
# These Are Exceptional Times – They Need Us to Take Exceptional Measures

Most Trusts and Foundations currently formulating their short, medium and longterm responses to Covid-19 will be considering 3 things:

- their own likely income reduction due to falling investment capital values and returns;
- a desire to spend as much as they can to support people, communities and organisations suddenly in need right now – while also being able to honour existing funding commitments;
- maintaining the value of their endowment so they can continue to help people, communities and organisations in future times.

Trustees of endowed foundations (who have more options now than some corporate & fundraising foundations) urgently need to decide how they will each define "intergenerational equity" – so's not to default now to "preserve the endowment at all costs" spending.

In the majority of cases, foundations are just the money. We might have some knowledge – but we're not experts in need, or how to meet that need effectively, or which people or organisations are best placed to meet that need – eg in comparison with people with lived expertise.

And money is just a collective term for units of power. Foundations need to consciously decide how they are going to apply those units of power (both our endowments and income) – ie how much we are going to conserve them and how much we are going to exchange them for something else.

Leaders and trustees of foundations should stop thinking of our endowments as batteries – where we store, preserve and conserve power. We should think of them as generators – which produce power that we can direct and apply at different rates at different times. Periods of crisis, stabilisation and recovery should be times when we're critically re-evaluating both our investment strategies and spending plans with the intention of sharing the financial risks that the rest of the sector currently faces.

Now's the time for foundations to behave as if we're part of the sector – not apart from it. Here are some resources and reflections which might help the staff and trustees of foundations to begin to answer those questions – and a list of some of the UK Foundations that have already responded:

## [Funders, this is the rainy day you have been saving up for]

**Vu Le (@NonprofitAF former Executive Director of Rainier Valley Corps)**

“Foundations, I am begging you, if there was ever a time for you to increase your payout rate and get more money out the door, this is it. Please do not do what many of you did in 2008, when the markets tanked and people were crying out for help and many of you lowered your giving instead of increasing it.”

“I know that you mean well. In your mind, you are thinking of the future.” … “You think of the future crises that humanity will face, and you want to be adequately resourced to handle them. You think that you are being prudent, saving up so that when society needs the funding the most, it is there.”

“But the reality is that your prudence has perpetuated so many of the problems you are saving up to solve, creating a self-fulfilling prophecy. Imagine if there are wildfires raging—(you don’t need to imagine, we’ve had plenty and will get more)—and you have all this water available, but you only allow 5% of it to be used, so you can save the 95% of the water for future fires. But by not putting out the current fires, they continue to spread. The future fires are caused by the current fires that we do not put out.”

## For Good and Not for Keeps

**Kate Rogers (@katerogcharity Co-Head of Charities at Schroders) and Richard Jenkins – Association of Charitable Foundations**

“Given that maintaining the real value of a portfolio is always going to be a probability rather than a certainty, there is no one ‘right’ answer to what long-term charities might spend. A better question for trustees to ask themselves than ‘How can we protect the real value of our investments?’ might be: ‘When determining our spend and investment policies, what risk are we prepared to take with longevity?”

“[trustees] will also need to know what strategies to employ when things do seem to be moving beyond their comfort zone, understanding that adjusting the asset mix or stock selection with a better view to future performance may be a better response than simply cutting spending.”

“If it can be said that trustees have an obligation to future generations, either because they are permanent or because they have chosen to interpret their mission in such a way, it is an obligation that requires interpretation when it comes to application.”

“For those who have a long-term sense of their mission, their duty of loyalty to the interests of the charitable objectives will include a future perspective. Deciding what that means in practice requires imagination and not just financial discipline.”
‘Intergenerational equity’ is defined by James Tobin as where “The trustees of endowed institutions are the guardians of the future against the claims of the present. Their task in managing the endowment is to preserve equity among generations.”

“‘Equity’ – a nuanced concept which evokes what is fair in a particular set of circumstances – has come to be flatly conceived as ‘equal’ by many who apply Tobin’s thinking. Equal and

equitable are different things. Spending the same on each generation may in some circumstances be fair, but it may not be depending on what you're trying to achieve. Needs differ and presumably so must responses."
"Conceivably future generations could ask for something more from today's trustees than their simply keeping aside, untouched, a sum of money. If they were able to speak for themselves, tomorrow's generation might ask for increased investment in preventative action to tackle the causes of social, environmental and human ills they might suffer instead of money in the bank to ameliorate the consequences of today's inaction."

