Foundations are forever…or are they?

A FRANK talk by Hilary Pearson for the Canadian Association of Gift Planners, August 26, 2020

Charitable endowments are under the spotlight today.

We are in a time of need such as we have never seen or not for many years anyway. The proverbial rainy day is here. Forever does no good when today looks like the last day for your charity. Why not spend the money now, asks the beleaguered executive director, or the person in line at the food bank, or the family watching their local YMCA daycare close its doors?

Fair questions. Many believe that the long-term endowment doesn't fit with the urgency of the short term. But are endowments the best funders for an emergency? In this FRANK talk, I critically examine three statements about charitable endowments. And I make the case for the long-term…. although maybe not forever.

Of course, there isn't a ***typical*** endowment. There are lots of differences among them. They can take the form of foundations, trusts or donor-advised funds. Some have donor restrictions, some don't. Some are managed by the donor; some are managed by advisors. Some are brand new; some are multi-generational. Some have specific objectives and plans; some respond to what comes through the door. Some are staffed, many are not.

With that caveat, here are three statements about charitable endowments.

One, the typical fund doesn't spend the bulk of its capital. It invests it and grants the return on investment to charities or community partners. The annual disbursement can be as little as 3.5% of the endowment.

Two, the typical fund may, or may not, be invested in social purpose investments. The fund isn't required by regulation to generate a return from investing in social purpose businesses or enterprises.

Three, the typical fund does not have a wind-up date. It could in theory go on forever, if it doesn't grant out or spend down all its capital.

So far, this seems like a good deal for donors who want to give their money for charitable purposes over a longer period of time. It's a good deal for charities and communities too, because over the long term, under the right conditions, the fund replenishes itself and keeps on giving.

Let's go over this again:

Number one, an endowed fund only has to give away 3.5% of its value annually.

During this crisis, people are asking why not force endowments to give at least 5% or maybe 10%, or even more?

The scale of the economic slowdown and its social consequences **do** justify an increase in spending, at least in 2020 and 2021. 3.5% is only a minimum. An endowment can easily give more without jeopardizing its longer time horizon. But this might mean encroaching on capital, in an uncertain investment climate. And in some cases, the endowment managers have been restricted by the donor so they can't encroach. I know it isn't easy or possible for everyone. That said, in my view, those who can *should.* This is a year when the short term **absolutely** trumps the long term.

But it doesn't mean that a long-term perspective should be dropped.
Giving more this year isn't an argument for giving up on the long term. Who else in the donor community can take a truly long-term view?

Endowed funds are uniquely well suited (if they choose) to take a generational perspective, to make bigger, longer bets on risky efforts that take time to bear fruit, such as developing adequate policy responses to climate change, or working through sustainable solutions to homelessness or opioid addiction. We want that kind of donor just as much as we want the annual giver.

Number two, an endowed fund sits on 95% of its long-term capital and doesn't use it for charitable purposes.

Some would argue that governments should enforce more social investing by charitable endowments. I don't agree. I do think that managers could do more to allocate the endowment to social investments. We can put to rest the argument that social investments jeopardize the long life of the endowment. That isn't true. There are too many excellent examples of social investments with solid financial returns. Let's end the era when deeply risk-averse and conservative investment committees refused to consider entrusting capital to social purpose investments.

I don't believe in regulating investment choices just as I don't believe in regulating larger disbursements. I **do** believe that a charitable endowment should put its mission first and foremost and use as much of its capital as possible for public good. But the regulation hammer isn't the most effective way to make sure that happens. We want donors to choose the option of the long-term endowment, and then make wise and socially oriented choices about investing and spending that capital.

Number three, a charitable endowment should assume it is around forever.

This perpetuity question is one of the oldest in foundation philanthropy. There is no government rule in Canada that forces a foundation to spend down, or that makes donors "give while they live". The choice is up to the donor and to the foundation. A majority of endowed foundations **do** choose the so-called "forever" option. But some, among them the largest or most prominent in North America, have chosen to wind down within or at the end of the donor's life.

I believe in the long term. But I don't believe in it to the point where choosing sustainability closes down risk-taking or responsiveness to community. In a recent blog, I quoted a comment made by McGeorge Bundy, the President of the Ford Foundation in the 1970s:

"*A foundation should regularly ask itself if it could do more good dead than alive*."

I think this is a great question. It forces foundation donors and directors to question their purpose as well as their practices. Sustainability is not an end in itself. It's what you do with the capital that is being held in trust by you for the good of others. Once you give the money away, it's not yours anymore…it is entrusted to a social purpose. And as a trustee, you need to review that purpose constantly in light of changing circumstances.

Endowments are important to our communities and to our country. I believe they play a unique and valuable role, especially if they fund long term social change, policy innovation, or community infrastructure.

We **do** need a long view. But not an unchanging view. And not an unaccountable view. Rather than spending endowments out, let's speed them up. Let's focus on asking them to be more open and accountable. Let's make them more alert to the present moment. Let's review their approaches to listening and to including partners in their decisions. Let's think more about diversity among the decision-makers. These are things that endowments can and should consider, if they want to be relevant for the long term.

Thank you for listening.