sonen capital

The Upward Trend of Spending Down

Five foundational pillars to devise your foundation's spend down strategy

The Upward Trend of Spending Down

Five foundational pillars to consider when devising your foundation's spend down strategy

For many foundations, the traditional path has been to preserve capital in perpetuity, a steady rhythm of grants over decades. But today, with climate change accelerating, inequality deepening, and democratic values under strain, more foundation leaders are asking a different question:

> **What if we used every available resource now, when it's needed most?**

This is the promise of a spend down strategy, a deliberate choice to deploy a foundation's full corpus within a defined time horizon to create immediate, large-scale impact. It's a choice that requires clarity of vision, alignment with mission, and ambition to pursue. Recent high-profile commitments, such as the Gates Foundation's plan to distribute most of its roughly $200 billion spend over the next 20 years to African governments for the health and well-being of their citizens[1], underscore both the promise of spend down and the need for careful design and execution.

Throughout our 14 years of serving foundations of all sizes and structures, the Sonen team has helped several foundations navigate spend-down in practice. This approach is gaining traction. According to the National Center on Family Philanthropy, the share of foundations actively spending down has increased from 9% to 13%, with more than 28% considering the strategy.[2]

Whether your foundation is firmly committed, actively exploring, or simply open to the idea of spending down, the five foundational pillars in this guide will help you shape or refine your approach.

1 Who can Spend Down?

> Differentiate governance from intent: Clarify your foundation's legal framework for distributing assets.

Foundations, by definition, are not perpetual. Foundations are created to achieve the founders' specific vision and intent, which means perpetuity is a deliberate choice, not the default.

Perpetuity is a deliberate choice, not the default.

Statues allows flexibility in how foundations manage their assets. The Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted in nearly every state, requires boards to manage and spend funds prudently but does not require assets to be preserved forever unless the donor clearly intended it. Similarly, Section 4944 of the Internal Revenue Code, which addresses "jeopardizing investments," and related fiduciary standards, focus on careful stewardship and alignment with charitable purpose rather than perpetuity as a default.

Together, these frameworks establish that a foundation may operate indefinitely or choose a limited lifespan, provided donor intent and fiduciary duties are observed. The role of governance is to ensure prudent management and respect for intent, not to assume that perpetuity is mandatory. Foundations should consult qualified legal counsel when considering these options, as specific circumstances and state laws can affect how the rules apply.

2 Why Now?

> Your rationale will decide pace and process.

Approaching your spend down from a strategic, intentional mindset with clear motivation allows foundations to identify the best timeline, suitable funds recipients, and process to achieve their intended impact.

