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INSIDE A FOUNDATION PORTFOLIO

In 1996, a presentation by David Swensen, then Chief Investment Officer at Yale University, introduced Burgundy Co-Founder Richard Rooney to the idea that a foundation with an endowed corpus is theoretically immortal and acts as a long-term investor. This idea has informed his approach to foundation investing ever since.

At a private lunch earlier this year, Richard joined Portfolio Manager James Arnold to discuss how foundation portfolios can support consistent giving over time, drawing on their experience across investing, governance, and philanthropy.

INFLATION & ASSET MIX

Richard Rooney (RR): James, let me start with inflation. It seems to remain stubbornly above central bank targets in many Western economies. What are the implications for bond positioning in a foundation portfolio?

James Arnold (JA): It is a common question, and the answer changes with the moment. Inflation came down significantly from the extremes of 2022, but with the conflict in the Middle East earlier this year and rising energy prices, it has moved higher again—above 4% in the U.S. and just above 3% in Canada.

From a bond positioning perspective, the impact is not dramatic for us. The fixed income portfolio within our foundation strategies currently yields approximately 5%. Even with Canadian inflation slightly above 3%, bonds are still offering a positive real return. That has not always been the case. There were years before the pandemic when interest rates were near zero and we debated whether bonds had a role at all. Today, fixed income can once again provide a meaningful return.

But return is not the only reason portfolios hold bonds. Bonds generate income, and perhaps more importantly for foundations, they can dampen portfolio volatility. If a foundation is targeting a payout ratio of 5%, a significant drawdown in the portfolio puts long-term sustainability at risk. A fixed income allocation acts as ballast—in a balanced portfolio with 30% to 40% bonds, that stability can help foundations meet spending targets without eroding capital.

RR: What does the current asset mix of the Balanced Foundation strategy look like?

JA: Most of our balanced funds currently sit at approximately 70% equities and 30% fixed income. The equity portfolio is invested globally, drawing on Burgundy's regional equity teams across Canada, the U.S., Europe, Asia, and emerging markets, with a meaningful weighting toward Canada, a home-country bias we believe makes sense.

On the fixed income side, our portfolio does not necessarily look like others. We have a meaningful tilt toward credit—corporate bonds issued by strong companies like Enbridge, TC Energy, or Nike—rather than government bonds. Corporate bonds can provide higher returns over time if defaults are avoided, which is a major focus of our work. They also tend to have lower duration, meaning they are less sensitive to interest rate movements. For a foundation portfolio where stability and liquidity matter, that can be beneficial. The fixed income allocation also acts as ballast for the overall portfolio, and it has generated solid returns over the past several years.

With this kind of balanced, global portfolio, we believe foundations can target approximately 5% real returns over the long term. If that aligns with the foundation's payout, any excess return, often in the range of 1% to 3%, can allow the foundation and its future giving to grow over time.

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RR: Let's talk about alternatives. Foundations are often pitched on private equity, private credit, and other illiquid strategies. How do you think about that?

JA: The two key issues are complexity and liquidity. Some alternative products are inherently complex and require significant expertise to assess. If a foundation, an investment committee, or an adviser does not have that expertise, they may not be appropriate.

Liquidity is equally critical. Many alternative vehicles are intentionally structured to be illiquid. Much of the recent pressure we have seen in parts of the alternatives market stems from investors seeking liquidity from products that were not designed to provide it.

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RR: My first boss used to say there were three I's of Wall Street: innovation, imitation, and idiocy. David Swensen was early and aggressive in his use of alternatives at Yale, and that contributed to extraordinary long-term returns. But being early is very different from being late. In some areas of alternatives, I think we reached that third stage. There will always be good managers who know exactly what they are doing, but a great deal of money flowed into strategies where complexity, illiquidity, and investor expectations were not well aligned. Our preference is always to have more liquidity rather than less.

The broader lesson is that no single asset mix applies to every foundation. Each circumstance is individual. The portfolio should reflect the foundation's purpose, time horizon, liquidity needs, and spending obligations.

