

# Trends and Challenges Facing Private Foundations

How today's foundations are addressing common obstacles to fulfill their long-term charitable missions

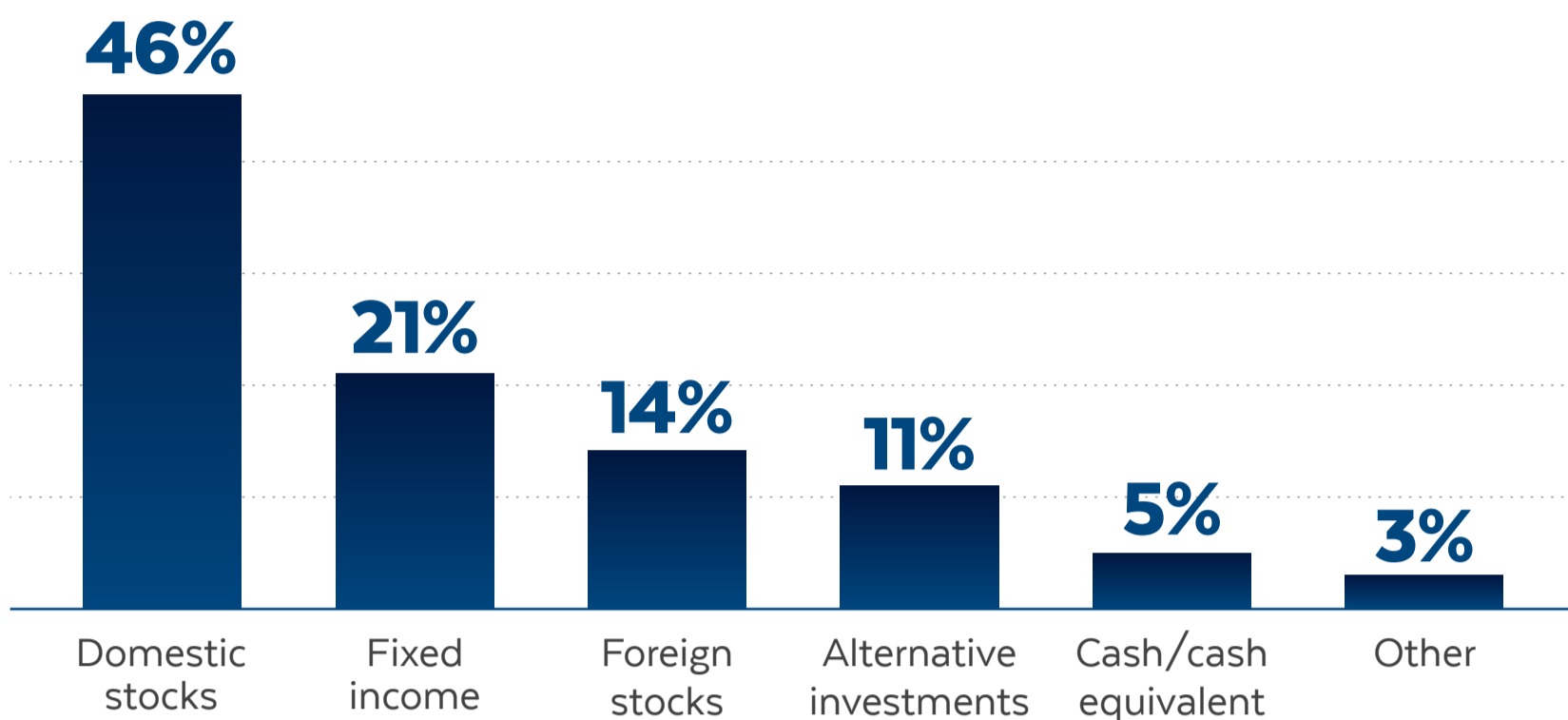


There are more than 86,000 foundations in the United States, collectively holding \$715 billion in assets and distributing \$52 billion in annual giving.<sup>1</sup> Here's a look at the challenges foundations are currently facing and how they are overcoming these obstacles.

