

# Counter View to Retrenchment: Applying a Different Bottom Line

by ted smith, Kendall Foundation and paul brainerd, Brainerd Foundation

Socially adept foundations should consider the option of not retrenching in a declining economy. Instead, they can maintain their level of grants and possibly increase them. This view runs counter to the logic that flows from declining endowments – counter to business logic.

Yet we see several good reasons to explore what appears to be common behavior masquerading as common sense.

- The business bottom line, as it must be, is profit and loss. The foundation bottom line is the vitality of the sector(s) in which its grants are made. These benchmarks are different and unconnected.
- Ah, but if the earnings go down with the assets, as they indeed have in the last three months, don't the assets need to be protected from yet further declines? Maybe, but protected for what? Higher returns in economic boom times when foundation support is less needed?
- The minimum (5 percent) annual payout standard set by the IRS is a distraction. Keyed to assets, it has nothing immediate to do with society's needs – needs that

shape and define the true purposes of philanthropy. Too often foundations have steered down this minimum payout road in obedience to an overvalued sense of fiduciary responsibility – and an undervalued sense of societal responsibility.

- Most foundation portfolios are down at this time. Many have generally declined by 10–25 percent – even more in those cases where equity portfolio diversification has been eschewed or neglected. But most foundation portfolios enjoyed huge run-ups in the recent past that should be taken into account. Markets go down. Markets also go up.
- Moving to the grantee side, needs are greater in times of economic recession and foundation support can play critical buffering roles. Shakeouts can be applauded in market-based industries. But in the

domain of environmental protection, we all lose when fragile, often newer groups wilt and expire as income streams dry up.

- It is also generally true that when GNP goes down, environmental regulatory enforcement weakens. If foundation-supported NGOs are not there to bark, who will? Barking money is not easy to find. Love Canal and PCBs in the Hudson River are real.
- On a promising note, down economies are times of opportunity. Savvy business investors know this. Foundations could indeed move much faster by pressing for market incentives and renewable energy to meet Kyoto Protocol standards. We could ensure that the threat of drilling in the Arctic National Wildlife Refuge does not reach the political tipping point. With ingenuity and greater risk-taking we could protect remaining intact ecosystems in regions that haven't yet been mauled by human development. Other timely opportunities abound.

Our two foundations are not retrenching. We are planning higher grant commitments in the year to come for the reasons outlined above. Further, we are emphasizing larger, unrestricted and multi-year grants, funding that is always tough to raise but even tougher at this time. Company is welcome.