READY COMMUNITY FOUNDATIONS

Introduction Class 2
Foundations for Community Foundations

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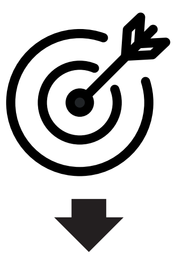
Estimated time to complete: 1.5 hours

Class Objectives

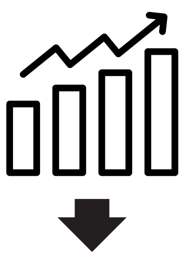
- Define the overarching purpose and roles of community foundations.
- Introduce endowment investment goals and portfolio construction.
- Define spending policy in relation to investment portfolio.
- Discuss balancing short-term needs with long-term growth
- Describe fund accounting and donor advised funds (DAFs).
- Explore opportunities to expand and extend reach into communities.

Class 1 talked about two of the three foundational components for effective operations of community foundations – PURPOSE and PEOPLE. Now it's time to dive into the PROFITS.



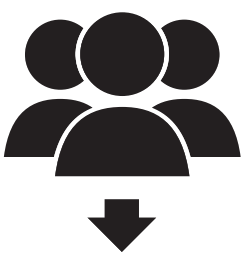
Purpose

The driving force, the thread that stitches together the people of the community



Profits

The means to realize the purpose



People

People of the community engage in the purpose and contribute profit

Module 1: Grounding in Purpose

Before diving into strategies and tools, take a moment to reflect on why your foundation exists.

The **Community Foundations National Standards Board** identifies six key areas that define operational excellence for community foundations:

- Mission, Structure, & Governance
- Resource Development

- Stewardship & Accountability
- Grantmaking & Community Leadership
- Donor Relations
- Communications

You can explore these standards in more detail here: community foundationstandards.org. At the top of that list is Mission and Purpose—and that's no accident.

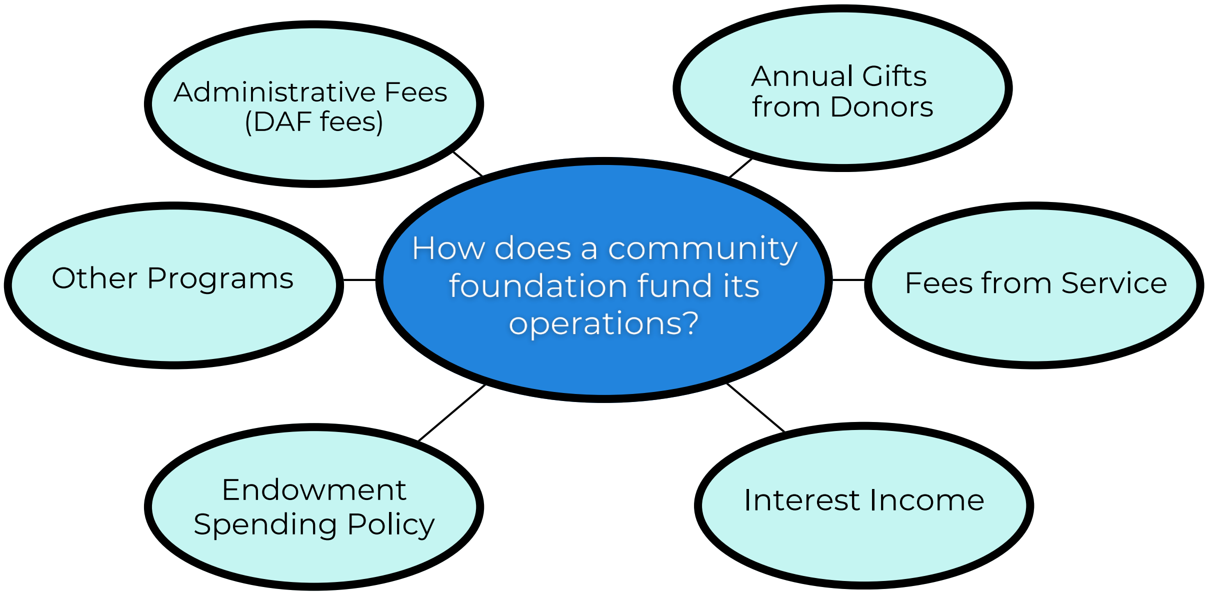
Self-Reflection: When was the last time you revisited your foundation's mission statement? How well does your current work align with it?

