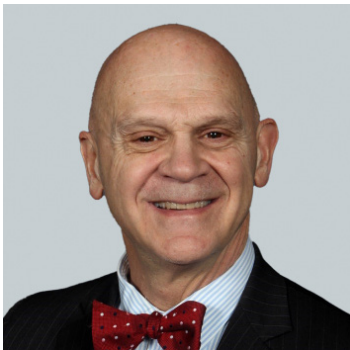


ENDOWMENTS AND FOUNDATIONS

Is Your Charity Ready for a Windfall?

Windfall policies are helping nonprofits build their quasi-endowment programs for the future



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EXECUTIVE SUMMARY

In August 2024, we provided a case study on the positive impact that the grantmaking of American novelist and philanthropist MacKenzie Scott has had on overall charitable giving. According to *Forbes*, Scott has an estimated net worth of over \$33 billion, as of December 2025. Yield Giving (yieldgiving.com), the philanthropic organization she founded, shares that she has given over \$26 billion in unrestricted grants to more than 2,700 nonprofit organizations.

However, that number is on the rise as it's reported that she has given another \$7.2 billion in 2025 charitable donations,¹ including gifts of \$700 million to historically Black colleges and universities,² according to *The New York Times*. Additionally, more windfalls could well be expected.

These unrestricted gifts have a significant impact on the nonprofits that receive them and can be life changing. Many of the nonprofits chosen by Scott received these large windfall funds for the first time and are exploring ways to maximize their impact, including using them to start or build quasi-endowment programs. Many are seeking best practices as they develop their game plans for the future of these funds, especially as federal budget cuts are impacting their budgets.

Scott's giving has reminded the nonprofit community of the potential of receiving windfalls, yet they have always been a part of the nonprofit landscape and come in many forms. They reiterate the importance of having a windfall policy in place.

In this report, we provide some background on Scott's philanthropy and highlight the importance of having a windfall policy in place to handle an unexpected, unrestricted gift, and other types of windfalls. We discuss some best practices including preparing a financial game plan that a nonprofit can follow. Key components of a plan can include:

- 1. Current assessment:** Take a financial inventory of both short-term and long-term needs.
- 2. Investment policies:** Build a customized investment policy statement (IPS) that can include policies for both short-term and long-term investing.
- 3. Governance program:** Set up policies and procedures for the endowment/quasi-endowment program.
- 4. Communications plan:** Develop a communications plan surrounding these new funds for the various stakeholders.
- 5. Strategic endowment plan (SEP):** Build an endowment growth plan for the future.



Photo: Elena Seibert

**Philanthropist
MacKenzie Scott**

Source of funds: Amazon holdings (4%)

Mission: Child development, maternal health, social justice, and other causes

Giving summary: Over \$26.3 billion to more than 2,700 nonprofits

Typical grant: \$1 million to \$15 million/Unrestricted

Website and data source: <https://yieldgiving.com/>



BACKGROUND ON MACKENZIE SCOTT’S GIVING

MacKenzie Scott's philanthropic program is nontraditional in that she has not formed a foundation to disperse the grants and has no formal application process. In December 2022, she launched Yield Giving, which highlights her grants and philanthropic mission, and describes the work she and her team do as "quiet research" to identify candidate organizations working to advance the opportunities of people in underserved communities. Once candidates are selected, they reach out to the organizations to tell them how they appreciate their efforts and would like to give them an immediate, unrestricted gift to continue that work.

In March 2023, Yield Giving announced a \$250 million "open call" initiative to the nonprofit community. The program was geared toward supporting community-focused organizations working with people and in places experiencing the greatest need. This was the first time she had solicited grants and was targeting organizations that had \$1 million to \$5 million in total revenue.

On March 19, 2024, Yield Giving announced that 361 organizations that met this criteria received \$640 million for their work in the United States.

As part of her nearly \$7.2 billion in 2025 donations, Scott made a second gift to the University of Maryland, Eastern Shore in the amount of \$38 million, which the school said would partially go toward strengthening their endowment fund as well as supporting academic research, scholarships, and other programs. This exemplifies the lessons that these and other repeat donees have learned about how to manage unrestricted windfall funds.

