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Fundraising and Endowment Management Go Hand-in-Hand

At a time when institutions of all types are deeply concerned with the need to diversify streams of operating income, the urge to establish and increase an endowment is stronger than ever for many. In this issue of the *Grenzebach Glier Quarterly Review*, GG+A will investigate topics including increasing donor interest in endowment management performance and strategies, differing approaches to stewardship of endowment donors, the relative value of expendable vs. endowment gifts, and the ongoing debate in the media and the US Congress about when, if ever, "enough" endowment becomes "too much" in the public eye.

Three years into the quiet phase of the **University of Notre Dame**'s next campaign, about half of the $2.5 billion raised to date has been allocated to endowment. The University now supports 63% of its financial aid budget with endowment income, and the goal will be to reach 80% by the end of the campaign. "Notre Dame has always communicated well a commitment to the enduring value of endowment," notes Lou Nanni, Vice President of University Relations. He and Associate Vice President Micki Kidder are convinced that the University's outstanding record of endowment management has been pivotal to their success in endowment fundraising; the

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The Appeal of an Enduring Legacy

Much of the strategy around endowment fundraising focuses on recognition and the question of the dollar thresholds required to name scholarships, faculty positions, departments, or schools. Not as much attention is devoted, by and large, to the subject of the kinds of donors most likely to respond positively to proposals to establish an endowment. The endowment at **University College London** includes more than 600 restricted-purpose funds, 85% of which support scholarships, and nearly all of which have been established by bequests over time. Pressure to secure gifts in support of the University's £1.2 billion capital expansion plan makes it difficult to focus on outright gifts to the endowment right now; for that reason, UCL has designed a legacy program that will encourage unrestricted bequests without competing for current expendable gifts.

The **Carnegie Library of Pittsburgh** has built its endowment effort around a plan that anticipates both current and future support. A new

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University first established its unitized investment pool with $60 million in 1969, and its endowment had grown to $10.5 billion in 2015, including an average return of more than 12% per year for the past two decades. Chief Investment Officer Scott Malpass has developed a great rapport with individual donors, speaking at several dozen events each year, including alumni reunion, where he frequently presents a workshop on “Navigating Your Investment Future.”

Smaller institutions, too, do well to demonstrate a savvy approach to endowment management. “Donors appreciate that Dickinson’s decision to engage Investure, a consortial investment management firm, gives the College investment opportunities that they would not otherwise have,” comments Tara Renault, Director of Donor Relations and Special Events at **Dickinson College**, a private liberal arts college in central Pennsylvania with $455 million in investable assets (2015). Jennie Moule, Director of Strategy and Operations in the Development and Alumni Relations function at **University College London**, reports that UCL’s donors are interested in knowing which external investment managers oversee UCL’s £105 million endowment: “If you work in the City [London’s financial district], you probably know that manager and have an opinion about their work.”

According to Eric Ponsonnet, Director General of Administration at **INSEAD**, a private business school in Paris established in 1957, INSEAD received its first gifts for endowment in the late 1980s from donors who were interested in INSEAD’s unique model and mission. Until then, all gifts came in the form of current expendable funding, and corporations were providing more than individual donors. Its first campaign, for €120 million, ran from 1995 to 2000; about half the funds raised were designated to endowment, an unprecedented achievement in Europe. INSEAD established its first endowment management committee, including volunteer leaders and school representatives, in the mid-1990s, just as the first endowment was being created. The School launched an intensive education and communication effort about endowed giving, which has been important, as donors who support other European organizations required information and context to help them understand why a gift to endowment must be so much larger than an outright gift for the same purpose.

What Donors Want: A Reliable Stream of Information

Regardless of size, sector, or geography, GG+A interviewees agree: donors today are more interested than ever in understanding how endowed funds are managed and the impact of annual income distributions.
That being said, when initiating or rethinking a stewardship plan, it is wise to consider carefully the relative emphasis on financial information about investment performance, market value, distributions, and the like, versus the “impact” of the donor’s gifts over time. Certain data points, in fact, may hinder effective donor communication. Jennie Moule notes: “Whilst endowment giving is fairly new in the UK, our US donors are disappointed in UCL’s spend rate (a guaranteed 2.5%). They think that means underperformance, but it’s more an indication that we are ‘risk averse.’”

“OUR INVESTMENT STRATEGIES ARE WORKING FINE. WE JUST NEED MORE LACKLUSTER BENCHMARKS.”

