

## Endowment and Foundation Trends

As of 4/1/12

Below is a summary of key trends we're tracking as we continue to focus on the endowment, foundation and not-for-profit marketplace. We've categorized them into investment trends and fundraising trends, since these are the two key ways to grow an endowment fund.

### Investment Related Trends:

#### **E&F's Continue to Assess Strategies Given Periodic Spikes in Volatility:**

Last summer's market turbulence brought back memories of the 2007-2009 financial crisis. It now appears that at the very least the economy will show an extended period of slow to moderate growth. Amid all the various sources of uncertainty (Europe, recession risk, political, oil), Boards and investment committees are considering whether to stick with the status quo or to shift to a more conservative allocation.

Boards/committees want more frequent communication with their investment advisors in this environment. Rebalancing decisions and planning for liquidity needs take on heightened importance when markets are volatile. There is still much discussion on the role of alternative investments.

**Observations:** One endowment was planning to move to a discretionary relationship as to be more nimble during market moves. One not-for-profit was planning to be less defensive in their allocation and was moving to increase its equity exposure. One endowment fund was also moving to a more active approach from an index approach as they sought out an adviser. We spoke to one endowment that was concerned about the ups and downs of the market and was considering additional hedge fund vehicles. One endowment had already moved more funds into alternatives and had over 30% in this area.

#### **NY State Guidelines (NYPMIFA) Remain a Hot Topic:**

We co-hosted a second panel discussion on NYPMIFA in Albany in 2011, and we are planning another update panel in 2012. We continue to speak with many NFPs about the law's requirements regarding investment policies and documentation. We have developed a sample NYPMIFA-compliant investment policy statement for our clients. We expect that NYPMIFA will continue to be an important topic. The adoption of NYPMIFA-related policy changes will be done over time and requires Board education.

**Observations:** Some not-for-profits have worked closely with their auditors to implement the required investment policy changes. We continue to work with many clients that have asked us to refine their policy statements for NYPMIFA. We met with a few smaller not-for-profits that were becoming more engaged with NYPMIFA. We expect to have similar discussions with many more clients and prospects.

#### **Implications of Very Low Yields:**

Organizations continue to explore ways to enhance yields for their core operating and reserve funds, in light of the extremely low yield environment and the Fed's recent announcement to keep rates low through 2014. Duration and/or credit risk will need to increase in order to achieve higher yields. Some organizations are considering shifting a portion of their longer-term fixed income assets into quality high dividend-paying equities. With these stocks, dividend yields exceed the yield on the 10-Year Treasury by a wide margin.

**Observations:** A number of not-for-profits we worked with have considered expanding their maturity guidelines and moving towards short term fixed income; the additional risk associated with lengthening duration is giving them pause. A few other organizations are exploring relaxing credit quality requirements. One organization was moving its funds out of cash and into higher income strategies. A number of not-for-profits are assessing the risks of keeping large balances with one financial institution (exceeding the FDIC insurance limits), despite the attractive deposit account rates.

## Fundraising Related Trends:

### Chronicle of Philanthropy Important Updates:

The Chronicle mentioned in its March 22, 2012 Issue "*Grant Makers Won't Increase Giving in 2012*" that most of nations largest foundations aren't increasing their grants in 2012. The flat grant-making projections are a result of financial crisis in 2008 that caused foundations assets to drop precipitously and not regain their values. Another article in the April 5, 2012, issue titled "*America's Charity Boom Slows*", showed that the number of charities and foundations registered with the IRS fell by 16% in 2011, primarily due to 272,000 not-for-profits losing their tax-exempt status after failing to file their form 990s. The total number of not-for-profits was 1.1 million, down from 1.3 million.

### Not-For-Profits Plan to Diversify Their Fundraising:

There have been a number of articles that detail how some not-for-profits that have a significant government funding, have planned to diversify their fund raising strategies. This includes social service organizations, healthcare and public education, just to name a few. In June 2011, the Association for Healthcare Philanthropy provided its *Annual Giving Report for 2010*. The Report showed that hospitals and healthcare systems raised more than \$8.3 billion last year, which is an 8% increase from the prior year. The report highlighted the different fundraising activities that the hospitals utilized.

**Observations:** A report released by Wilmington Trust entitled: *Trends in Healthcare Philanthropy and the use of Separate Foundations* reviews how many healthcare organizations have formed separate fundraising foundations to help focus their development efforts. In this analysis, we found that 80% of the healthcare organizations utilized separate foundations, and we studied the reasons.

### Planned Giving is Still an Important Fundraising Option:

Planned giving continues to be an important option for many not-for-profits as a way to diversify fundraising plans. Tony Martignetti, Esq., principal of Martignetti Planned Giving Advisors and host of Tony Martignetti Nonprofit Radio commented: "*Planned Giving will always be a valuable part of a robust, full-service development office, and a scaled down program is suitable for small- and mid-size charities. Long term, endowment building gifts are critical to sustaining important charitable work for decades to come, regardless of an organization's size today. No one knows for sure how much wealth will be transferred as baby boomers die, but the sheer size of the generation suggests that it will be considerable.*"

**Observations:** We continue to meet with many not-for-profit organizations that are focused on building out their planned giving programs. Bequests, which typically represent about 80% of all planned giving gifts during the year, are a focus area. One social service not-for-profit had received a \$6MM bequest in the prior year and another arts organization was planning a bequest mailing. We also spoke to a religious organization and museum that were focused on building a proactive planned giving program.

### Technology Strategies Are Crucial: Peer to Peer Fundraising

There is still great interest in the ways to develop an overall philanthropic technology plan, that includes all areas of technology (marketing, social networks, donor research, databases, web site, emails, etc.). One new strategy is peer-to-peer fundraising, when a not-for-profit empowers its supporters to raise money on its behalf by utilizing technology. For example, in the past, some colleges worked with class agents to send out post cards to their classmates. With peer-to-peer fundraising, they utilize their website and allow the class agent to customize a website and tell their own story.

**Observations:** The Bowery Mission in NYC provides peer-to-peer fundraising options on its website, which allows donors to launch a personal fundraising page or a team fundraising page. We also spoke with many not-for-profits that are enhancing their websites and making them more interactive.

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