BEST PRACTICES FOR RECEIVING AN UNRESTRICTED GIFT: THE PRE-ENDOWMENT CHECKLIST

Understand the importance of a windfall policy

Besides the windfalls from Scott, windfalls come in many flavors. Windfalls are unrestricted types of gifts not directed by a donor. A windfall policy is one that a nonprofit sets up in advance to help them effectively handle these unexpected, large unrestricted gifts that come into the organization. Our experience working with nonprofits shows that windfalls come in a variety of ways. For example, windfalls can be large unexpected gifts but can also take the form of operating surpluses, unrestricted planned gifts, and sales of assets. See Figure 1 for an overview of different windfall scenarios.

Figure 1
At a glance: The spectrum of windfall opportunities

Type of windfall	Examples	How windfalls were treated
Operating surplus	A college was able to realize a large annual surplus based on positive revenues	A portion of the funds was invested in the quasi-endowment
Sale of real estate	A social service nonprofit sold its headquarters and received a large inflow	Most of the funds were invested in a quasi-endowment
Large unexpected gift	An affordable housing nonprofit received a significant gift from MacKenzie Scott	A portion of the funds was invested in a quasi-endowment
Large unexpected foundation or government grant	A foundation provided an unrestricted grant to a local nonprofit	The funds were used to start a quasi-endowment
Sale of air rights	A religious organization sold its air rights to a developer and received a large windfall	The funds were invested in two portfolios that included a short-term fund and a longer-term fund
Large donor advised fund gift	A nonprofit received a large donor advised fund (DAF) gift from a donor	The DAF was invested in the quasi-endowment
Unrestricted planned gift	A nonprofit focused on classical music received an unrestricted bequest from a donor	The nonprofit invested all of the funds in a quasi-endowment
Sale of a nonprofit division	A nonprofit hospital was sold to a for profit hospital	A health care community foundation fund was formed

Source: Wilmington Trust Endowments and Foundations team.

The windfall policy is important because it helps the nonprofit's leadership have a game plan in advance for unrestricted gifts. For example, it allows them to build a long-term quasi-endowment versus just automatically spending the funds through operations. Sometimes there is a threshold amount of what determines a windfall gift. It is often a policy that is pre-approved by the board. Some windfall policies are very basic and discuss only unexpected gifts, while others provide information on different types of scenarios. See Figure 2 for more details on best practices and definitions of windfall policies.

Figure 2

Windfall policy: Best practices and definitions

<p>What are some examples of the sources of a windfall?</p>	<p>Sources can include nonprofit operating surpluses, a large DAF donation, a large unrestricted annual gift, an unrestricted planned gift, or the sale of property.</p>
<p>Why is the windfall policy becoming a best practice?</p>	<p>It is becoming a best practice as a result of the increase in large unrestricted gifts. As discussed, over the past few years MacKenzie Scott has been a key grantor of large unrestricted gifts that have benefited many nonprofits, a number of which did not have a windfall policy in place. There has also been greater interest in planned giving strategies through the "great transfer of wealth," along with a need to build reserve funds and quasi-endowments; the windfall policy is a tool to help build these funds. We have also observed how many fast-growing endowment funds have developed windfall policies.</p>
<p>Where is the windfall policy included?</p>	<p>The windfall policy can be a separate financial policy. It can also be included in the IPS as a section called Windfall Policy or in the gift acceptance policy.</p>
<p>What are some examples of windfall policy summaries?</p>	<ol style="list-style-type: none"> 1. "All unrestricted contributions of \$25,000 or more from trusts and estates are allocated to the endowment." 2. "Any planned giving over \$25,000 goes into the endowment." 3. "We build a quasi-endowment with all unrestricted bequests." <p>Source: Nonprofit websites and discussions with executives.</p>
<p>Example of a windfall, definition A:</p>	<p>Definition by Suivera</p> <p>Windfall: An unrestricted, unbudgeted bequest or unrestricted major gift valued at \$250,000 or more.</p> <p>Bequest: Any gift, intended to take effect at or after death, by a donor through a will, a trust, an IRA, pension plan or similar benefit plan, an annuity or insurance policy of any type, any type of survivorship account, or similar wealth transfer document or plan.</p> <p>Major gift: An unrestricted gift of \$250,000 or more made in the form of cash, pledges, securities, partnership interests, commercial property (contracts, promissory notes, mortgages, deeds of trust), insurance and benefits (life insurance, annuities, IRAs, and pension benefits), real property and tangible personal property.</p> <p>Website 2025: Suivera.org</p>
<p>Example of a windfall, definition B:</p>	<p>Definition by Coconino Community College Foundation</p> <p>Windfall: For these purposes, a "windfall" will be defined as an unrestricted, unbudgeted gift of any amount greater than "the threshold amount" (defined below). A "bequest" will be defined as any gift, intended to take effect at or after death, by a donor, through a will, a trust, an IRA, pension plan or similar benefit plan, an annuity or insurance policy of any type, any type of survivorship account, or similar wealth transfer document or plan.</p> <p>Threshold amount: The threshold amount for all unrestricted gifts and bequests, as defined above, shall be \$50,000. Generally, any unrestricted gift or bequest below the threshold amount may be used as needed to meet the needs of the Foundation as determined and approved by the Executive Director through the normal budgeting process.</p> <p>Website 2025: Coconino.edu</p>

