

# Can philanthropic trusts and foundations successfully balance long-term giving objectives with current social needs?

At the end of the 19th century, philanthropy was significantly transformed from being an ad hoc form of giving to meet a specific need for support or help, to a highly strategic, investment-based way of doing good, potentially in perpetuity.

The transformation was driven by a recognition that the effective investment of donor funds could not only enhance and broaden philanthropists' impact, but also extend the timeline over which their giving could be leveraged in support of beneficiaries.

Well-known philanthropists such as Sage, Carnegie, Ford and Rockefeller pioneered their strategic philanthropic giving and investing in capital markets, typically by means of foundations or trusts, which have been their preferred approach to giving. Even today, this remains a highly effective model by which to ensure the sustainability and impact of such giving.

The logic is sound. Investing in financial markets offers the best potential for capital growth over time, thereby enabling philanthropic trusts to do more for longer as their well-managed investment portfolios grow.

## Global impact of Covid-19

However, the catastrophic global impact of Covid-19 has given many of these philanthropic foundations valuable time to consider whether it is morally acceptable to retain a large, future-focused philanthropic investment portfolio when there are so many people in dire need of immediate life-saving assistance.

Unfortunately, there is no easy answer. And the response by each philanthropic foundation will largely depend on its giving mandate and some difficult conversations between trustees, donors and, where necessary, also with the beneficiaries.

Some foundations are leaning towards fundamentally rethinking their long-term objectives and using their assets to make a positive difference right now. The Alfred and Mary Douty Foundation, which was established 52 years ago to foster equitable opportunities for children and youth in Pennsylvania, USA, is a case in point. This foundation has decided to wind down its operations as a private foundation, liquidate its assets, and apply them now to accelerate and amplify change in the sectors it supports.

It is a noble decision, and one that must have been extremely difficult to make. But it is not necessarily the right course of action for every philanthropic entity. After all, if every foundation wound up its operations and disbursed its assets, the immediate benefits would be significant, but, unfortunately, so too would the consequences be for those in need of help in years and decades to come.



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## Challenging discussions in current economic climate

But those foundations that do wish to retain their long-term objective to do good are facing some challenging discussions in the current difficult economic climate. This is especially true for foundations operating in South Africa. Covid-19 had a massive impact on the already volatile South African markets, eroding value widely. Given that many foundations depend on investments (their own or those of their donors) and especially dividends to bolster their capital bases, the funds available for distribution may be highly constrained for some years to come. Add to this the desire of many donors and foundations to use at least some of their assets to support immediate social needs, and the challenge of securing long-term philanthropic sustainability becomes clear.

Against this backdrop, it is vital that foundation trustees must honestly assess the viability of their distribution strategies and willingness to revise their approach, in consultation with their donors and beneficiaries, to balance it against the likelihood of lower income growth in the future.

## Realistic expectations, adapted asset allocations

This potentially protracted low-growth environment also means that it is incumbent on trustees to review their investment objectives and discuss these realistically with their investment managers. While it is impossible to predict what the portfolio returns will be over the next 10 years, it is essential that expectations are realistic and asset allocations adapted where necessary to balance risk and return in an uncertain environment better. Of course, a more risk-averse approach may result in lower growth, which is why these discussions must also inform the above distribution strategy amendments, and vice versa.

Finally, it may be necessary for trustees to make some tough decisions regarding the nature and extent of the support they offer in the future. In some cases, a more targeted approach may be needed, where the number of beneficiary organisations is reduced to ensure the longevity of funding and to maximise its impact. These conversations will obviously need to include input from donors, and possibly beneficiaries, and cover issues such as whether stakeholders are prepared to sacrifice a measure of future support to deliver help where it is needed now.



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## Initiating conversation

Ultimately, while the content of these conversations will differ from foundation to foundation, what matters most is that trustees are proactive in initiating conversation as soon as possible. Where there are gaps in understanding or skill, the value of external input from a professional philanthropy adviser or management body cannot be overestimated.

The outcome of this is that in this time of unprecedented demand for philanthropic support, trustees of foundations are going to have to balance their providing immediate relief with the social impact in the future. Honest, open and transparent communication between all foundation partners is the only way of achieving such a balance.