European Foundations: report on Top 50 ranking and database

A joint research project by Watson Wyatt and Prof. Elroy Dimson of London Business School

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1) Highlights

- Top 50 European foundations represent an aggregate pool of money in the range of €147 billion
- Top 50 European foundations represent a comparable pool of assets to their top 50 American counterparts and display a similar degree of asset concentration to their US peers (top 3 foundations account for 28% of aggregate top 50 assets)
- However, the largest US foundations (thanks to the 5% minimum payout rule) spend around 1.5 times more than their European peers
- Distributions of large foundations’ assets is uneven across European countries, due to a variety of historical reasons. UK and Italy show the largest concentration in absolute terms, whilst relative to either population or GDP Denmark ranks highest. Conversely, France and Spain rank lowest in both absolute and relative terms
- Transparency is still far lower in Europe than in the US and lack of homogenous reporting standards across European countries poses further challenges to peer-group comparisons of, among others, investment strategies and financial performance. However, some countries (notably Italy and the UK) display greater transparency than other ones (particularly Germany, Netherlands and Switzerland)
- Unlike US foundations, European foundations still invest around one third of their assets in founder/sponsor stocks leaving important question marks from a risk management perspective. By contrast, US foundations and (even more) university endowments have moved more aggressively into alternatives. Yet there are eight of the largest European foundations investing more than 10% of their assets in private equity and hedge funds
2) How was the research carried out? (I)

- Unlike in the US, financials of European foundations are not available on a consistent and comparable basis. In countries like Germany or Netherlands public disclosure is not compulsory. Accounting standards are also not uniform, particularly asset valuation criteria (i.e. book vs. market value).

- The definition of what constitutes a foundation varies from country to country and terminology is sometimes unhelpful (i.e. in the UK there is overlapping between the term “charity” and “foundation”; in Switzerland foundations can be uniquely devoted to the interests of the founding family etc.).

- This is the first attempt to construct a comparable ranking of the largest European foundations and a database recording key financial information such as asset allocation and disbursement rates.

- Joint effort of Watson Wyatt and Prof. Elroy Dimson of London Business School and presented as a follow-up to the joint research project presented during the Foundation & Endowment Asset Management course in June 2006 (http://www.london.edu/financeprogrammes/feam.html)
2) How was the research carried out? (II)

- We first compiled a list of 80 European foundations with estimated assets over €500 million from a variety of sources (national associations, contacts, industry publications, the Funders Online database, previous surveys etc).
- In-depth research was carried out on the initial list by means of a survey as well as the analysis of published annual reports.
- 11 foundations were excluded from the final ranking because they declined to participate and do not publish annual reports.
- Final ranking was constructed based on either survey responses or published numbers. A total of 25 foundations responded to the survey, of which 21 were included in the final top 50 rankings and all of them in the extended database. For data sourced from annual reports an effort was made to harmonise asset and disbursements valuation criteria.
- Final database includes 69 foundations representing around €159 billion (of which €147 billion representing those in the Top 50 ranking). Key findings are presented for foundations in the final top 50 ranking whilst additional findings referred to the entire database (=“full sample”) are also reported.
- Comparisons were made with top 50 US foundations and for asset allocation US endowments. US data were derived using publicly available disclosures and figures from the Foundation Center and NACUBO.
3) Top 50 foundations: Asset Size

- The two main countries in terms of aggregate foundations’ assets are the United Kingdom and Italy. In both countries foundations play an important role.
- Whilst efforts were made to harmonise the figures and use a consistent fair value criterion some discrepancies (most likely leading to understating total assets) may still exist in countries with established tradition of historical book value reporting (i.e. Germany).