Windfall gifts in action

Windfall asset: Operating surpluses

"We have prudently managed our windfall funds over the years, which have come in the form of operating surpluses, unrestricted planned gifts, and property sales—allowing us to grow our quasi-endowment. Having a flexible windfall policy has been a best practice, as it helps to have an endowment growth plan in advance."

— Steve Rich, president of Fisher College, Boston

Windfall asset: Building sale

"We had a significant windfall in 2014 when we sold our building on 23rd Street for \$9 million. Our board, in turn, built a quasi-endowment, which provides a key annual funding source for our mission. We also have a flexible internal policy, where any future unrestricted planned gifts can be allocated to the quasi-endowment."

—Malachy Fallon, executive director at Xavier Society for the Blind, New York City

Windfall asset: Sale of air rights

"Over the past few years, we sold some of our air rights above the building and developed a windfall policy, allowing us to invest a portion for the future as well as in a new church on 57th Street, which is expected to be completed in 2026."

— Todd Williams, elder and former chairman, Calvary Baptist Church, New York City

Windfall asset: Scott grant

"We were fortunate to receive a \$40 million grant from Yield Giving in 2024. This transformative support strengthens our mission during government cutbacks, giving us flexibility to build capacity, innovate to respond to urgent community needs, and plan for long-term sustainability."

—Deborah De Santis, president and CEO, Corporation for Supportive Housing

Managing windfalls: Assess short- and long-term needs

It's very exciting to get an unexpected grant. Before making any decisions, we recommend that nonprofits take a step back and make an assessment of their short- and long-term needs.

The checklist below is a starting place to determine what these short- and long-term needs may entail. Often, nonprofits realize that they need to spend some of these funds for immediate needs in the short term. At the same time, they may have an objective to build a quasi-endowment, or an unrestricted endowment. During the pandemic, many nonprofits realized that they wanted to either start or grow their endowment programs.

Pre-endowment checklist:

It's important to understand your current financial and mission-related needs before deciding how to allocate grant funds. Think about your organization and whether you should:

- Use a portion to expand current programs and mission?
- Address key capital improvements that are needed today?
- Focus on plans for future staffing?
- Give some of it away?
- Put most of it in savings for a "rainy day" fund?
- Invest in a quasi-endowment to grow more income?

Opportunity to build an endowment/quasi-endowment program

The building and expanding of the endowment programs are important for all nonprofits to consider, especially in these changing times. As discussed earlier, nonprofits should begin by taking an inventory of their short- and long-term needs as they decide how to allocate their funds for the future.

