How Impact Philanthropy is Shape-Shifting

A study by Exponent Philanthropy suggests philanthropists and family foundations are becoming more impact-oriented, doling out fewer grants but with larger dollar amounts given to only the top-performing nonprofits.

Exponent Philanthropy estimates that it's 2,300 members, with total assets of $87.8 billion, made 158,000 grants last year, down from 203,000 a year earlier. But the median grant size increased 24% to $19,116.

That's a significant refocusing of business, says Exponent Philanthropy CEO Henry Berman. These foundations have stopped blankly writing checks, jettisoned underperforming charities, and are now zeroing in on nonprofits that truly matter to the family's overall mission.

But add up the aforementioned grant-making numbers and another truth emerges: Charitable giving actually declined by 3.5%, as the foundations gave away 6.5% of their assets. This, while the average foundation endowment realized 14% returns, versus the previous survey's increase of 9.7%.

So charitable giving declined while the value of portfolios grew. What gives? Exponent Philanthropy thinks it has the answer. Its poll asked 777 member foundations to identify "the most important issues facing foundations." The top three big concerns were board/generational succession, need for greater focus/impact in grant-making, and family/board dynamics.

Issues of succession have opened up a broader dialogue between the current generation and heirs, says Berman, and, in order to engage their children ages 18 to 30 years old, they are asking for input. That's an important change. "This is a restless generation that is more willing to take risk," Berman says. And that translates into fewer but more targeted grants that might have significant impact in the world.

This move on the grant-making side dovetails with impact-investing, the other major trend shaking up the old philanthropic order. (For more, see Penta stories "Social-Impact Investments Finally Grow Up" and "Social-Impact Investing is on the Rise") Philanthropists are using their foundation's endowments to make strategic for-profit investments in their area of interest, in effect leveraging the foundation's portfolio off of the family's core mission.

Exponent found that 13% of the foundations they surveyed are engaged in some form of socially-responsible investing. This practice is about effectively putting to work the other 93.5% of assets not sent out to charities in grants last year, in a way that aligns with a foundation's greater objectives. "A foundation looking for a cure for cancer shouldn't be buying tobacco stocks [in its endowment portfolio]," Berman says, illustrating the sort of passive screening that has been around for decades. But this new breed of players is being more proactive, perhaps channeling, in this particular case, venture capital funds to biotech firms working on a new breed of cancer drugs.

Private bankers concede this approach generally resonates most with millennial investors, but it's quickly gaining street cred with others. The foundations that are currently doing some form of impact investing have boldly invested 41% of their overall portfolio in this way. Exponent Philanthropy hasn't been tracking the trend long enough to know how that number has grown in, say, the past 10 years, but Berman insists "a lot of folks are talking about it."

Our advice: Watch that 41% number. If this new breed of early adopters doubles down, as investment results trickle in, it will be a strong sign of pioneering success, to the watchful eyes of other foundations. If that happens, this nascent space will quickly ratchet up to a tipping point, and the foundation executives currently dabbling in impact investing for the pleasant cocktail chatter boast, will quickly switch to making it a significant piece of their portfolio and a key part of their mission.

Source: Barron's written by Robert Milburn