## Now Is the Time for Philanthropy to Give More, Not Less

**Aaron Dorfman (CEO of the National Committee for Responsive Philanthropy) and Ellen Dorsey (executive director of the Wallace Global Fund) – Chronicle of Philanthropy**

"We will say this plainly: As markets collapse and nonprofits face drastic drops in government and private support, it is no time for philanthropy to think about cutting back. Instead, we must give more. We must give more to address the public-health crisis while continuing to fund existing social and systemic change efforts. There is a real risk that philanthropy will be tempted to cut back on its investments and grant making. After the 2008 market collapse, for example, philanthropic gifts dropped by more than 15 percent. This left $30 billion sitting in private coffers instead of being used to further the public good."

"Given this reality, our increased funding must focus squarely on promoting social justice — and provide immediate support those who have been most negatively (and disproportionately) harmed by the public-health crisis. As well, we must continue supporting existing programs and projects for needed long-term social and systemic change. Philanthropy must give more in unrestricted funding, give strategically to organizations that are filling gaps in the society safety net, and support efforts to undergird the temporary protections put in place for Covid-19 and make them permanent. That is the only way to ensure we are better prepared the next time a pandemic comes along."

"This response cannot be a one-off, either. Even beyond Covid-19 responses, philanthropy must double down on its investments in public health, social justice, and economic and environmental justice. We must understand, too, that these investments have far-reaching returns and will help society prepare to address a climate emergency that will likely kill many more people."

## Stronger Foundations? The response to the Covid-19 crisis

**Chris Llewellyn (@CriSerenChris Director of the CriSeren Foundation and chair of ACF's Stronger Foundations Funding Practices working group)**

"With the systemic shock caused by Covid-19 there has never been a more important time for us all to knuckle down and ensure that our resources are directed as efficiently and effectively as possible."

"There will be a number of different overlapping stages to this crisis for civil society. Firstly, the need for immediate funds to deal with direct effects such as delivering food to isolated vulnerable people, and secondly, helping organisations adjust to the significant hits to all fundraising and delivery strategies (NCVO estimate a loss to the charity sector of £4.3 billion over the next 12 weeks alone). It will be incumbent on foundations to immediately assess how best to achieve their charitable mission in this massively changed context."

"However foundations, individually and collectively, have a duty to rise to this moment, it's crucial that foundations act appropriately, with sufficient resource and quickly. This is an opportunity to show all the qualities of bravery, independence and initiative that encapsulate foundation funding practices at their very best."

## Responding to the Coronavirus crisis – lessons from ACF's Stronger Foundations initiative

**Max Rutherford (@MaxRutherford_ Head of Policy at the Association of Charitable Foundations) – Alliance Magazine**

"At this time of crisis, stronger foundations are ideally placed to respond – resourced, independent, agile, responsive, open, vocal, evidence-led, connected, collaborative, mission-focused, charitable, experienced, rigorous, influential.

**Embed diversity, equity and inclusion in decision-making:** …. This improves the quality of decisions, amplifies impact and increases legitimacy – all vital in the months ahead. There is also a need to pay particular attention to groups who are likely to be hit hardest by the virus…"

**Use the whole toolbox:** …. the need for foundations to pursue positive impact with all their resources – the whole toolbox – from funding to investments, from advocacy to evidence.

**Be agile *and* take the long view:** … the importance of foundations knowing who they are accountable to, how they can be challenged, and how they change as a result…. the importance of being agile and responsive, while also taking the long view.

**Share funding data:** … the importance of foundations making their grants data open source ….. It's incredibly important that we have the most accurate picture of where funding is going and, crucially, where the gaps are.

**Use investments for good, not just for income:** ….. 'intentionality' on its own isn't enough when it comes to endowment investment. Stronger foundations consider their endowment as a key asset in pursuing charitable purposes, deploying it to achieve good as well as to generate income …. Many foundations will also consider the extent to which they might draw down on their endowments to boost their grants budgets at this time of utmost need.

**Funding processes matter:** … the way foundations give away their money is crucial to the overall impact their money has. From programme design to the application process, from monitoring to type of funding awarded, it's more important than ever that every choice a foundation makes about its processes aims to have an impact that is positive for applicants and funding recipients … Many funders are converting project grants to unrestricted funding and offering streamlined application processes, to enable groups most in need to access funding quickly."

# [A ‘Balancing Test’ for Foundation Spending]

**Dimple Abichandani (Executive Director, General Service Foundation)**

“the traditional approach to spending policies is largely mathematical. Foundations are often guided by investment advisors and financial managers in their spending decisions, so it makes sense that they offer mathematical formulas for spending policy development. But plugging in numbers to arrive at a spending policy sidesteps a key opportunity for engaged board governance and grappling with the strategic questions that should inform a spending decision. By addressing the needs and opportunities of the current moment in a foundation’s budgeting process, boards confine themselves to allocating the amount of money already determined by their spending policy. So how can we who lead and staff mission-oriented foundations ensure that we consider our missions and other related factors in determining our spending?