Endowments can take many forms, such as a restricted endowment or quasi-endowment. Restricted endowments are donor-restricted funds and need to be carefully administered and monitored, while quasi-endowments are unrestricted funds and overseen by the board, for donor intent. Both restricted endowments and quasi-endowments are often managed together and have the same mission, i.e., have a long-term portfolio that provides an income stream (typically 4%–5%) and a cushion during stressful times. Many nonprofits have both restricted and unrestricted funds.

David M. Rottkamp, CPA, partner and Nonprofit Practice leader at Grassi & Co. commented on endowment governance on December 18, 2025:

"It is especially important for all nonprofits to have a strong overall governance structure and process, which includes its endowment activities. Nonprofits should create, approve, and adhere to specific policies and procedures that relate to its donor-endowment and quasi-endowment programs. Board members must always remember they are fiduciaries, even when they delegate endowment management to various subcommittees and/or outside third parties."

THE GOVERNANCE STRUCTURE FOR THE ENDOWMENT PROGRAM

When nonprofits set up their endowments for the first time, they should not "set it and forget it." It is important to set up governance policies and procedures that allow the nonprofit to manage and monitor their endowment and quasi-endowment programs to make sure they are invested responsibly and legally. If they are starting an endowment program, it is imperative to build these governance policies and procedures at the onset. If they already have an endowment program, it is a chance to review and refine the current governance policies and processes.

The board of trustees has the overall responsibility of the endowment program and oversees the financial operations of the organization. Usually, the board delegates the finance or investment committee (IC) to implement the day-to-day review of the endowment program. These committees in turn often engage third-party advisors and custodians to assist in the endowment's management. Some nonprofits have developed a written charter for the IC that outlines the details of the committee.

Having a fiduciary mindset

A key step to building a governance process is to understand the role of a fiduciary. In its publication, *Endowment Management for Higher Education*, the Association of Governing Boards of Universities and Colleges (AGB) talks about the role of the fiduciary, which can be applied to many types of nonprofits. A fiduciary can be defined as a person acting in a position of trust on behalf of the organization. Fiduciaries include boards of trustees, investment and finance committees, and professional investment staff at the nonprofit. Their responsibilities have evolved over time with the various regulations for different types of fiduciaries. Fiduciaries can delegate the management of the endowment to an external party but cannot delegate the internal responsibility.³

The three main responsibilities of a fiduciary according to AGB are as follows:

- 1. Duty of Care:** This requires the IC is required to exercise reasonable care as they make investment decisions related to the portfolio. This is usually denoted as the requirement to provide the level of care that an ordinary prudent person would exercise in a similar position under the same circumstance (known as the Prudent Person Rule).
- 2. Duty of Loyalty:** This is related to a board member's self-interest and potential conflict this can create for the nonprofit. The board member must put the nonprofit first and act in the best interest of the organization.
- 3. Duty of Obedience:** A board member has the obligation to make decisions that uphold the mission of the nonprofit. It is crucial to make sure the endowment is operating in compliance with all laws and regulations and that any restricted donor gifts are being handled correctly. It is also important for boards to be familiar with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was approved in 2006 by the Uniform Law Commission and relates to institutional funds and donor-restricted endowments. Most states have adopted their own versions.

Figure 3 provides some deeper insights and additional information on each of these guidelines as well as questions to consider related to these concepts.