Nuvyn Peters, Vice-President, Development and Alumni Engagement, of the **University of Calgary**, joined the Calgary staff in 2014 from **Georgetown University**. She reports that the University of Calgary “provides a great deal of budgetary information, whereas at Georgetown, we focused much more on impact.” At the same time, Peters describes a “donor-centric” approach to stewardship, in which Calgary sends reports that acknowledge each donor’s range of interests and

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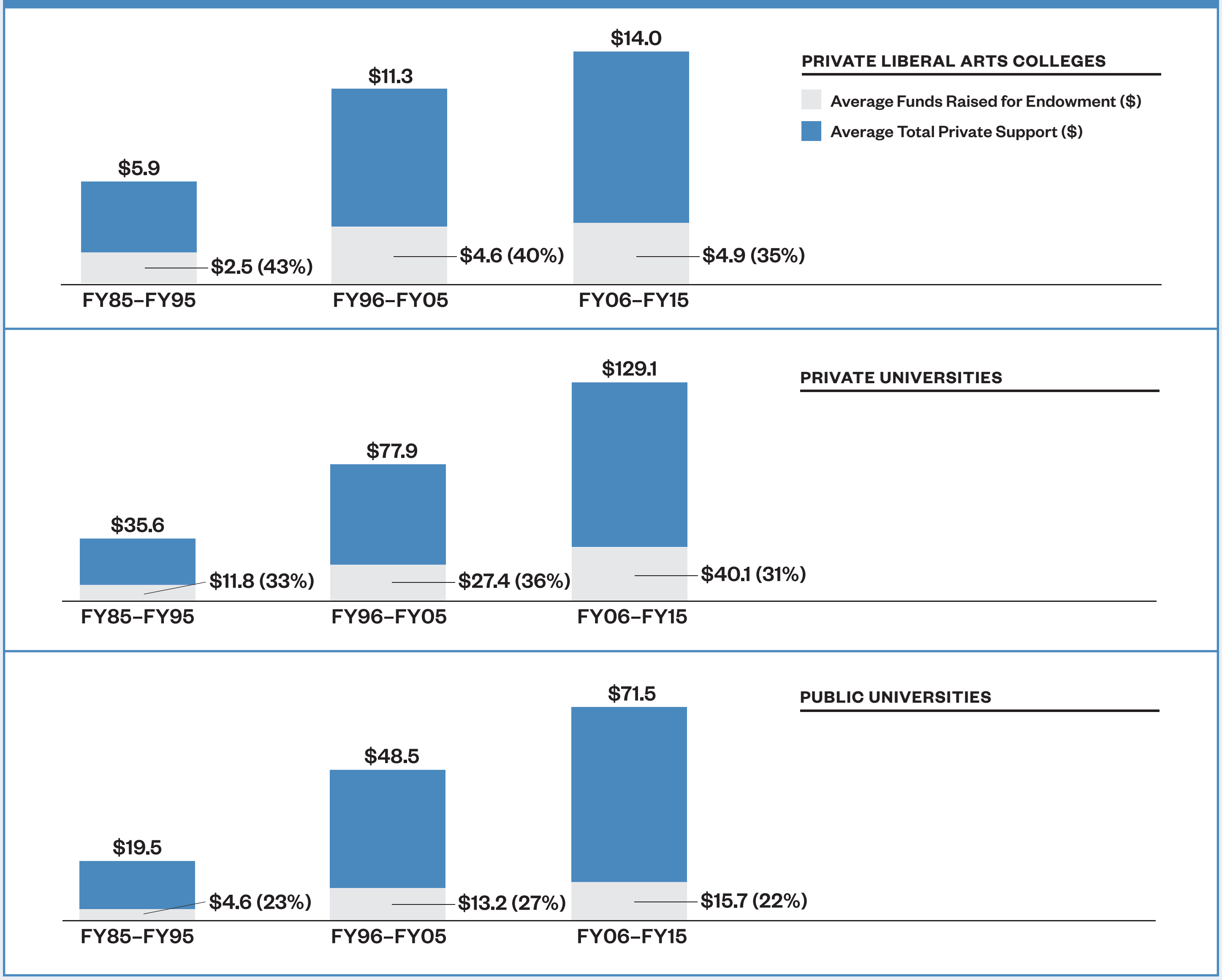
Endowment Support to Higher Education: A Thirty-Year Snapshot

The pattern of giving to endowment in higher education has shifted only slightly over the past 30 years, as demonstrated by data collected by the Council for Aid to Education (CAE) since 1986. Endowment comprised a smaller share of total private support in 2006–2015 than in 1986–1995 for all three major cohorts (private liberal arts colleges, private universities, and public universities), and the proportion is consistently highest for liberal arts colleges across the decades—perhaps because so many universities include medical centers, for which endowment consistently makes up a smaller share of overall giving.