### Asset Size: Top 50

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>44.3%</td>
</tr>
<tr>
<td>UK</td>
<td>32.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>14.2%</td>
</tr>
<tr>
<td>Denmark</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

Countries with more than 3 foundations included in the ranking

<table>
<thead>
<tr>
<th></th>
<th>Asset size (in million €)</th>
<th>Average per institution</th>
<th>As a % of GDP</th>
<th>€ per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 50 Europe</td>
<td>147,212</td>
<td>2,944</td>
<td>1.62%</td>
<td>411</td>
</tr>
<tr>
<td>Top 50 US</td>
<td>133,086</td>
<td>2,662</td>
<td>1.41%</td>
<td>589</td>
</tr>
</tbody>
</table>

- Surprisingly, top 50 European foundations in Europe have an aggregate asset size which is larger than their US counterparts both in absolute terms and relative to GDP terms. However, on a per head basis, foundations’ assets in the US are greater than in Europe. Also, most estimates of total foundations assets suggest that the US is way ahead of Europe because of a larger asset base in medium and small-sized foundations.
While in absolute terms Italy, UK and Germany are the countries with highest asset concentration, if we adjust this measure for GDP, Denmark ranks highest and Portugal ranks higher than Germany.

On a per head basis, Denmark also reaches the highest position thanks to an established tradition of commercial foundations with shareholdings in major Danish companies.

Spain and France rank lowest. In both cases a tradition of tight government regulation might explain this.
### 3) Top 50 foundations: Asset size (III)

#### Top 50 by assets: Accumulated Assets

- The structure of the US and European foundations’ sector is almost identical in terms of concentration.
- In fact, the three largest foundations account for around 28% of total assets in both US and Europe.
- In spite of comparable asset size and concentration, US foundations spend around 1.5 times more than their European peers.

#### Top 50 by assets: Accumulated Disbursements
4) Asset allocation: US vs. Europe (I)

**European Foundations: Average asset allocation**
- Founder/Sponsor stock: 34%
- Real Estate: 4%
- Alternatives: 5%
- Fixed Income: 16%
- Money Market: 9%
- Others*: 3%
- Equity: 29%

*Others includes insurance policies and pooled funds
Note: Constructed with top 69 European foundations latest available data

**US Foundations: Average asset allocation**
- Founder/Sponsor Stock: 13%
- Real Estate: 1%
- Alternatives: 9%
- Fixed Income: 19%
- Money Market: 4%
- Others* : 8%
- Equity: 46%
- Others includes insurance policies and pooled funds
Note: Alternatives include hedge funds, private equity, commodities etc.

**US University Endowments: Average asset allocation**
- Equity: 48%
- Money Market: 2%
- Alternatives: 30%
- Fixed Income: 16%
- Real Estate: 4%

Note: 2006 data taken from NACUBO
4) Asset allocation: US vs. Europe (II)

- European foundations on average invest 34% of their assets in founder/legacy stocks, while US foundations only invest 13%. Some of these shares are not listed (i.e. German engineering giant Bosch), other are listed in the stock market (i.e. Italian new banking group IntesaSanpaolo).

- Historical reasons and, in some cases, stronger ties with founder companies can explain this behaviour, which has serious implications for the investment policy given the exposure to a large idiosyncratic risk. In Italy most foundations stem from the privatisation of savings banks and still hold a large proportion of their assets in the Italian banking sector, often behaving as very active shareholders.

- US foundations and particularly endowments display a higher propensity to invest in alternative assets (5% in Europe vs. 9% among US foundations and 30% among US endowments), i.e. asset classes such as hedge funds, private equities and commodities. Arguably these assets are attractive from a risk/return and diversification perspective. Given large undiversified exposures to the stock market it is also somewhat surprising that European foundations do not invest more in these asset classes and less in other equities.

- Yet there are eight foundations in Europe investing more than 10% of assets in alternatives. Private equity is the most popular choice among European foundations investing in alternatives, representing around 80% of assets invested in alternatives. Hedge funds follows but exposure is still very low.

- European foundations also allocate more to real estate than their US counterparts. Interestingly, all of the six foundations allocating more than 10% to property are in the UK.

- US and European foundations allocate a similar proportion of assets to fixed income strategies but European foundations on average keep larger balances (around 9%) in short-term investments like cash or money market.
5) Charitable Spending (Top 50 foundations)

US foundations spend far more as a proportion of assets than their European counterparts.