Figure 3

The three main fiduciary responsibilities

Fiduciary responsibility	Summary	Specific questions committee members may ask
#1: Duty of Care	This responsibility requires the IC to exercise reasonable care as they make investment decisions related to the portfolio. It relates to the level of information, competence, and judgment that is required of a board member. This is known as the Prudent Person Rule.	<ul style="list-style-type: none"> • Is there a written charter for the IC? • Is there a chair of the IC, and is that chair effective? • Are there, at a minimum, quarterly IC meetings with the investment advisor? • Do the trustees attend the IC meetings, and is there an agenda? • Do the trustees understand the mission of the funds? • Does the IC have the necessary investment experience and knowledge? • Is there a summary report of all the investments for each IC meeting? • Do IC members read the materials before the meeting, and come prepared? • Do members know the short-term and long-term needs of the organization? • Does the IC know the source of the endowment funds? • Is there an understanding of endowment versus quasi-endowment? • Is there a summary of the portfolio and the quarterly performance versus a benchmark? • Do IC members ask key questions? • Are all the different investment pools reviewed and monitored by the IC? • Is there a current IPS, and is it reviewed annually? • Does it include the strategic and tactical asset allocation targets? • Is there a portfolio benchmark? • Are there risk measures? • Does the committee do a stress test on the portfolio? • Is there a review of the spending rate and is it realistic? • Is there an ongoing endowment education program for IC members? • Is there an orientation program for new IC members? • Does the Gift Acceptance Policy include a Windfall Policy?
#2: Duty of Loyalty	This is related to a board member's self-interest and potential conflict this can create for the nonprofit.	<ul style="list-style-type: none"> • Do board members and committee members receive the conflict-of-interest policy? • Is this conflict-of-interest policy's annual disclosure signed annually? • Is there a policy that allows trustees to do business with the nonprofit? • Does the organization have a policy that would strive to avoid the appearance of conflict? • Does the trustee need to recuse himself/herself from the decision and meetings?
#3: Duty of Obedience	A board member has the obligation to make decisions that uphold the mission of the nonprofit. It is crucial to make sure the endowment is operating in compliance with any laws and regulations and that any restricted donor gifts are being handled correctly. It is also important for boards to be familiar with UPMIFA, which was enacted in 2006 and relates to institutional funds and donor-restricted endowments.	<ul style="list-style-type: none"> • Is the board familiar with UPMIFA and other laws? • Are the trustees aware if any of the investments are used as collateral for financing? • Is there a named endowment fund policy? • Are UPMIFA guidelines mentioned in the IPS? • Are the board and staff educated on UPMIFA? • Does the organization consult with legal experts to review its compliance with UPMIFA? • Does the nonprofit maintain donor files? • Who confirms that the endowment funds are following the specific regulations? • Does the board review the overall fee structure, which includes direct advisory fees and implementation fees related to the specific managers? • Does the trustee keep certain types of information confidential? • Are the funds aligned with the values of the nonprofit? • Does the nonprofit maintain a file of key records and committee minutes?



"The two principles of diversifying investments for both growth and income, and deploying appreciated assets for use by any endowment fund have "the twin lodestars of asset management for endowments since UMIFA became the law of the land in nearly all U.S. jurisdictions."

—NACUBO

IT IS IMPORTANT TO REVIEW THE ENDOWMENT REGULATIONS

There are also state guidelines related to endowments that the IC members should be aware of, such as UPMIFA and the Uniform Management of Institutional Funds Act (UMIFA). UPMIFA replaced UMIFA, which had been the law for about 35 years.

According to the National Association of College and University Business Officers (NACUBO):

"UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as 'endowments' to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for purposes of any endowment fund held by a charitable institution. These two principles have been the twin lodestars of asset management for endowments since UMIFA became the law of the land in nearly all U.S. jurisdictions. UPMIFA continues these fundamental principles as a needed upgrade of UMIFA."⁴

There are nuances to UPMIFA and trustees should know some of the key requirements. In 2006, UPMIFA was approved by the Uniform Law Commission and was enacted by 49 states (except Pennsylvania in addition to Puerto Rico) over the next few years; each state has its own version.

AGB commented on these key regulations:

"In 2006, UMIFA (Uniform Management of Institutional Funds Act) was replaced with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Among other changes, UPMIFA refined and strengthened the standard of care applicable to fiduciaries, requiring them to act 'with the care an ordinary prudent person in a like position would exercise under similar circumstances,' and to consider specific factors—such as general economic conditions, expected tax consequences of an investment, the role that each investment plays within the overall investment portfolio, the other resources of the institution, and the needs of the institution—in order to make the distributions and to preserve capital. In addition, whereas under UMIFA, an 'underwater endowment fund' (i.e., an endowment whose market value is less than its historic dollar value) could only distribute current income (e.g., dividends and interest), UPMIFA permits an endowment to distribute the amount that its fiduciaries deem prudent after considering donor intent, the purposes of the endowment, and other enumerated factors. UPMIFA has been adopted by 49 states and the District of Columbia. The requirements of a given state's UPMIFA statute should be understood by the governing board and IC members as they make important investment and spending decisions."³



Carsten Sierck, an endowment advisor who has guided many organizations on their endowment structures, commented on December 17, 2025:

"All investment committees need to read up on UPMIFA—its investment provisions apply to all institutional funds, not just permanent endowment funds."