ENDOWMENT FUNDRAISING 1985-2015



Dollars in millions. Data reflects cash receipts.

Source: Voluntary Support of Education (VSE) Survey and Council for Aid to Education (CAE).

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giving patterns, rather than sending multiple statements about the funds that have been supported: "Our endowment donors typically have supported multiple projects across the institution. We're developing a single report for each donor that encompasses all the gifts that have been made."

"We are working hard to shape the perception of the institution, which in turn affects donor behavior."

Jorge Daniel Veneciano, El Museo del Barrio

Others have observed a change in donor expectations for information that goes beyond total market value, year to year: "Today's donors have more interest in how our endowment is managed, the spending rate, and other details, which means that our volunteer solicitors must be much more conversant with endowment operations now," notes Rebecca Upham, Head of School, **Buckingham Browne & Nichols School**, a PreK-12 independent school in Cambridge, MA. Good stewardship programs have also given careful consideration to the way in which reports are delivered to individual donors. Michael Delzotti, President and CEO of the **Markey Cancer Center Foundation** of the **University of Kentucky**, previously served as a senior development officer at the **MD Anderson Cancer Center** in Houston. At MDA, Delzotti reports, the development office worked hand in hand with the provost and department heads, who encouraged physicians to produce reports for donors. "Our gift officers hand-delivered those reports. We as development officers always need to maintain the relationship, even after the gift is made."

Some who have only recently established endowment stewardship programs have had the opportunity to consider the plan that would provide the greatest strategic advantage. Tara Renault reports a comprehensive effort to inventory and determine reporting protocols for endowed funds at **Dickinson College** over the last decade. Dickinson is now reporting on about 425 out of 880 endowments, having begun with scholarships and expanded its efforts to include funds for other purposes as well. Reporting has focused on those funds with a living contact person, with preference for the original donor or a legacy relationship with demonstrated or potential interest in the College. The College moved away from an unwieldy set of manual shadow systems and simultaneously switched from an overly complicated system of stewardship letters from individual development officers to one that relies on personalized letters from the Director of Donor Relations, which complement the ongoing work of the relationship managers. Timing, too, is a consideration: "If the whole goal is to build a relationship, my aim is to send the reports by late November, to yield maximum advantage for end-of-year fundraising," notes Renault.

The burden is on those institutions that choose a "full disclosure" approach to reporting when it comes to distinguishing clearly among indicators such as total return (investment results plus gift additions, minus income distributions and management fees); market performance; and income distributions. Better to devise an easily understood, consistent approach to annual stewardship reports than to mimic the heavily detailed financial reports provided by mutual funds and consolidated investment portfolios, which may confuse, rather than inform, and could potentially obscure the important distinction between a genuinely charitable gift and an investment.

Building Endowment from the Ground Up: A Tough Time to Be New to the Game

Most potential donors understand that young organizations are unlikely to have amassed an endowment, but they may be surprised that there are long-standing institutions that operate entirely on current income as well. The venerable **Carnegie Library of Pittsburgh** was founded in 1895 with no endowment – particularly surprising given Andrew Carnegie's well-deserved reputation as a philanthropist of extraordinary proportions. Carnegie intentionally chose not to endow the Library's ongoing operation, believing strongly that community financial support would be the most effective way to maintain a strong relationship between the community and its public library. The Library has accumulated a modest endowment of almost $14 million, but when it comes to endowment fundraising, according to Pat Quinn Winter, Director of Development, "We're like a 120-year-old startup."

Endowment is a "relatively new point of emphasis in Canada," reflects Nuvyn Peters. **The University of Calgary**'s $1.3 billion *Energize: The Campaign for Eyes High*, which went public in April 2016, aims to secure more than $300 million in commitments to the endowment, but that part of the campaign has lagged, according to Peters: "We've had to adjust our strategy to articulate the value of legacy and 'taking the long view.'"