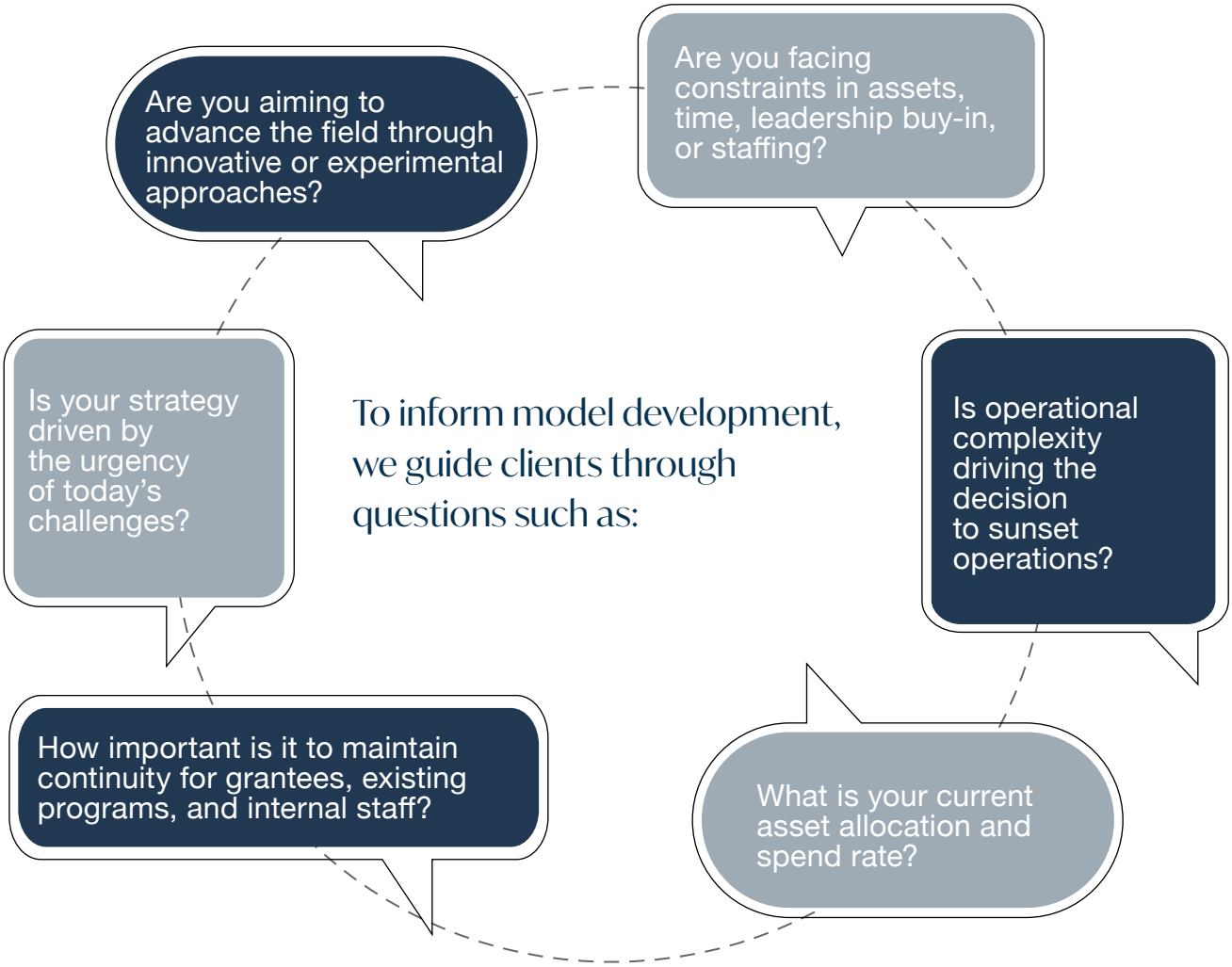
Establishing this rationale begins with honest conversations amongst stakeholders that address critical questions such as:

- Does the decision fully honor the vision of our founders and donors?
- Are we responding to urgent societal needs — and if so, how can we move swiftly and effectively?
- What capacity constraints must we anticipate and manage throughout this process?
- Are there emerging circumstances or generational shifts amongst the foundation's leadership influencing this decision?

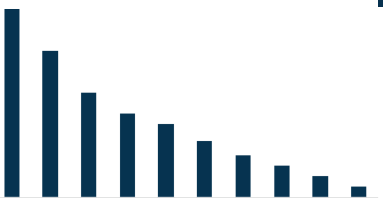
3 How Foundations Spend Down?

> Strategically tailoring your model ensures your operations align with your unique organization and goals.

While no two foundations will approach a spend down in exactly the same way, several common models offer helpful starting points to developing your bespoke plan. The most aligned approach, and its timeline, should be shaped by your mission, assets, team, and the urgency of your goals.

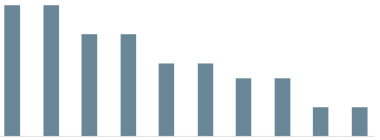


The following, most common models offer flexible frameworks from which we tailor our client's strategy:



Frontload

This model accelerates asset distribution early, then gradually tapers as staff, time, and capacity diminish. It enables foundations to realize impact sooner and adjust as operational demands shift.



Level-spend approach

By distributing equal amounts each year, this model prioritizes consistency and predictability, supporting grantees with steady funding as they transition to new sources of support.