Trustees should review the basics of UPMIFA

We have focused on the New York version of UPMIFA, the New York Prudent Management of Institutional Funds Act (NYPMIFA), to illustrate key points trustees should be familiar with. Passed in 2010, here are some observations of the New York Act:

1. According to the Attorney General's Office of New York State's website (ag.ny.gov), NYPMIFA provides guidance and authority to nonprofits (public charities and private foundations) concerning the management of nonprofit institutional funds and the spending on endowment funds (enacted in 2010). Fiduciaries are empowered to delegate investment management functions to outside parties.
2. The act applies to all institutional funds, including spending guidelines on donor restricted endowments.
3. Portfolio diversification: Fiduciaries are required to make sure their portfolios are diversified. Fiduciaries are required to focus on the risk/return of the entire portfolio and not the details of an individual investment and follow total return investing.
4. Trustees are now able to spend below the historic dollar value of the endowment fund, so there is more flexibility for spending. The spending policy should be documented and reviewed annually and should be part of the part of the IPS.
5. An IPS is required by all nonprofits in New York for all nonprofit assets, which complies with the law. The IPS should be reviewed annually and should include investment and spending policies. NYPMIFA requires the consideration of Eight specific investment factors for all nonprofit investment portfolios, supporting the standard of prudence.
6. Delegation of investment management: A nonprofit may delegate the management of the funds to a third party but must have a prudent process in place for the selection and monitoring of the external party.
7. Transparency: Nonprofits are required to prepare annual financial reports and have them available for the regulatory agencies if they are requested. The investment management costs must be monitored and be reasonable.
8. Boards and investment committees should be educated on the nuances of NYPMIFA and may consider having an experienced legal counsel review their compliance.
9. New Endowment Fund Solicitation Disclosure: Nonprofits soliciting new endowment gifts must provide a new disclosure in their donor materials.

David Samuel, a partner at the law firm of Perlman & Perlman in New York City, commented on December 18, 2025:

"Most states have adopted UPMIFA and some have added their own requirements to the law. For example, in New York, NYPMIFA requires that each nonprofit has an updated investment policy statement. Board members should be aware of their respective state guidelines."

DRILLING DOWN ON GOVERNANCE STRUCTURE

It is also important to have an endowment governance structure that incorporates the responsibilities of the various types of decision makers and how they relate to each other. Endowment stakeholders include investment staff, trustees, investment committee members, investment advisors, and custodians. Some nonprofits develop a "governance policy statement" to document the structure. Taking a closer look at the day to day, the CFA® Institute commented:

"The framework that connects these decision makers is the governance structure. A strong, well-articulated governance structure provides the mechanism for decision makers to function together effectively. A weak, ill-defined governance structure breeds confusion and acrimony."⁵

The CFA Institute talks about basics of an investment governance structure and views it as a three-legged stool in its *Primer for Investment Trustees*:

1. Roles and Responsibilities:

There are a number of stakeholders related to the endowment investment process including trustees, internal investment staff, investment advisors/consultants, and custodians. There are also outside parties including legal counsel and auditing firms. It is important that each of these parties understands their roles and how they work together.

2. Lines of Authority:

It is crucial that lines of authority be clearly documented among all parties, specifically:

- a) the lines of authority must be clearly specified
- b) the supervising decision makers must scrupulously refrain from reaching down to the reporting decision makers and attempting to control decisions. Furthermore, the reporting decision makers need to feel empowered to push back and remind the supervising decision makers in those instances when the line between explicit and implicit authority becomes blurred.

3. Accountability standards:

It is important to determine who is responsible for what and how success is defined. Having both qualitative (how the team and chief investment officer work together) and quantitative (the results versus the benchmark) reviews over a market cycle is necessary.