Few cultural institutions benefit from the depth of endowment support that has been enjoyed by a number of educational institutions. Most, in fact, face such challenges in meeting their annual needs for current expendable gifts that endowment fundraising can seem far out of reach. Others have yet to achieve a compelling image of long-term viability in the philanthropic marketplace: "Donor receptivity to endowment support demands a perception of stability – a perception we struggle with, especially when we're seen as an ethnic museum," reflects Jorge Daniel Veneciano, Executive Director of **El Museo del Barrio** in upper Manhattan. "Ethnicity is an unseen filter that shades the relative perception of institutions. We started as a museum of Puerto Rican art and have grown now to present Latino and Latin American art in a truly

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Endowments That Have Outlived Their Usefulness: Practical Advice for the Long Term

"Best practice" in endowment fundraising today would recommend that each new gift agreement include a clause that authorizes the institution's governing board to amend the fund's designated purpose if it is no longer possible to follow the precise definition of the original agreement, typically in consultation with the donor or donor's heirs. Many institutions, especially those whose endowments have been built over a long period of time, are challenged by funds with purposes that are too narrowly defined to be useful, or have simply outlived their usefulness over time. The steps available differ by country and, in some cases, by province or state.

- US and Canadian institutions struggling with overly restrictive or impracticable endowments may seek a *cy pres* ruling (sometimes called "the doctrine of changed circumstances") in the courts to modify or redefine the charitable purpose as described in the original agreement between the donor and the institution.
- Charitable organizations in the United Kingdom may petition the UK Charities Commission, which regulates nonprofit activity nationwide, to approve revised definitions of fund purpose when the original endowment restrictions are no longer viable. The UK Equality Act of 2010, revised in 2015, forbids donors to stipulate demographic characteristics of scholarship recipients.

GG+A advises those with endowed funds that are difficult or impossible to administer in ways that serve the institution's core mission to seek legal advice in determining a remedy that will be in keeping with the donor's charitable intent and meet current needs.

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> "We believe that donors will continue to value the idea of perpetuity, and from our point of view, endowed funds provide a more reliable source of income."
>
> **Jennie Moule,** University College London

international context. We are working hard to shape the perception of the institution, which in turn affects donor behavior."

Institutions newer to endowment fundraising may also be uneasy about how best to manage the challenge of gifts that are overly specific in their definition, as well as donors who are seeking more sustained influence on the use of endowment income than is practical. The challenge, according to Nuvyn Peters, is how to respond to donors' instincts as "investors" while reinforcing the essential philanthropic nature of the relationship: "We're exploring the question of donor involvement: their role in determining how their funds will enhance the programs they care about." **University College London** has defined basic parameters for the implementation of new programs supported by endowment, imposing a discipline that many institutions far more experienced in the business of endowment fundraising would do well to emulate. "We believe that donors will continue to value the idea of perpetuity, and from our point of view, endowed funds provide a more reliable source of income," says Jennie Moule. "We need to think long-term. At the same time, we won't accept a gift that will cost us more to administer than the fund will support."

Achieving Impact: Spendable Now, or Sustained for the Long Term?

According to Senior Vice President Susan Paresky, endowment fundraising at the **Dana-Farber Cancer Institute** in Boston, MA, is almost all designated for faculty chairs and fellowships. Donors respond most enthusiastically, however, to appeals for expendable gifts for research, and the rationale is based on urgency: "Our faculty and physicians all say, 'Cancer is a disease that we need to cure now.'" Michael Delzotti of the **Markey Cancer Center Foundation** agrees that the rationale for endowment in academic healthcare is not always clear: "Some board members believe that our endowments should be maintained, while others think, 'Dollars equal cures,' and are eager to spend down the principal," all of which is Board-designated, rather than established with gifts designated for this purpose. By contrast, Delzotti reports that fundraising at the **MD Anderson Cancer Center** focused sharply on growth through endowed chairs and centers, almost all of which represented gifts from grateful patients and their families.

"Endowment is a real plus and a real minus; if the funds are overly restricted, that can be misleading," says Paresky, "in terms of public perception of available budget support. All of us need funds that are as 'lightly restricted' as possible." Data collected by the American Association of Medical Colleges over the past 15 years demonstrates that endowment has not been a primary focus at academic healthcare institutions, which average only 17% of total private support in recent years, far less than for higher education overall.