On an aggregate basis, US foundations spend over 50% more than their European peers. These findings can be explained because in the US tax laws set by the Internal Revenue Code establish that all private foundations must spend at least 5% of the average market value of their investment assets. The average US foundation allocate an extra 1.4% of its assets to charitable activities. However, the mean of the European sample is driven out by a few exceptional cases. In median terms the difference is even larger (over 2.5%)

Not surprisingly, US foundations are more homogeneous given the 5% disbursement requirement, whilst dispersion of spending rates in Europe are very large.

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1For comparison purposes, the value of disbursements used to calculate the payout ratio excludes support and administrative costs. Thus the payout calculated for US foundations is slightly lower than the prescribed 5% spending rule (which includes some of the above mentioned costs)
5) Charitable Spending (European full sample)

- Using the full database the average amount that European foundations allocate to charitable activities as a proportion of investment assets is higher at 4.5%, but the median is still 2.7%, way below the 5% payout rule followed by US private foundations.

- Taking into account the dispersion among the sample and also considering that some European foundations rely on non-investment income (i.e. fund-raising, donations etc.) to finance part of their spending, we also display another measure: the Net Payout ratio. This adjusted measure, which excludes charitable spending funded by means of non-investment income, is more homogeneous across foundations and gives stronger evidence of the difference with US foundations. On average, only 1.3% of the value of total financial assets of large European foundations is devoted annually to charitable disbursements.
6) Asset growth in an exceptional year (2005)

- Average asset growth in 2005 among European foundations was around 15%, with a large dispersion (i.e. standard deviation of 7%)
- Average net growth (adjusted for non-investment inflows, grants and admin costs) in 2005 was slightly higher (around 18%) and displayed a comparable level of dispersion. Some foundations experienced large asset jumps thanks to exceptionally high returns from their legacy stocks. As an aggregate, European stocks returned over 20% over the period. Obviously foundations investing primarily in fixed income registered much lower growth rates
- Yet over the same period (which was exceptionally good for European stock markets) the average investment return for the Yale endowment was still higher than the average European foundation (22.3%)
- There seems to be no meaningful correlation between asset growth and asset size
European foundations are a very diverse lot in terms of how many people they employ. These differences can be partly explained by the different nature of the activities of these institutions (i.e. operational vs. grant-making). For instance, one large UK operating foundation employs more than 4,000 employees, while another European grant-making foundations of comparable size employs only 13 employees.

By contrast, US foundations seem to be a more homogeneous pool of institutions.

In Europe, there seem to be limited correlation between the size of the foundation and the number of employees they hire.

The median large European foundation employs only 11 people per €100 million of invested assets against 23 for the median US foundation. This arguably creates a substantial governance gap given the wide range of activities involved in managing a foundation, from administration to investments and spending policy.
Appendix
A foundation must be:

a) non membership-based organization
b) institutionally detached from governments and public agencies, at least in terms of autonomy
c) non-profit-distributing entity
d) self governing entity
e) serving a public purpose

There are big differences among European countries regarding what constitutes a foundation in each country.

Additionally, there are institutions that are considered to be foundations by country-specific regulation but do not fit our definition of foundation.
Qualitative definition of foundation (I)

- Non membership-based organization
  - In Germany associations, limited liability and stock companies are allowed to use the term “stiftung” provided they are non-profit

- Institutionally detached from governments and public agencies
  - Some public foundations in Sweden are supervised and administered by local governments, in Portugal public foundations act as Public Administration Institutes

- Non-profit-distributing entity
  - In UK and Denmark foundations can engage in business activities though with some restrictions. Some foundations in Denmark are defined “commercial foundations” and maintain strong ties with a commercial entity

- Self governing entity
  - Non-autonomous foundations in Germany lack legal personality and French foundations under the “Fondation de France” umbrella do not control how their assets are managed

- Serving a public purpose
  - In Switzerland and Netherlands foundations can pursue private purposes. Family foundations in Sweden can be created solely for the benefits of family members
Background on methodology (I)

- Our ranking candidates stem from diverse rankings compiled by foundation associations in different European countries. In particular, we used rankings compiled by Philanthropy in Europe, the European Foundation Centre, Charities Direct (for the UK), Bundesverband Deutscher Stiftungen (for Germany). For Italian foundations we used the annual reports of Italian foundations posted on ACRI’s website. Taking the largest foundations from these sources and rankings, we defined our initial universe which included 80 European foundations with estimated assets in excess of €500 million.