THE ENDOWMENT INVESTMENT PROCESS

As nonprofits start to build and expand their endowment programs as a result of these new donations, they will need to develop an investment process. A key starting place is to determine the breakdown between short-term and long-term funds. Investing the long-term funds will require one to develop an endowment mindset and this requires an understanding that investing is like running a sprint when you start a marathon. You need to maintain a long-term focus. And, when investing in the capital markets, always be ready for some market surprises. Even when the trend of the stock market is positive based on the economic fundamentals, it can still be volatile during the year. Finally, it is crucial to have an investment game plan which is in the form of an IPS. This is the foundation of the investment program.

An article in *Fundfire* commented on OCIOs:

"OCIOs are finding more opportunities to manage the money for smaller foundations and endowments that have seen their assets skyrocket after receiving transformational gifts.

"An uptick in donations from ultra-high-net-worth individuals, such as author and philanthropist MacKenzie Scott, has changed the investment strategies these institutions can gain access to and created a need for advice on managing a massive cash donation."⁶

* Alternative assets, such as strategies that invest in private funds or hedge funds, can present greater risk and are not suitable for all investors. These funds are available only to certain investors who meet the specific income, experience, and investable assets thresholds set forth by the U.S. Securities and Exchange Commission's definition of accredited investors and/or qualified purchasers as necessary.

The IPS should cover, among other things, a discussion of investment suitability, diversification, rebalancing, and fees. A key part of this plan is a confirmation of the goals of the funds, which helps to structure the investment program and process.

One way to start the process is to review the following three steps:

- **Needs assessment:** Start by determining the goals and objectives of these funds, the time horizon, and the organization's risk profile.
- **Asset allocation determination:** The asset allocation step is key and helps us to determine the target asset allocation among stocks, bonds, and cash. How is the investment pie divided?
- **Portfolio construction:** This is a key step and includes the investing of the funds, the selection of the managers, and an ongoing review process.

An important trend in the endowment world over the past few years is the utilization of the OCIO model (Outsourced Chief Investment Officer). This model is a full-service approach where the nonprofit works with an outside OCIO manager to oversee the entire process, which can include investment consulting, investment management, custody, access to private markets,* governance support, and philanthropic education and research. The model is becoming more popular and a number of nonprofits that have received Scott grants are utilizing this option.

While some of these new funds can be unrestricted, some other donors may ask for their funds to be managed separately so there needs to be a process on how these individual funds can be administered.

A CLOSER LOOK AT THE IC MEETING PROCESS

It is also important to develop an ongoing IC meeting process. One way to view the process is to break it down into three parts: the pre-call prep, the meeting, and the post-call recap. Each meeting is important and is detailed below.

IC pre-call preparation:

- Setting up a quarterly call
- Making sure attendees can join
- Confirming the meeting
- Recap of prior meeting
- Preparing an agenda
- Materials: Full portfolio summary; capital markets update materials; IPS; summary of fees including investment advisory, product fees, custodial fees

The IC meeting:

- Setting up the time and venue
- Attendees: IC and chief financial officer (CFO)
- Agenda: Does every member participate and have a role?
- Recap of notes from the prior meeting and follow-up items
- Bring questions to the discussion
- Target asset allocation
- Performance trend

- CFO update: Changes at nonprofit?
- CFO: Liquidity needs?
- Socially responsible investing?
- Investment trends
- Reviewing the fee schedule and all manager and custodial fees
- Potential questions:
 - Are there any trends that are impacting the sector?
 - Should we consider changing our strategic asset allocation?
 - Are we looking to replace any managers?
- Confirmation of the investment and implementation fees

IC post call:

- Documentation: Call report and notes
- Follow-up items
- Board approval for any IPS changes
- Setting agenda and date for next meeting



Along with the communication strategy, the nonprofit will need to review its level of transparency and the different ways it can provide financial information. We studied this concept in our research report on Catholic Foundations, which talked about how new foundations were reviewing different ways to disclose their financial information on their websites through donor reports, posting of their IRS Form 990, and audited financial statements.