In reimagining our approach to foundation spending policies, I drew inspiration from the “balancing tests” that courts often employ when ruling on complex issues. In legal proceedings, a balancing test helps the court arrive at a decision by considering and weighing multiple factors: Instead of a “bright line” rule which leaves no room for interpretation, cases where multiple interests must be taken into consideration require a more flexible approach.

Applying such an approach to foundation spending allows us to consider critical non-monetary factors like the foundation’s mission, current needs, and opportunities in the fields we fund. Starting with a traditional spending policy—considering investment returns as expressed in the three-year rolling average, operating expenses, and perpetuity—we add in four additional factors: growth goals, meeting the moment, organizational values/mission, and grants and programs. Rather than plugging factors into a formula or simply checking off boxes, we consider and weigh each factor.”

“These questions allow a more nuanced and dynamic approach to the complexities of the spending decision than a “right” or “wrong” answer. Instead of treating perpetuity as a yes-or-no proposition, decision-makers must discuss what they *mean* by “perpetuity” and weigh those perpetuity goals against other factors; instead of “plugging in” the value of the endowment to assess the impact of investments, decision-makers must consider the investment policy alongside opportunities to achieve impact through those investments. The reimagined approach is more than a shift in policy, however; there is transformational potential in the process it imagines. The lack of a “right” or “wrong” answer to the spending question can be uncomfortable, as may be the prospect of conflict or a difference of opinion in how to balance the different factors. The reality is that factors will sometimes be in competition with each other. For example, an aggressive growth goal may be in conflict with an effort to meet the moment. When these conflicts occur, boards have a chance to step into their governance role and to work through these critical strategic questions.
By bringing outside realities into our internal decision-making, the new approach ensures that the most important decision our board makes is a sound and well-considered one. It also represents a philosophical shift: putting spending decisions within the context of mission, rather than putting our ability to achieve our mission in the context of spending decisions. We believe this is among the necessary shifts that foundations must consider in these historic times.”

## The Power and Precedent of Countercyclical Grantmaking: What the Funders Who Gave More During the Great Recession Can Teach Philanthropy During the Covid-19 Crisis

**Ryan Schlegel (Director of Research at the National Committee for Responsive Philanthropy)**

"Crises like COVID-19 and the financial crisis of 2008 often move quickly, and good leaders respond nimbly to emerging threats to their institution. Navigating the tension between rapid response philanthropy and maintaining a steady course toward long-term goals requires thoughtful leadership, but neither is served by a knee-jerk reaction to reduce grantmaking. The COVID crisis in many ways resembles a natural disaster, and it warrants an emergency response from philanthropy, especially support for those most adversely effected in the short term. But the power in Lumina's and TCE's response in 2008 and '09 was in their perseverance. Instead of watching their assets slide and immediately ratcheting back their grantmaking, they waited out the storm and stayed committed to their mission. Both Lumina's and TCE's assets have declined since 2007 – from $1.7 billion to $1.3 billion and from $5.7 billion to $3.8 billion respectively. Notably, however, neither CEO expressed any regret about their strategy during the Great Recession, and both spoke to the positive impact on their long-term goals and grantee relationships. […] foundation leaders can choose to take the long view of asset health by balancing the "twenty- or thirty-year issue" of corpus maintenance with the "now issue" of meeting community needs."

"Foundation endowments have already taken enormous losses, and it looks likely those losses will continue until the global economy is no longer in free-fall."

*"*A deep economic recession need not lead by necessity to grantmaking austerity. The power to act as a potent countercyclical force in your communities during an unprecedented crisis is yours if you choose to use it."

## Supporting Our Unsung Heroes in a Moment of Crisis: Part 2

**Phil Buchanan (president of the Center for Effective Philanthropy and author of Giving Done Right: Effective Philanthropy and Making Every Dollar Count) – Center for Effective Philanthropy**

"As I write in *Giving Done Right* […] "givers tend to retrench when nonprofits retrench, essentially forfeiting one of their most powerful potential roles out of worry that they won't be able to claw their way back to the same endowment or asset levels afterward." I argue that "endowed foundations especially should be mindful of their potential to be a countercyclical force, providing support for grantees during economic downturns."
"If ever this role was needed, it is now. As in today. This is my plea to foundations to take the long view. Indeed, if yours is a perpetual foundation, you have literally forever to get back to whatever your endowment was at its peak — which really wasn't ever the most relevant number anyway! Consider dramatically increasing your payout"

## Examples of Covid-19 Responses by UK Foundations:

Blagrave Trust
Indigo Trust
Pears Foundation
Rank Foundation
Two Ridings Community Foundation
Virgin Money Foundation

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https://newreciprocity.com/
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