As foundation staff, it's easy to focus on the day-to-day demands — fundraising, reporting, making grants, managing donor relationships. But your **purpose** is what gives meaning to all of these activities.

Pause and Reflect:
- What is your foundation's core purpose?
- How does it show up in your decisions, partnerships, and priorities?

As you move through this curriculum, come back to that sense of purpose often. It's the foundation for everything that follows.

So...how do community foundations fund their operations?



Profits are directly connected to your community foundation model. You might consider using tools from the Council on Foundations, like the CF Insights tool, to see how other community foundations are operating.

Module 2: Profits — Endowment Investing

Endowment investing is a big topic, but you don't need to master it all at once. The goal of this section is to scratch the surface — to help you start asking the right questions so you can build strong governance and operational practices for managing your foundation's assets.

Start With Purpose

Self-Reflection: What is your foundation really here to do? How do you intend to support your community?

Every investment decision should flow from your mission. Preserving and growing your endowment is important — but only if it supports your community impact.

Self-Reflection: Is your investment strategy aligned with your mission? Do your spending goals reflect the kind of change you hope to create?

Think About Governance
Strong governance ensures that your endowment is managed responsibly, ethically, and legally.

Key Concepts:

- *Fiduciary Responsibilities*: Your board is legally bound to act in the foundation's best interest.
- *Legal Duties* as defined by the IRS:
  - Duty of Care – Stay informed and make thoughtful decisions.
  - Duty of Loyalty – Avoid conflicts of interest.
  - Duty of Obedience – Follow your mission and the law.

Self-Reflection:

- Does your board understand its fiduciary duties?
- Is there clear accountability for investment decisions?

Let Governance Shape Your Process
Your board's responsibilities should guide the structure of your investment process.

Think through:

- Who makes investment decisions?
- How are decisions reviewed and documented?
- What policies are in place to guide your approach?

Discretionary vs. Non-Discretionary Investment Management
One of the most critical decisions you'll make is how your endowment will be managed.

Two Common Models:
- *Discretionary* (OCIO – Outsourced Chief Investment Officer): A third-party manager makes decisions on your behalf. They hold fiduciary responsibility.
- *Non-Discretionary*: Your board or staff retains control and approves all decisions. Fiduciary responsibility stays with your foundation.

Self-Reflection:
- Do we have a full-time investment professional on staff?
- Does the board have the time and expertise to evaluate investment choices?
- How much risk are we comfortable taking?
- What level of fees can we support?

Building the Portfolio

Once you've chosen a management model, it's time to build your investment portfolio.

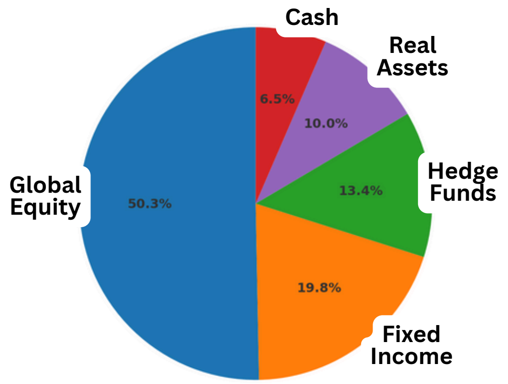
Common Asset Classes:
- *Equities*: Ownership in companies. Higher risk, higher potential return.
    - Public equities are liquid.
    - Private equity is illiquid and heavily regulated.
- *Fixed Income*: Loans to governments or corporations (e.g., bonds). Moderate risk, relatively liquid.
- *Cash & Cash Equivalents*: Very low risk, highly liquid. Used for short-term needs.
- *Alternatives*: Illiquid and higher risk. Includes real estate, art, hedge funds, venture capital, crypto, etc.

