



Surveys

show governance plays a key role
**in endowment
asset strategy**



The top 50 European foundations represent an aggregate pool of money of some €161 billion – comparable to their top 50 American counterparts¹.

However, the largest US foundations – thanks to the 5 per cent minimum payout rule – spend around 40 per cent more than their European peers. Furthermore, unlike US foundations, European foundations still invest around one third of their assets in founder/sponsor stock, leaving important question marks from a risk management perspective. By contrast, US foundations and university endowments have moved more aggressively into alternatives. Is this less diversified asset allocation in European foundations being driven by a governance structure that is less prepared to face long-term investment decisions?

The type of governance and management structure implemented in endowments determines the way long-term investment strategies are set.

Although most foundations and endowments have a board investment committee, its composition varies both in terms of size and of the expertise of its members

among the different types and sizes of foundations.

Cost is also a key issue. Most endowments are aware of their need for advice in the ongoing monitoring of managers, but small foundations cannot generally afford in-house resource or advisers on an ongoing basis and hence rely on their advice mainly for establishing the overall investment strategy. Larger foundations and endowments, where cost is less of an issue, have been able to adopt more sophisticated investment strategies.

Since 2004, there has been a trend to increase the number of investment managers appointed by endowments and foundations in the US, particularly in alternative strategies. In 2006, US endowments with more than US\$1 billion assets used an average of 57 managers in direct alternative strategies, 10 more managers than the year before².

For smaller endowments, incorporating new asset classes and increasing the number of asset managers creates a 'governance strain'. Smaller foundations participating in the 2007 London Business School's Foundations and Endowments Asset Management Programme expressed concern with respect to their own ability to fully assess the complexity of investment decisions and the lack of any training to support them. This supports the findings in the Watson Wyatt UK

Charity Trustees' Survey (2004), when over two thirds of respondents stated that their institution has no structured process for monitoring their trustees' decisions and only 40 per cent of large charities had training programmes for new trustees, with less than half of the sessions dealing with investment topics.

Less than 5 per cent of respondents to the Watson Wyatt survey put long-term investment decisions among the two most important matters in board meeting discussions. Most respondents stated that they would prefer to fully delegate investment decisions to outside experts. Although external advisers play a larger role in long-term investment decisions of all charities, few medium-sized and small charities use external advisers to select and replace their investment managers.

¹ For example the top five foundations account for 37 per cent of aggregate top 50 assets in both regions

² *Commonfund Benchmarks Study 2007*