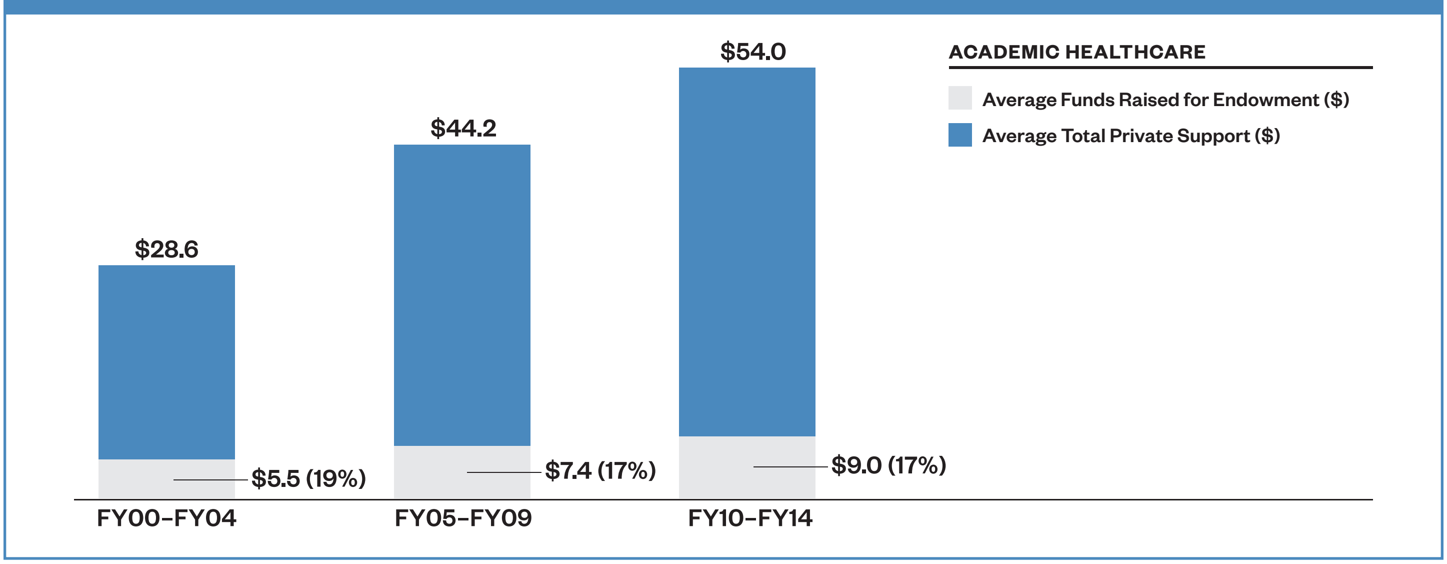
Endowment can have a powerful impact on a small institution, however. "We have a small endowment, for exhibitions," says Veneciano of **El Museo del Barrio**. "Donors give because of the impact they can have in the world, and I can speak from experience about the power that an acquisition endowment can have on helping to shape the direction of a museum." And **Buckingham Browne & Nichols** has built its endowment from $22 million to $70 million during

Rebecca Upham's 15 years of service as Head of School. The School's concerted pitch for endowment is built on the need "to value the contributions that great teachers make to the school." The increased endowment includes many named funds to recognize and support master teachers as well as funds to support faculty compensation, a number of which have been established through annual Senior Parents' Gifts Campaigns. Endowment appeals have been received enthusiastically by the School's donors, yet Upham notes that donor response to endowment proposals is very different than it was ten years ago. "Many donors now are very focused on ensuring that gifts provide immediate income, which can be challenging, as BB&N has a hold-back period before distribution of income from a new fund begins."

> "Very large expendable gifts do not align well with academic cycles and long-term investment; we can't launch something new and have the funding go away."
>
> **Eric Ponsonnet,** INSEAD

Some BB&N donors are prepared to provide near-term expendable aid, especially for financial aid, in anticipation of the projected stream of endowment income in the future. "We've pitched more hybrid gifts recently," agrees Micki Kidder at **Notre Dame.** "For example, if a donor pledges $200,000/year for five years, we might say, 'Let us spend some of your gift each year and use the rest to build an endowment, so that you can see the impact of your giving as soon as possible.'" Eric Ponsonnet at INSEAD is convinced that permanent endowment is essential to academic continuity: "Very large expendable gifts do not align well with academic cycles and long-term investment; we can't launch something new and have the funding go away." ❖

ENDOWMENT FUNDRAISING 2000–2014



Dollars in millions. Data reflects cash receipts.
Source: AAMC survey data, 2000-2014.