Bell shape

Spending begins modestly, increases during a peak period, then tapers toward sunset. This structure offers flexibility to test and refine distribution strategies before accelerating spending and eventually winding down.

Choosing an approach on day one does not mean it must remain fixed. At Sonen, we have helped clients such as the Compton Foundation adapt mid-course to accelerate giving from a level-spend approach in response to shifting external dynamics. See "*A Spend Down Case Study: The Compton Foundation,*" at the end to learn more about their journey.

4 Implications to Portfolio Management and Asset Allocation

> All strategies require active management in response to changing market conditions.

A spend down approach affects both internal and external stakeholders. To meet commitments and steward resources responsibly, disciplined oversight and continuous performance monitoring is essential. Given a defined timeline, it becomes critical to track risk, return, liquidity, and impact at every stage.

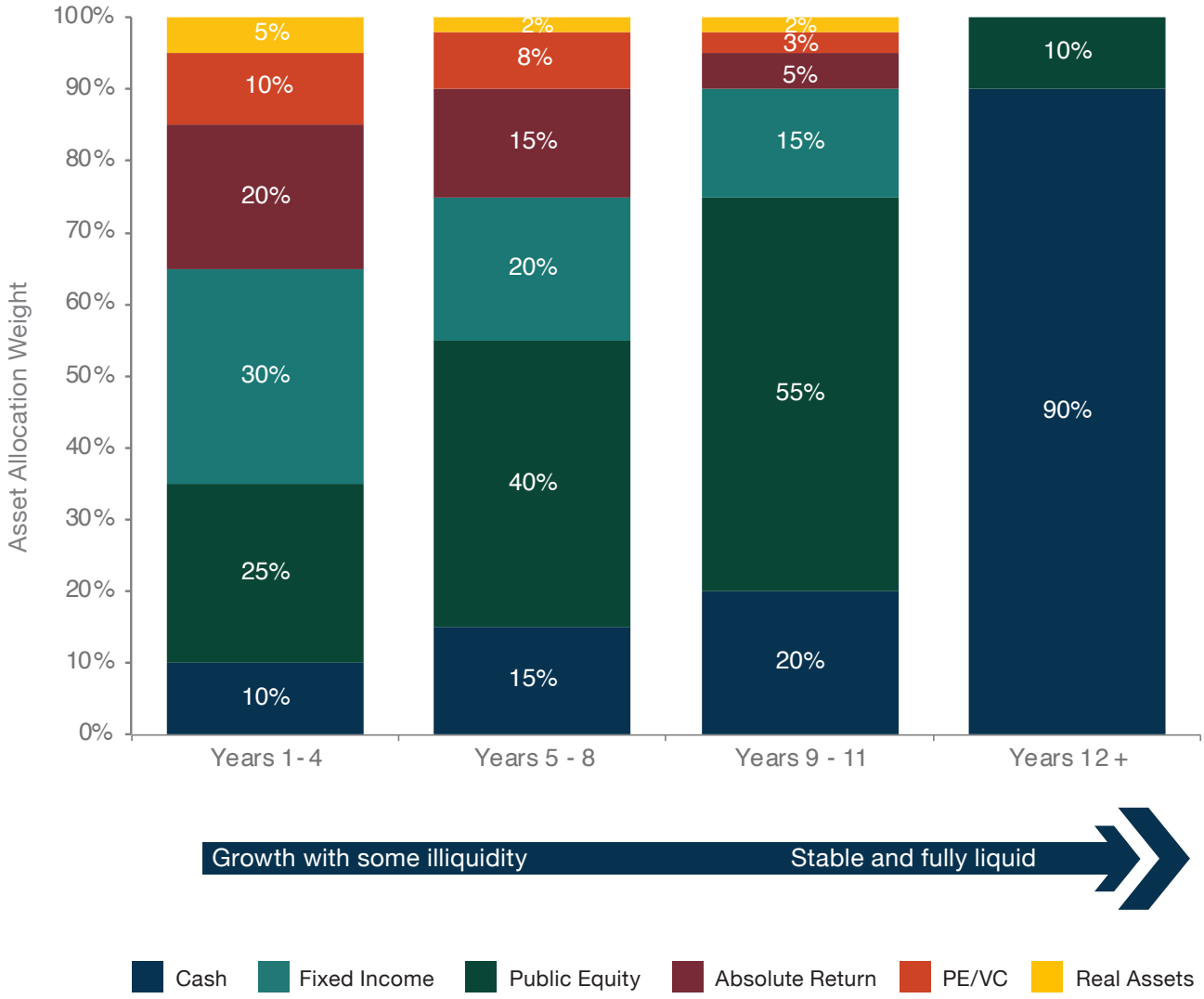
> To meet commitments and steward resources responsibly...continuous monitoring is essesntial.