Definition:
An *asset class* is a group of investments with similar behavior and regulatory treatment.

Application Activity:

- Review your current investment policy or portfolio. Which asset classes are represented?
- How does your portfolio align with your foundation's risk tolerance, liquidity needs, and purpose?

Asset Allocation
($96.1M as June 30, 2024)



An example of an endowment portfolio construction from San Diego Foundation is shown here.*

- What do you see?
- What asset classes have more risk? More potential return?
- Does this look like your portfolio construction? How is it different?

Total Returns*
As of June 30, 2024

	3 Mo	YTD	1-Yr	3-Yr	5-Yr	7-Yr	10-Yr
SDF Actual	1.2%	6.4%	11.7%	3.1%	7.2%	6.7%	5.6%
Policy Index	1.6%	6.3%	12.2%	2.7%	6.8%	6.6%	5.5%

Profits: Impact Investing

One growing area of interest for community foundations is *impact investing*: using your investment portfolio to not just preserve capital, but to actively advance your mission.

What is Impact Investing?

Impact investing is an umbrella term for investments that seek both:

- A financial return, and
- A measurable social or community impact

This approach allows you to align your mission with your investment strategy—using your dollars to do good while they grow.

Key Concept

ESG investing is one form of impact investing. ESG stands for:

- Environmental e.g., waste management, water usage
- Social e.g., data privacy and security, organizational policies
- Governance e.g., executive pay, board composition

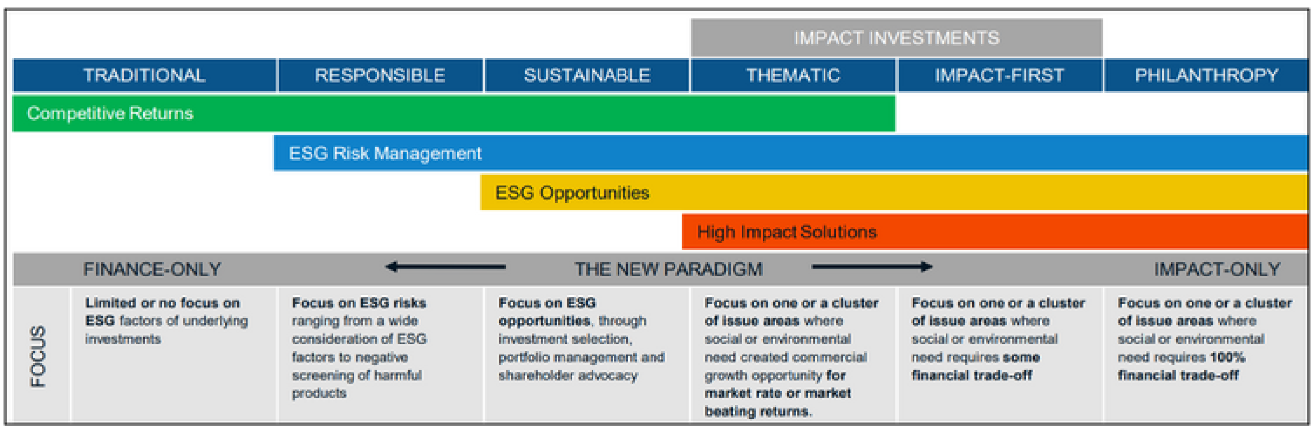
*https://www.sdfoundation.org/ways-to-give/investment-portfolios/

Why It Matters
Impact investing is a powerful way for your foundation to walk its talk. It helps ensure that your assets are aligned with your values, not working against them.

Self-Reflection: Does your current portfolio support causes aligned with your mission? Are there opportunities to invest in local or mission-related projects? How could your investment strategy create value for your community beyond grants?

Look at the continuum below. On the far left we have the traditional asset classes we presented before. The focus is on competitive returns.