US Charitable Giving Achieves Record High in 2015

Philanthropy across the United States in 2015 sustained the robust growth that began in 2014, reaching a total of $373.25 billion, for an annual growth rate of 4.1%. Despite the shock waves that rocked the charitable community in 2008 and 2009, those two years represented the only period within the last forty years when total giving fell, other than 1987, when the Tax Reform Act of 1986 spurred an unprecedented burst in charitable giving in anticipation of reduced income tax deductibility beginning the following year. In fact, giving increased in ten out of the twelve recessionary years since 1975, strong evidence of the durability of the philanthropic impulse in the face of challenging economic conditions.

Once again, individual donors provided the largest share of overall charitable giving, as the combination of outright gifts from living donors and charitable bequests represented 79% of the total. These included publicly reported gifts of $100 million or more – 22 in 2015, which represented a combined $3.7 billion. Sixty percent of that amount was directed to institutions of higher education, with the remainder dedicated to arts and culture, foundations, health, and human services.

The latest data provided by *Giving USA* illuminates the choices that donors make in terms of the types of organizations they support. Although the distinctions among education, health, and human services are not absolutely consistent (for example, gifts to academic medical centers may be classified as “education” or “health”, while gifts to organizations that provide support for patients and families may be classified as “health” or “human services”), the trends are interesting and clear:

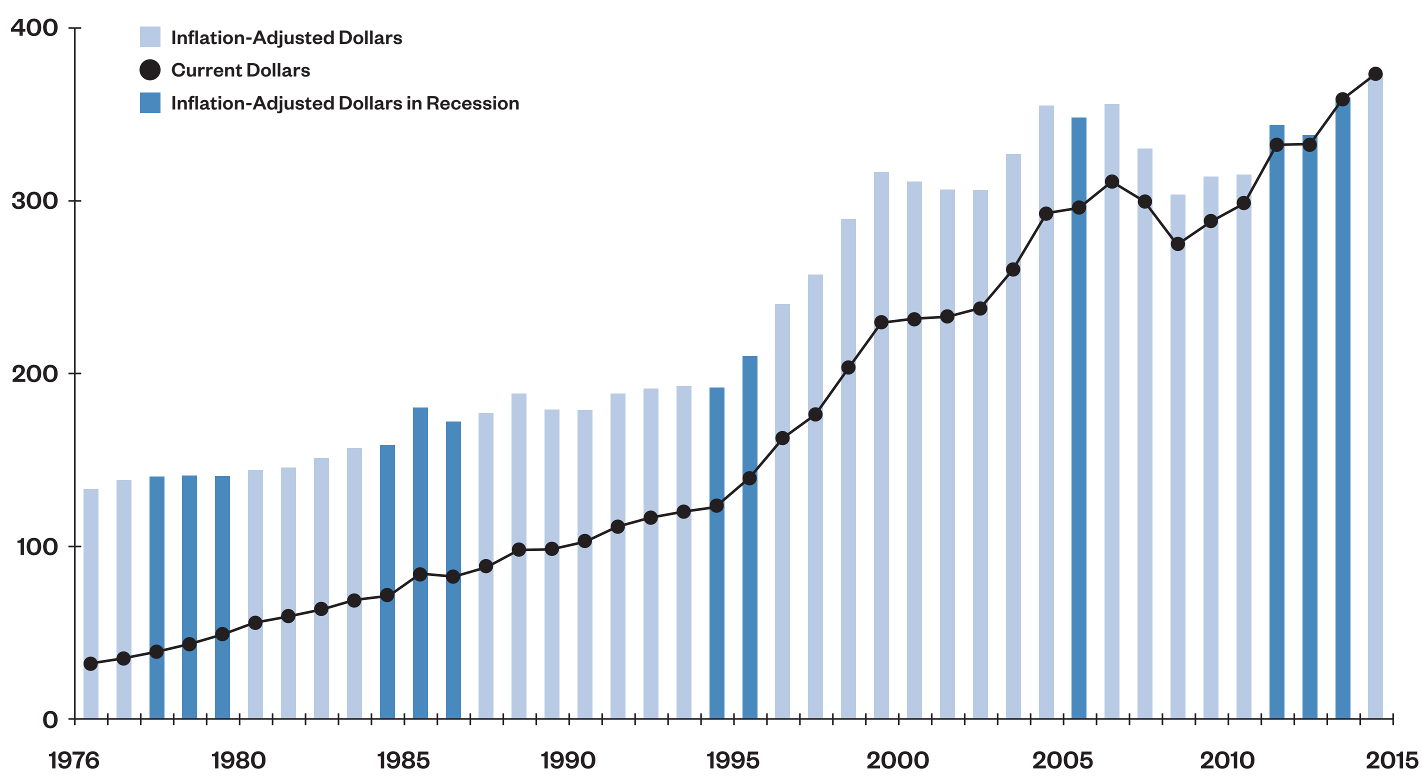
- **The proportionate share of philanthropic support designated to “religion” has fallen steadily over the past 40 years, from one-half to one-third of the total. This outcome appears to be consistent with the increasing secularization of American society.**
- **Although gifts to educational institutions receive significant attention in the press— perhaps, as noted above, because they include the largest share of “mega-gifts”—this sector has remained steady, at 13-14% of total giving, for the past 20 years.**
- **Total giving to organizations that promote animal welfare and the environment, as well as international organizations, now approach, and sometimes exceed, the level of giving to arts and culture.**
- **“Other” organizations include gifts to private foundations and donor-advised funds, as well as a modest component of gifts to individuals, including outright gifts of necessary medications to individuals in need. Such gifts have now risen to comprise the second-largest component of overall giving, such that 20% of total giving from the last decade provides no immediate benefit to charitable organizations, but will yield support over the years to come. Three decades ago, these gifts represented only 9% of total philanthropy.**