Market volatility may necessitate adjustments to forecasts, cash flow models and asset allocation. Similarly, access to financing can help bridge unanticipated shortfalls in the operating budget. If the portfolio outperforms expectations, spending may need to accelerate to maximize the impact of higher returns.

The balance between liquid assets and higher-growth investments depends on both the chosen spend-down model and prevailing market dynamics. Considering each client's unique priorities and objectives, their spend down plan and timeline, a glide path should be developed showing how asset allocation targets need to evolve as the sunset date nears.

For example, a longer time horizon or a level-spend model allows for greater diversification across assets classes, including a mix of liquid and illiquid assets, and typically requires growth to keep pace with inflation. In contrast, a frontload model or a shorter timeline demands greater liquidity and stability upfront.

Asset Allocation Glide Path



Regardless of model type or duration of timeline, your portfolio must be built for precision, flexibility, and resilience to fulfill your mission and commitments through the final stages of the foundation's life.

5 Unlocking Creative Capital Deployment

> With fewer constraints on capital preservation, foundations can explore bold, unconventional tools to amplify long-term impact.

Spending down opens the door to innovative, high-impact capital strategies. Rather than simply liquidating assets or selling holdings at a discount on the secondary market, foundations can take a more intentional approach such as transferring investments to partners and grantees so that they can benefit from future returns. Tools like seed funding, loan loss reserves, and non-recourse loans offer catalytic opportunities to amplify impact and attract additional capital (see the "Multiplying Change in Inequitable Spaces" section of "*A Spend Down Case Study: The Compton Foundation*" on the next page).

This flexibility also appeals to many founders and trustees who value direct involvement in their foundation's philanthropic work. For those who choose to spend down, there is often a deep desire to ensure their intended mission is pursued with integrity and urgency.

As more foundations embrace defined time horizons, these creative approaches are beginning to influence the broader philanthropic landscape, setting a new precedent even for those committed to perpetuity.

At Sonen Capital, we are energized by the opportunity of partnering with foundations to realize the full spectrum of possibilities for their capital and shape a legacy defined by bold, purposeful action.

A Spend Down Case Study

How the Compton Foundation turned a spend down into meaningful change

In 2018, the Compton Foundation made the bold decision to deploy all of its resources in response to escalating crises – climate change, attacks on reproductive freedom, and anti-democratic political shifts. Rooted in a mission to advance peace, justice and a healthy environment, specifically through programming focused on racial and gender repair[3] the foundation saw urgency as a call to act boldly and with purpose.

Multiplying change in inequitable spaces

Freed from the restraints of limited giving, the Compton Foundation adopted a "mission-first" approach – enabling larger, longer-term grants with deeper impact. Working with the Sonen team, the foundation targeted the stark funding gap in underrepresented venture capital. In 2022, only 1% of Venture Capital (VC) funding went to Black-led startups and only 0.1% to black women founders.[4] The Compton Foundation leveraged their new flexibility to craft a $1 million non-recourse loan to a Black female fund-of-funds founder, empowering her to accelerate her team growth ahead of a fundraising cycle. This investment catalyzed a virtuous cycle: by equipping BIPOC fund managers to invest in underrepresented entrepreneurs, more racially and gender diverse teams are likely to be hired. A multiplier effect of positive racial impact across the VC ecosystem was made possible by Compton's spend down.