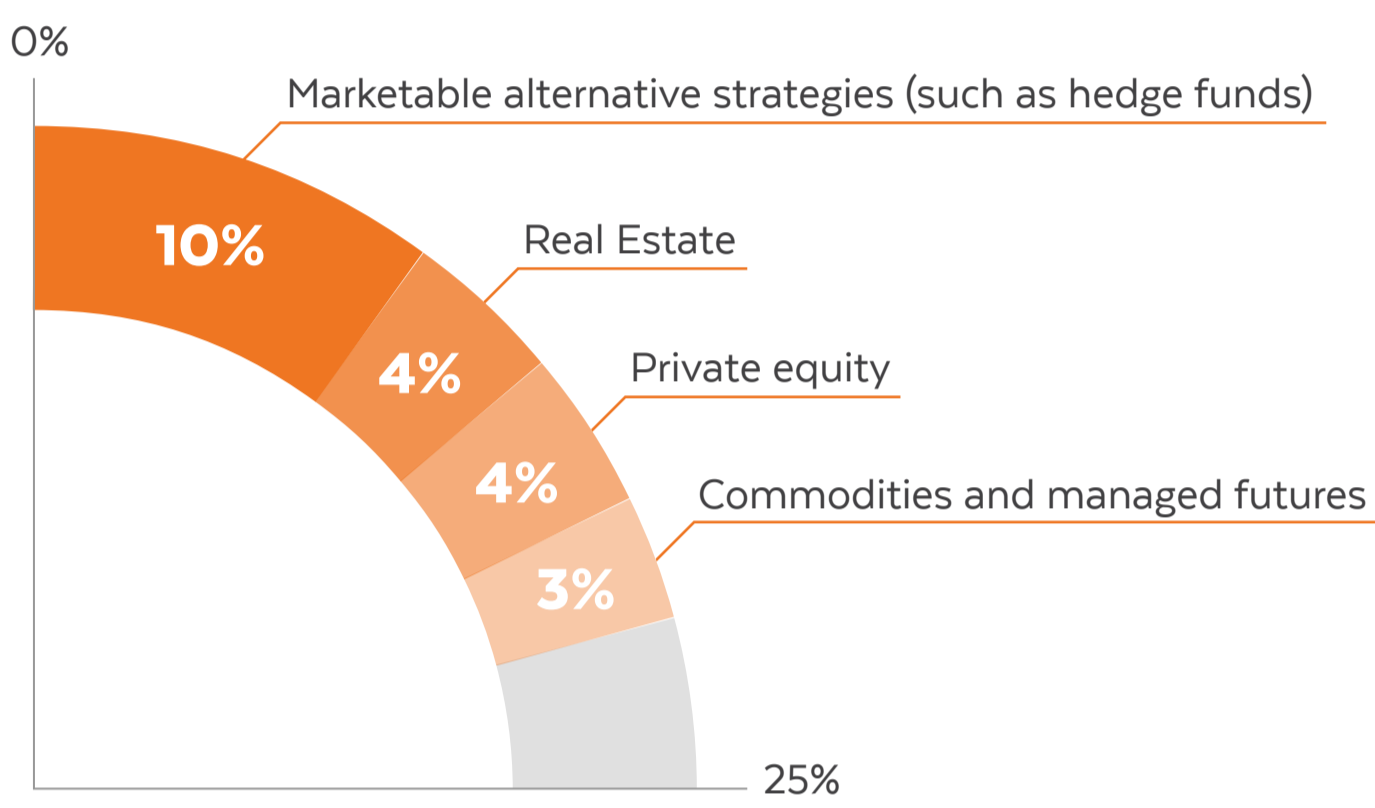
## Trend: Managing Investments

In the current investment landscape, private foundations have had to pursue higher returns in order to maintain purchasing power. As a result, foundations are diversifying portfolios with an increasing number of investment vehicles and sources of return, including alternative and private investment strategies.<sup>2</sup>

### Average foundation investment portfolio allocation<sup>3</sup>:



More than **60%** of foundations reported using alternative investment strategies. **The most common strategies include (expressed as a percentage of total portfolio)<sup>3</sup>:**