On the far right we have "philanthropy" or grants. These are impact-only because your community foundation doesn't receive a financial return for your investments in community orgs.



The world of impact investing is growing by the day. New structures, new funds, new approaches are available. If you are interested, look into Mission Investors Exchange.

Module 3: Staying Grounded — Policies, Purpose, and Practice

Investment Policy Statement (IPS)
A strong investment portfolio is only as effective as the plan behind it. That's where an *Investment Policy Statement* (IPS) comes in.

What is it?

An IPS outlines:
- Your foundation's investment goals
- Strategies to meet those goals
- Details on asset allocation, risk tolerance, and liquidity needs

Why it matters

The IPS keeps you focused—especially when markets get shaky or emotions run high. It protects your foundation from reactive decision-making and helps align financial decisions with your long-term mission.

Self Reflection: Do we have a written IPS in place? Does our IPS reflect our mission, risk appetite, and time horizon?

Spending Policy Statement

Your *Spending Policy Statement* works hand-in-hand with your IPS to guide how much of your endowment is used each year.

What is it?

A formula—usually a percentage of endowed assets or a set dollar amount—that determines how much your foundation spends annually.

Why it matters

This policy helps you:
- Ensure stability and predictability in grantmaking
- Balance present needs with future sustainability

Remember: The IRS requires private foundations to distribute 5% annually, but this is the floor, not the ceiling.

Self-Reflection: Do we have a clear and documented spending policy? Does it help us fulfill our purpose today and protect our future?

Module 4: Donor-Advised Funds (DAFs) — Purpose and Potential

DAFs are powerful tools for both your donors and your foundation.

Definition: A *Donor-Advised Fund* is a giving account set up by an individual or entity, managed by your foundation. The donor retains advisory privileges over grants and investments, but the foundation holds legal control of the fund.

Benefits to Your Foundation

- Steady fee income that fuels operations
- Access to high-net-worth donors and influence
- Co-investment opportunities with discretionary funds
- Philanthropic leadership and donor engagement
- Community-building through giving circles and shared initiatives
- Insight into new causes via donor-directed giving

Self Reflection: Are we positioning our DAFs as a tool for impact—not just tax benefits? How can we deepen relationships with DAF holders and connect them to our broader mission?

Standing Apart: Your Community Foundation vs. Commercial Funds

Donors have choices. Help them see what makes your community foundation unique:

Community Foundation	Commercial Gift Fund
Deep local knowledge	National, less community-specific insight
Fees support your community	Fees support corporate shareholders
Personal guidance and human connection	Automated processes, minimal interaction
Tailored advice to maximize impact	Standardized, often donor-led only
Higher fees reflect specialized expertise	Lower fees reflect more automation and less personalization

Self-Reflection: How are we clearly communicating our value to donors deciding between us and commercial sponsors?

Module 5: Beyond Endowments — Other Ways Community Foundations Serve Community

There are a multitude of ways for community foundations to support their community including the following tools:

Fiscal Sponsorship
Support emerging nonprofits or initiatives by acting as a fiscal sponsor—providing structure, credibility, and back-office support.

Place- or Issue-Based Funds
Start a fund that invests in a specific neighborhood for economic development or other focus area that grows into a standalone organization or stays under your umbrella.

Agency Endowments
Host endowments for nonprofits, giving them long-term financial stability while building your assets and deepening community trust.

Self Reflection: Are there regional or issue-based efforts that we could better support or incubate through these structures?

Conclusion: Leading with Purpose

Community foundations are more than financial stewards—they are mission-driven leaders rooted in place, people, and possibility. Throughout this course, you've explored how purpose, profit, and people work together to strengthen your foundation's impact.

As you move forward, remember:

- Purpose keeps your work grounded.
- Profit, wisely managed, fuels sustainability and innovation.
- People, your board, staff, donors, and community, are your greatest asset.

You don't need all the answers. You just need to keep asking the right questions, listening closely, and staying focused on what's working right now.

Your foundation is uniquely positioned to lead change from the ground up. Trust that.