



Endowment Funds:

A sustainable income stream

While this has been a challenging year for any fundraiser, a revolution of sustainable fundraising has been quietly continuing to develop in communities across Aotearoa New Zealand.

That revolution is endowment funds which are giving back to communities for the long-term.

An endowment fund is created when a (typically large) donation is invested. A portion, or all, of the income from the investment is used for the purposes of working towards your vision, generating a sustainable income stream over time.

Some larger charities have their own endowment funds, but for many, the reality of managing long-term investments can be daunting. In addition, large sums appearing on balance sheets can be off-putting and not always easily understood by donors and funders. A professionally managed charity endowment fund could be both a strategic and a smart consideration.

Local Community Foundations manage a variety of community organisation endowment funds across the country, enabling economies of scale and a hassle-free way for funds to flow back as a revenue stream. Bequests are common sources, and of course they are the big gifts that enable an endowment fund, and the income distributed from it, to grow.



Alice Montague, Executive Director at Nikau Foundation in Wellington says that, in her line of work, she sees many generous people keen to see their life's work invested in perpetuity rather than being spent as a lump sum gift to a charity. "There is certainly a need for both types of gifts in the charity fundraising world, and endowment funds do appeal to a certain type of strategic donor who is really keen on long-term community support."

Internationally, Community Foundations have been around for over 100 years, but this movement of place-based philanthropy only started to gain traction in New Zealand around 2003 with the establishment of the Acorn Foundation in Tauranga. Despite the relative youth of New Zealand's Community Foundation movement, we are already beginning to see real results in terms of invested community funds providing sustainable income streams to local charities.

Lori Luke, General Manager of Acorn Foundation, says that locally in the Bay of Plenty, there are a number of ways invested funds are giving back to the local charity sector.

"One example is our local Hospice which has been named in a number of donor wills and now receives more than \$100,000 from Acorn Foundation annually. The local Salvation Army also received over \$50,000 in 2020; both these amounts have been growing each and every year as we get more and more bequests from people who have named these causes in their wills."

Funds flow through a Community Foundation to charities from three sources: donor-directed endowment funds, which name the charity as a recipient in perpetuity; as an annual recipient of unrestricted funds as chosen by a Community Foundation's Distribution Committee; and via a charity endowment fund set up specifically to receive annual distributions for that cause.

As an example of the latter, the Tauranga Women's Refuge have their own endowment fund which is managed by Acorn Foundation. Effectively, this means that a handful of strangers, donating regularly over several years, have built a fund for Women's Refuge, already totaling more than \$35,000. A lump-sum addition of \$50,000 from a fundraising event earlier last year raised this fund to over \$85,000. The total is invested in perpetuity so that every year the local Women's Refuge will receive around 4% for their operating expenses.

"While an annual 4% distribution may not seem significant to some, if it is managed well over 100 years a \$100,000 donation can deliver \$1 million in value. Over 100 years, this donation could return around \$775,000 to the charity, while

the capital has continued to grow, with a reinvestment of fund returns when they exceed 4%". See the infographic about how an endowment fund works.

"And we are not talking 100 years, but rather hundreds of years on into perpetuity that these gifts will still be providing a dependable income stream for the named charity," says Luke.

Because of Covid-19 this has been a challenging year for investment returns, so is investing in endowment funds really a good idea? Luke, who studied economics, says, "Every economic boom has a corresponding bust, and that cycle is why investment in perpetuity is a completely different game. At Acorn Foundation, we don't need to worry about having enough investment returns for distributions in 2021, since we have been building reserves for years to ensure that we are prepared for a downturn".

While local Community Foundations are not funding all operating expenses for local charities yet, in decades to come that could become more of a reality for charities that are commonly named as recipients from endowment funds. Over time, these passive income streams will lead to a future where local charities can spend less of their time on fundraising and more on their mission.

Why start your charity endowment fund?

1. It will return far more to your charity over time than a one-off donation.
2. The perpetuity model, leaving the initial donation intact, ensures a sustainable income stream, forever.
3. Your donors will appreciate being given another option for supporting you and enabling you to keep making the difference you make.
4. You will grow in confidence having conversations around major gifts and bequests.
5. It is fundraising with a strategic lens, appealing to forward-thinking Boards.

If managed by your local Community Foundation:

6. Your endowment fund will be suggested as an option for donors and marketed along with the range of Community Foundation funds.

GROW YOUR REVENUE THROUGH AN ENDOWMENT FUND WITH YOUR LOCAL COMMUNITY FOUNDATION



- Economies of scale and a very low fee structure, typically 1% administration fee, lead to better investment returns.
- The capital is preserved forever, with the extra income being reinvested each year to ensure fund health and factoring in inflation.
- Funds are held off your balance sheet with income flowing back as a revenue stream.

Your organisation and bequests

Bequests you receive directly are often given by long-time supporters who have first-hand experience with your organisation. They may not have made a large donation, but it is likely they will have made regular gifts over many years or may have volunteered their time. Following are some steps you can take to pave the way for planned giving.

Appreciate Your Donors

People give to your organisation because they believe in the difference you make in your community. Be genuinely grateful for donations of any size, and make sure every donor feels acknowledged and appreciated each time they give. Donors who receive a personal thank you within 48 hours of making a gift are four times more likely to give a second gift. When a donor gives a second time there is a 62% chance they will give again.

Respectfully make the ask

Not every donor will have considered making a bequest. For most people it is not something they think about until someone brings it to their attention. Knowing your existing supporters and

donors well, you will know where it is appropriate to ask personally, and that is how you should always make it, personally.

Raising awareness

Create a communications campaign that focuses on raising awareness of the benefits of bequest giving for those who give and the impact of the gift. Think about all your 'who's'. Who is in your sphere of influence? Focus on existing supporters and think wider. Board members – past and present, volunteers – past and present, people you support if appropriate – cast the net wide to talk to every one of your connections. Make a list, then make a plan for what and how you want to communicate.

Tell donor stories

Share stories from your existing bequest donors. Stories enable people to see connections to their own experiences. Hearing why someone has left a bequest and the impact of the gift can be powerful. Acorn Foundation (www.acornfoundation.org.nz/our-team/meet-our-donors) and Community Foundations of New Zealand (<https://communityfoundations.org.nz/our-stories>) both share stories on their websites.

Share stories of impact

Let people know how bequests have made a difference for the people or cause supported by your work. Take and make as many opportunities as possible to share stories whenever and wherever you can, and encourage your trustees to do the same.

Make it easy

Share information on your website, through social media and wherever your potential supporters might look. They may not want to come to you directly. Provide easy ways to find information themselves. Include a link to a trusted specialist lawyer. Include a link to your local community foundation (<https://communityfoundations.org.nz/regions>). Bequest donors will need to know their donation will be used wisely in helping you continue to do what you do long into the future. Community Foundations can help build that level of trust and certainty and provide expert knowledge that you, or your trustees may not have. They can provide an extra level of confidence that a large gift will be cared for with integrity and expertise.



Eleanor Cater

Eleanor's experience spans 25 years working for purpose and impact, including with FINZ working with NZ charities attracting bequests. Today she heads Community Foundations of New Zealand, whose member Foundations work with hundreds of charities across New Zealand, grantmaking and growing community funds to work effectively for causes and community transformation.