- We afterwards verified their size using publicly available Annual Reports wherever possible and relying on the information provided by the institutions themselves through a Watson Wyatt conducted survey.

- Foundations without publicly available data and that did not respond to our request or denied disclosing financial information were excluded from the final sample. Likewise, we were forced to exclude those institutions whose Annual Reports were available but did not disclose basic information such as assets, income or disbursements.

- The final sample included the 69 foundations that either answered the survey or for which there was publicly available financial information.

- Still we had to sort the following difficulties:
  - assets recorded at different points in time across foundations
  - harmonisation of data reported based on different accounting standards

- Wherever available we used marked-to-market data. For Italian foundations we estimated the market value of parent bank holdings even if these are reported at book value in the balance sheet.
According to the EFC (2002), the requirement of filing yearly accounts and annual reports to regulatory authorities is present in all European countries.

But the publication of annual reports is not a requirement in every country. In this regard, the distribution of the sample across countries could still be biased towards the inclusion of a higher proportion of foundations from countries that have public disclosure policies (for example UK and Italy).

Accounting practices used to measure assets can affect relative weights of each country (fair value measures vs. cost or historic measures, treatment of unquoted financial assets, etc.). Each country still uses different accounting practices and IAS guidelines do not apply to foundations. Whilst we made every effort to ensure comparability, some discrepancies may still exist.

Finally, accounting data of foundations are published with a lag of 6-9 months from financial year end. This implies that for most foundations the latest figures available are as of year end 2005 (though a number of them provided us with an anticipation as of year end 2006).
Background on Watson Wyatt research on European foundations

- Watson Wyatt is conducting an ambitious research project on European foundations.
- Our objective is to build a database to identify the investment behaviour of European foundations to enable:
  - comparison within and between countries
  - comparison of individual foundations versus their peer groups or ‘best practice’ principles
- The research project consists of two parts:
  - ‘hard data’ on performance history, investment policy, use of external managers, relationship between risk and reward
  - ‘soft data’ on fiduciaries’ investment beliefs and decision making process
- Recent research initiatives included a survey of over 350 fiduciaries of European foundations in eight countries on governance and investment arrangements
- Forthcoming research includes a simulation of spending rules using European foundations data
Background on disclosure across countries – UK, Italy and Germany

- **UK charities and foundations** are required to keep detailed annual reports and to apply a market value criterion to invested assets. The Charity Commission publishes annual reports of most foundations on its website (with a certain lag).

- **Italian foundations of banking origin** disclose a wealth of information in their Annual Report (including details of external asset managers, performance, benchmarks etc.) but are allowed to use a mixed book value/market value criterion which creates some difficulties in comparing data across foundations. ACRI (the Italian association of savings banks and foundations) post all annual reports on its website.

- **German foundations** are not required to publish an Annual Report. We recently analysed 76 of the largest German foundations and found that only 24 of them published a report and 12 posted it on their website. When reports are available there are no clear guidelines on how information on investment arrangements should be presented, which means that numbers are often not comparable and typically use historical book values.
References


- Joint webcasts by Watson Wyatt and Prof. Elroy Dimson of London Business School
Reliances and limitations

- In preparing this survey Watson Wyatt relied on information provided directly by the foundations included or on information published on annual reports and websites. While reasonable care has been taken to gauge the reliability of this data, this survey carries no guarantee of accuracy or completeness.

- This survey has been prepared for information and is not intended to form a basis for decisions.

- Watson Wyatt Ltd is regulated and authorised in the UK by the Financial Services Authority.