GG+A wishes to acknowledge the significant role played by the Giving USA Foundation in analyzing and reporting U.S. philanthropy for over 60 years, since 1955.

> “During the past several years, we have witnessed strong and sustained levels of transformative gifts by individuals—single gifts of $100 million or more—directed to bring about lasting change.”

John Glier, Grenzebach Glier and Associates

TOTAL GIVING, 1976–2015 (IN BILLIONS OF DOLLARS)



New Forms of Engagement: **Trends in Digital Communications**

Across the nonprofit spectrum, from the largest research universities to regional cultural and social service institutions that must manage fundraising, communications, and program planning on a shoestring, talk of strategy moves almost immediately to the question of digital strategy these days. What are the challenges? And where are the opportunities to achieve distinctive impact in a crowded marketplace? *Ready, Set, Go: 2016 Digital Outlook Report*, published by The Nonprofit Technology Network (NTEN; nten.org), summarizes information gathered from more than 500 organizations, representing a range of sectors, in the fall of 2015.

Key Findings

- The most frequent obstacle to introducing new digital approaches and content are constraints in staffing and budgetary resources. How do we add new responsibilities to existing communications responsibilities? And how and when do we decide whether we can reduce, or stop, other forms of communications?
- Specific strategies and media move in and out of favor quickly in this marketplace, and the most popular approaches for increased focus—for this year, at least—are videos and website conversion optimization—an interesting juxtaposition of content distribution, consumption, and impact.

Advice from GG+A

- Connect digital communications and engagement strategies closely to overall institutional fundraising strategy.
- Resist the impulse to chase new digital tactics simply for the sake of "going digital."
- Experiment with new outreach approaches—but be cautious about launching multiple new strategies at the same time, as it will be nearly impossible to determine the impact of each in a crowded field.
- Incorporate an intentional, closely managed approach to your overall communications plan, with the aim of learning from each new endeavor and building capacity over time.

For information about ways in which GG+A can help with digital strategies, contact Ed Sevilla, Senior Vice President in Strategic Communications, at esevilla@grenzglier.com.

The Appeal of an Enduring Legacy

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recognition society, launched as part of the campaign, will recognize donors of outright gifts of $1,000 or more for the endowment and those who document estate commitments. Pat Winter notes, "This is our way of saying to these donors, 'We know that you care about long-term sustainability, and we are grateful.'" The Library of the **University of Edinburgh**, too, is seeking to build its endowment by documenting existing legacies and establishing new ones, as well as securing outright gifts of £1,000 or more. Leisa Thomas, Development Officer for Libraries, Museums, and Galleries, comments that the legacy portion of the campaign is having greater success thus far: "Annual giving for endowment is a bit of a hard sell."

By contrast, **INSEAD** is experiencing a positive response to a recent decision to add the general endowment to the giving options in its broad-based appeals. According to Joanne Shoveller, Associate Dean, Development and Alumni Relations, Asian donors in particular are asking, "Why are you giving us any option other than general endowment?," sending gifts as small as €1,000 to be held in perpetuity. She believes that this response may be motivated in part by an awareness of INSEAD's "relative vulnerability" as compared with other leading schools of business: "Some donors are daunted by the gap between our endowment and those of our competitors in the US and UK, but others find it motivating."