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WORKING WITH SCARBOROUGH

RR: You serve as Chair of the investment committee at Scarborough Health Network Foundation. That is an interesting example because there are significant inflows but also many claims on the capital. How do you think about the portfolio in that context?

JA: Scarborough Health Network Foundation is a unique situation. It has gained significant momentum over the last several years through the *Love, Scarborough* campaign.

From an investment perspective, a traditional 70/30, or 60/40, balanced portfolio is not automatically appropriate. There are government approvals, construction timelines, and different windows when capital will be needed. The foundation's investment policy is set up to have multiple portfolios; each aligned with a different time horizon. There is an endowment portfolio, which is longer term and more heavily weighted toward equities. There are also short, medium, and longer-term portfolios where the equities/fixed income split is aligned with the expected time horizon.

The goal is to ensure that money needed in the near term can be drawn on without exposing it to market risk. If markets decline 20% and the foundation has a large equity allocation, it could be forced to draw from a reduced capital base to fund committed projects. We want to avoid that.

GOVERNANCE

Audience: Richard, you have your own family foundation. How did you think about involving your children?

RR: Early on at Burgundy, I set up accounts for my children and funded them with a modest amount. What I did not fully appreciate at the time was that without proper documentation, those accounts became their property when they turned 18. That created a crossroads. I decided to sit each of them down and take them through the family's financial affairs.

As for the foundation, my children have not yet engaged deeply. We have occasional meetings, and I allocate each of them an amount they can direct to charities of their choice. They are well-intentioned and want to give back. But it raises a larger question: should the foundation be perpetual, or should it sunset?

At this point, I am leaning toward a sunset. I would not bet that view will hold for the next 10 years, but that is where I am today.

Audience: How do foundations think about succession and avoiding mission drift over time?

RR: Governance is one of the most important issues a foundation faces. A stable investment committee with experience and continuity can be extremely valuable. Not everyone who has worked in finance is well suited to govern a foundation portfolio.

There is also the question of mission drift. The founder or founding family may have particular charitable interests. Over time, future decision-makers may take the foundation in a direction that no longer reflects the original purpose. A sunset arrangement can help address that.

Canadian philanthropist Donald K. Johnson has a saying I have always liked: “He who gives while he lives always knows where it goes.” If you do not feel you have the right people to carry the foundation forward, then perhaps managing it beyond your lifetime is not the right objective. Sunsetting may be the better answer.

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A donor-advised fund can also be a very good route — it simplifies administration and avoids much of the infrastructure required to run a private foundation. We offer this option through the Burgundy Legacy Foundation, and it has been well received by clients who choose this path.

FINAL THOUGHTS

Audience: Any final thoughts on what makes foundation investing work well?

JA: The portfolio should not be managed in isolation. It needs to be built around the foundation’s purpose, payout needs, governance structure, and desired legacy. For some, that means a traditional balanced portfolio. For others, it means separate pools of capital aligned with different spending horizons. The goal is always to avoid being forced to draw from a depleted capital base during difficult markets, because that can set the mission back in ways that are hard to recover from.

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RR: Foundations are often designed with long time horizons, but long-term capital still requires near-term discipline. When done thoughtfully, the portfolio becomes more than an investment account. It becomes a tool for sustaining meaningful change. B

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A foundation’s portfolio should do more than generate returns. It should sustain its mission and giving for years to come. We would be happy to help you explore an investment approach built around your foundation’s purpose, priorities, and long-term needs.

ABOUT THE SPEAKERS

Richard Rooney, OOnt, CFA, FCPA

Richard Rooney is Co-Founder and former Chief Investment Officer of Burgundy and a recipient of the Order of Ontario. He currently serves on the Board of the Princess Margaret Cancer Foundation.

In 2016, Richard established his own family foundation. Richard, his wife Laura, and their two children are all directors. The foundation is invested in Burgundy's Balanced Foundation strategy, alongside a money market position that adjusts with their payout needs.

James Arnold, CFA

James Arnold is Portfolio Manager of Burgundy's Fixed Income, Credit, and Balanced strategies. He also Chairs the investment committee of the Scarborough Health Network Foundation.

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