Giving when it's needed most

The Compton Foundation's decision to prioritize the present moment over perpetuity allowed for streamlined decision-making and quick response to urgent needs. In response to COVID-19, rising demands for racial justice, and the 2020 U.S. election, the Foundation increased their 2021 grantmaking by 35%, secured lines of credit to honor existing commitments, and accelerated new funding. Their plan to conclude operations in 2025 reflects a deliberate, values-aligned approach to sunset their work with intention and impact.

Where Purpose Meets Action

Deploying the entirety of a foundation's assets is not just a financial decision. It is a bold act of purpose that requires thoughtful, strategic consideration and execution. The five pillars we have explored — governance, motivation, spend-down models, investment management, and capital deployment—are not just tactical tools. They are a framework for decision-making that invites clarity, alignment, and ambition. Whether you choose to sunset your foundation or chart a different course, these principles help ensure that every choice is anchored in mission and impact.

This process can be an invitation to more deeply align with your mission, your team and your resources with the urgency of the moment. When designed and executed with intention, spend-down can ignite change across entire systems, breathe life into movements on the brink, and leave a legacy defined by action, not preservation.

The question is no longer whether your foundation can make a difference. It is what kind of difference do you want to make and when?

> What kind of **difference do you want to make, and when?**

Sources

1. Gates Foundation: “Bill Gates to Direct Majority of $200 Billion Pledge Toward Africa’s Future,” June 2, 2025
2. Johnson Center: “More Foundations Opt for Planned Lifespans and Spend-Down Strategies,” Elizabeth J. Dale, January 15, 2025
3. https://comptonfoundation.org/grantees/
4. McKinsey: “Underestimated start-up founders: The untapped opportunity,” Vasanth Ganesan et al., June 23, 2023.

Limited Purpose of the Report

This document is provided for informational and educational purposes only. Any reference to a particular investment or portfolio does not constitute a recommendation or an offer by Sonen Capital to buy, sell or hold such investment or security. This report does not constitute a solicitation or offer to provide any advice or services in any jurisdiction, including without limitation, any jurisdiction in which such a solicitation or offer is unlawful or to any person to whom it is unlawful. No Financial, Investment, Tax or Legal Advice: The information herein is not intended to provide, and should not be construed as, financial, investment, tax or legal advice. The information contained herein does not take into account the particular investment objectives or financial circumstances of any particular recipient, or whether or not any recommendation, investment, security or strategy described herein is suitable or appropriate for the reader’s investment objectives and financial situation. Recipients of this report are strongly urged to consult with their own advisers regarding any potential strategy, investment or transaction. Past performance is not an indicator of future results.

Assumptions

Certain analyses contained in this report are based on a number of assumptions which, if altered, could materially affect the conclusions reached in this report. Sonen Capital reserves the right to change any opinions expressed, or assumptions made, herein without notice.

Forward Looking Statements

Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. Recipients should not rely on this material in making any future investment decision. Certain information contained herein constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Copyright Notifications

Sonen Capital

Social & Environmental Impact Investment OCIO and Advisor

Sonen Capital is an independent impact investment advisory firm that works with families, foundations, endowments and institutional investors to create bespoke investment solutions that deliver competitive financial returns alongside meaningful and measurable social and environmental impact. With decades of impact investment experience, we partner with clients to develop and manage comprehensive and customized portfolios across all investment themes and asset classes.

Sonen was built on the conviction that investing to generate financial returns and lasting impact are not only compatible but also mutually reinforcing objectives. Headquartered in San Francisco, Sonen is majority employee-owned and a certified B Corp with a 151.6 B Impact Score.

For more information, please visit www.sonencapital.com.

Sonen Capital

101 Montgomery Street
Suite 2150
San Francisco, CA 94104
415.534.4444
info@sonencapital.com
www.sonencapital.com
LinkedIn: /Sonen-Capital