## Challenge: Navigating a Complex Regulatory Landscape

Private foundations face an increasingly complex regulatory environment, as they are required to pay out a minimum of 5% of their total assets each year in the form of grants or charitable expenses. Some of the associated challenges include<sup>4</sup>:

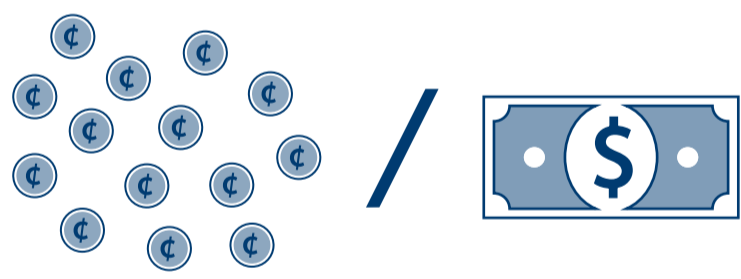
- **Grant-making due diligence**
- **Increased scrutiny of governance, conflicts of interest and self-dealing issues**
- **Emergence of Program Related Investments and Mission Related Investments**
- **Managing distributions and impact in a constrained market environment**
- **Addressing the challenges of multi-year grant awards**

**49%** of private foundations cited congressional or regulatory changes as one of the most important issues facing foundations in 2016<sup>3</sup>

## Challenge: Handling Administrative Burdens

Especially in the face of regulation, foundations face substantial administrative burdens, while many make it a priority to keep administrative costs low.

Operating expenses (including investment expenses) average about **2%** of total non-charitable assets<sup>3</sup>

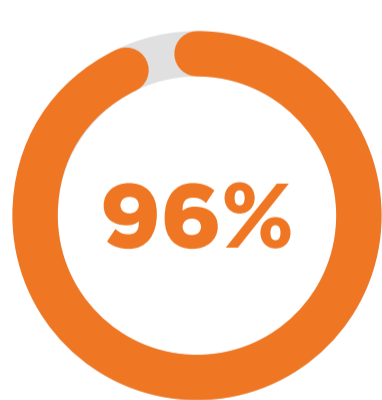


Foundations are spending a median of **14 cents per dollar** of grants awarded on operating costs<sup>3</sup>

The burden of regulations, combined with the investment landscape, can lead foundations to rely on outside assistance for administrative duties.

Another strategy foundations use is turning to board members for administrative services.<sup>3</sup>

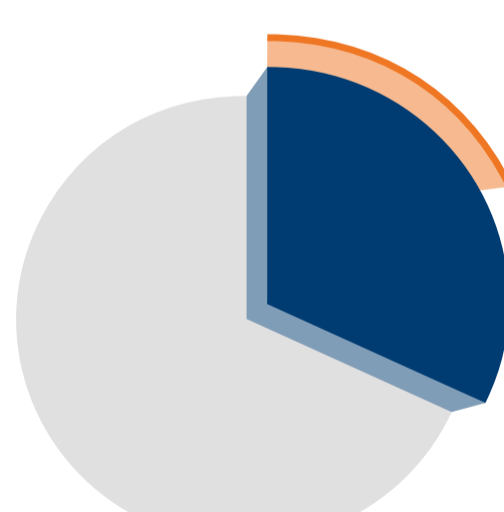
Foundations use consultants for:



Accounting services<sup>3</sup>



Aspects of their work other than accounting, such as strategic planning, website design or public relations<sup>3</sup>



of board members provide administrative services

In **56%** of these cases, the services are provided pro bono

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<sup>1</sup> "Key Facts on U.S. Foundations," 2014, Foundation Center

<sup>2</sup> "Governance and Compliance Issues for Foundation Financial Management," Council on Foundations

<sup>3</sup> "2017 Foundation Operations and Management Report," Exponent Philanthropy

<sup>4</sup> "Private Foundations Must Meet the 5% Annual Distribution Requirement While Ensuring the Long-Term Viability of Their Investment Portfolios," Feb. 5, 2015, Rubin Brown

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