"Planned gifts are central to our endowment fundraising strategy," reports Lou Nanni, Vice President for University Relations at the **University of Notre Dame**. Nanni and his colleagues launched the Love Thee Notre Dame Initiative at the close of the *Spirit of Notre Dame* campaign in 2012. The University set out to document 500 new estate commitments, but by 2014, the pool had reached more than 1,100 individuals, with more than $1 billion in future value in the aggregate —a remarkable achievement. Nanni is enthusiastic about the ongoing impact of legacy fundraising for the future: "The potential is still great, however, as fewer than 1% of Notre Dame constituents, even now, have reported bequest intentions to the University."

GG+A offers the following general observations about endowment donors:

- Most have sustained a relationship with the institution or organization over the long term;
- They are confident that the recipient will continue to thrive long after the donor's death; and
- They will be content to relinquish control of assets while providing general specifications for the use of the fund.

Although situations will vary, these donors may be motivated more by the notion of legacy than by the promise of immediate recognition. ❖

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Ready, Fire, Aim:

The Nation's Largest Endowments Become Lightning Rods for Criticism

According to the Congressional Research Service, fewer than 100 colleges and universities hold almost three-quarters of all endowment assets among the 832 institutions that participate in the annual endowment study by the National Association of College and University Business Officers (NACUBO) (Michael Strafford, *Inside Higher Ed*, February 16, 2016). Last year, following a storm of criticism of the wealthiest institutions, David Oxtoby, President of **Pomona College** and former chair of the **Harvard University** Board of Overseers, defended the value of "endowment resources that guarantee, first, that our college will have a future, and second, that we can continue to enhance our value and service to our students, faculty, community, and nation" ("Endowments Are Financial Pillars, Not Piggy Banks," *Chronicle of Higher Education*, September 21, 2015). Oxtoby elaborates: "The bigger the endowment, the bigger the target, and the easier it is to make comparisons and draw conclusions that spark outrage but contribute nothing to understanding and reasonable discussion."

Criticism has been sparked in part by the sheer size of certain endowments, but also by concerns about the steady rise of tuition and by information about compensation paid to some endowment managers. Wrote Malcolm Gladwell in 2015: "I'm happy to subsidize as a taxpayer things that I think are a worthwhile use of my money and things that I think advance the general cause of happiness and social justice in this country. I don't see why I should be subsidizing the $26 billion endowment of **Yale** so they can afford to spend half a billion dollars each year paying their hedge fund managers" ("In Elite Schools' Vast Endowments, Malcolm Gladwell Sees 'Obscene' Inequity," *National Public Radio,* August 22, 2015).

In the spring of 2016, the 56 wealthiest educational institutions in the United States were asked by the Senate Finance and House Ways of Means Committees to provide information about financial aid, philanthropic contributions, investment returns, and management fees ("Rich U.S. Schools Defend Tax-Free Status, Spending of Endowments," *Bloomberg News*, April 4, 2016). This inquiry harks back to a similar process in 2008, when Senators Charles Grassley (R-IA) and Max Baucus (D-MT) proposed a mandatory 5% payout for university endowments, similar to that imposed on charitable foundations – a proposal that faded with the onset of the financial downturn. This time around, Representative Tom Reed (R-NY) has drafted a bill that would require institutions with endowments of $1 billion or more to allocate 25% of earnings to financial aid. Others, both at the state and federal level, have called for various forms of taxation on very large endowments, another implicit challenge to the tax-exempt status of institutions of higher education.

Institutional representatives have mounted a forthright defense. "To somehow make a few large endowments feel bad about doing exactly what they're supposed to be doing – earn really good returns – is about as misguided a policy as I've ever seen," says Scott Malpass of the **University of Notre Dame** (Timothy W. Martin and Melissa Korn, *Wall Street Journal*, May 5, 2016). And **Amherst College** President Biddy Martin provided detailed evidence of the way in which strong endowment management results and gift additions have enabled the College to shift its operating budget's reliance on tuition and fees (2001: 49%; 2015: 34%) to endowment income (2001: 32%; 2015: 51%). She notes, "Fifty-seven percent of Amherst College students qualify for need-based scholarship grants from the College, and each of those students receives an average grant of over $49,100." Regardless of overall trends in market performance and the significant achievements of some institutions in providing access to students representing a wide array of socioeconomic backgrounds, it appears that institutional wealth will continue to attract scrutiny from the legislature and the media going forward.