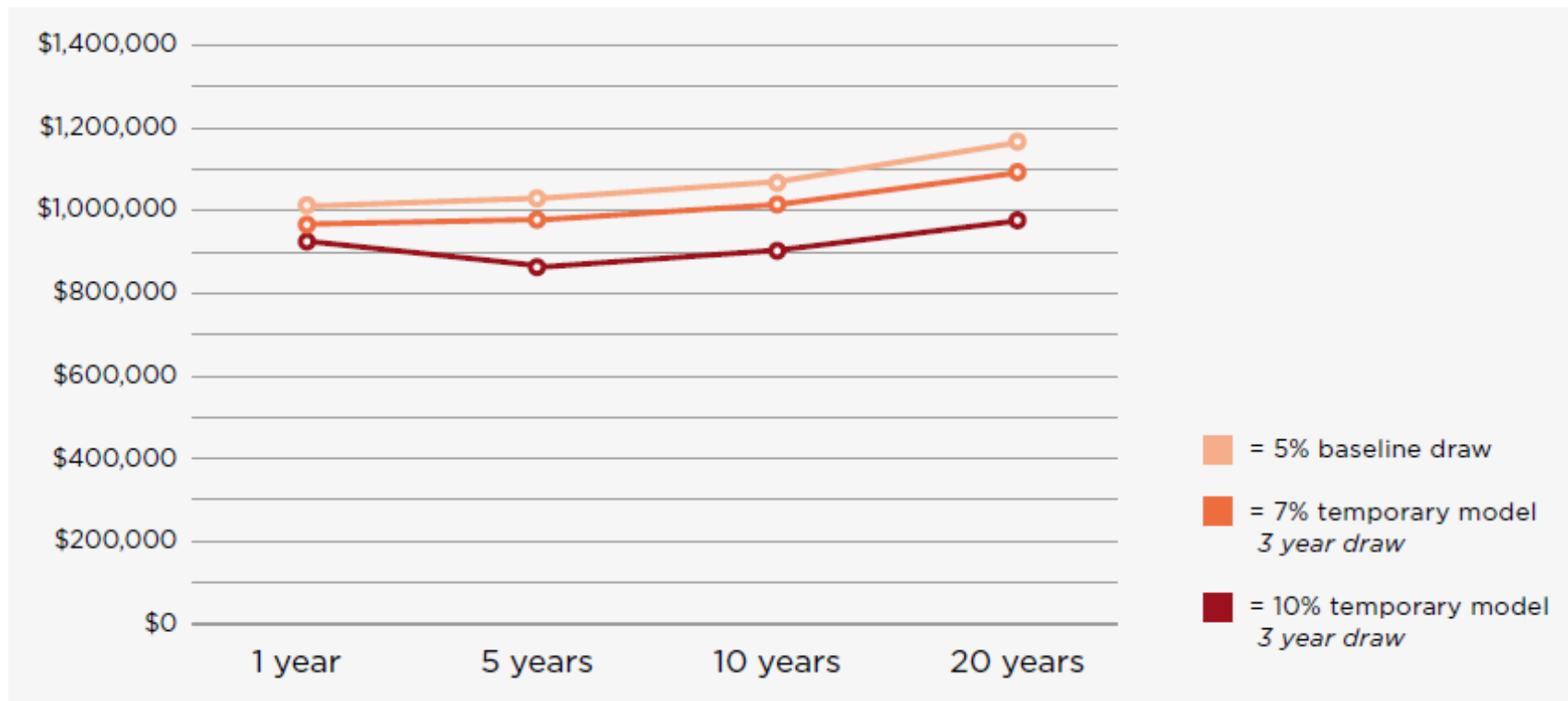
Changes to the Payout Rate

**ODDS OF MAINTAINING A \$1 MILLION ASSET BALANCE OVER 10 YEARS,
35% FIXED INCOME PORTFOLIO (TABLE 14)**



Changes to the Payout Rate

MEDIAN REAL BALANCE, \$1 MILLION STARTING POINT (TABLE 15)



Conclusions

› Investment Returns

- › Expecting annual returns in excess of 5% is not sustainable on a real basis.
- › The probability of exceeding a 5% investment return annually is just over 50%.
- › Conclusions hold for either model portfolio, with and without international equities.
- › Actual private foundation returns fell well short of 5% annually 2014-2018—in Michigan, and in the U.S.

› Payout Rates

- › Half of Michigan's private foundations paid out 6% or more during 2018—similar to U.S. figures.
- › Endowed private foundations have median annual payouts of 5.4% – 5.7% ... with one quarter paying out 10% or more annually.
- › Non-endowed private foundations have median annual payouts approaching 70% annually ... with one quarter paying out 90% or more annually.

Conclusions

SCENARIOS

- › At the heart of the discussion —future investment returns.
 - › If payout rates were increased, it may take private foundations up to 20 years for assets to return to their starting point, even if investment returns remain above post-World War II averages.
 - › If future investment returns are below their long-run historical averages, increasing payout rates may cause private foundation assets to end 20-35% below their current inflation-adjusted balance, even after 20 years.
- › Increasing payout rates in the short term can be the equivalent of choosing to decrease grants for 17 years (years 4-20) for the opportunity to increase grants in the first 3 years.

Next Steps and Follow-up

Phases of Payout Study Research Series

- › Phase 1: Private Foundation Payout Rates and Investment Returns
- › Phase 2: Community Foundation Payout Rates
- › Phase 3: Donor Advised Fund Payout Rates

Questions and Comments:

- › Brittany Kienker, Ph.D. – bkienker@michiganfoundations.org
- › Jeff Williams – jeff.williams@gvsu.edu
- › Full Report and Technical Appendix:
www.michiganfoundations.org/resources/payout-study/

Q & A

(part 2)

+

PEER

CONVERSATION

THANK YOU!

Questions and Comments:

Brittany Kienker, Ph.D.

bkienker@michiganfoundations.org

Jeff Williams

jeff.williams@gvsu.edu

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