COMMUNICATING WITH STAKEHOLDERS ON NEW FUNDS

One observation on the data provided on the Yield Giving site—which is often true for nonprofit grantees in general—is that a number of them have not announced the details of their gifts. The decision to announce is an interesting dilemma for a nonprofit. On the one hand, the announcement of the gift is a positive for the nonprofit since the nonprofit gets to disclose to its stakeholders about this very successful gift. On the other hand, the gift can impact the way their donors see the nonprofit and it could impact future donations. There is a great need for a nonprofit to develop a communications policy.

Interestingly, *The Chronicle of Philanthropy* researched this topic and found that announcing has not been an issue in many cases. One nonprofit commented:

“For us, it was in the best interest to announce this donation and to share the victory with our peers in the movement,” said Sean McCarthy, who manages donor relations at the National Housing Trust. *The affordable-housing group landed a \$10 million gift from Ms. Scott, its largest donation to date. “We view this gift as a vote of confidence. Still,”* he said, *“the decision to announce the contribution publicly was not made lightly. There were pros and cons to consider.”*⁷

McCarthy said that he and other trust officials wanted to announce the gift to show the public and other donors that a high-profile philanthropist like Scott had faith in the trust’s mission and its ability to manage a gift of that size.

They discussed the potential downsides to publicizing it, too. Chief among them: concerns that other donors would think Scott’s gift provided the trust with all it needed to carry out its mission, which McCarthy said was decidedly not the case.⁷

At the same time, some nonprofits have not disclosed their gifts. One nonprofit we spoke with in Florida received a donation from Scott and was considering their communications plan. They commented that one annual foundation sponsor was so focused on these new monies that they wondered about the future support from this foundation.

There have also been concerns in the philanthropic arena that some nonprofits would not be able to handle these unexpected, unrestricted donations. According to a three-year study by the Center for Effective Philanthropy, charities have been able to plan for these new funds and expand their programs. *The Chronicle* noted: “Nonprofits that received large, unrestricted donations from Scott have experienced few challenges or unintended negative consequences, despite grantmakers’ concerns that the gifts might cause financial and operational problems in the near or long term.”⁸

However, there are exceptions. *The Chronicle* reported that Philadelphia-based nonprofit Benefits Data Trust had received a \$20 million Scott grant in 2022, which initially helped them to expand their services and internal AI teams very quickly. Then in June 2024 they suddenly announced they were closing in August. *The Chronicle* commented that this may have been the result of financial challenges as former staff said that they “had struggled to juggle priorities and sustain its mega-donor fueled growth.”⁹

THE SEP: A GROWTH PLAN FOR THE FUTURE

As grantees of Scott as well as other donors start to build out their investment programs, many will want to continue the momentum and grow their endowment/quasi-endowment plans for the future. Many nonprofits have seen the importance of having an endowment program or reserve fund during these challenging times of budget cuts and uncertainty.

One key observation from our work with nonprofits and their endowments is the importance of building a SEP. As eloquently framed by Ellie Berkowitz-Handler, executive director of Congregation Tikvat Jacob Beth Torah in Manhattan Beach, California:

"I am acutely aware of the fluctuating trends affecting faith-based organizations. A recent article from the United Conservative Synagogues of America stated that 77% of all synagogues use endowments as a means of ensuring long-term sustainability. For those that have not yet created an endowment, the task can seem daunting. A SEP provides a manageable roadmap toward that end, and beyond. When working with lay leadership who have differing opinions on endowment development, I've found a SEP lays out the vision, goals, and timeline that help ensure consistent decision making and alignment among all parties."

"It also clarifies fundraising efforts, using peer reviews to best establish goals that inspire donor confidence, while building an endowment that will support the organization in perpetuity. For me, the SEP is the means of unifying diverse voices around a single, shared direction—which often proves half the battle in moving an organization forward."

The SEP memorializes the history of the current program and the ways to grow the endowment through both fundraising and investment gains. It is important to document these strategies into a SEP and monitor its progress. According to Pete Waldron, president of the Catholic Foundation of Eastern Pennsylvania, "The fastest way to grow an endowment fund is by adding new money and leveraging it against market performance. With a SEP in place, our fundraising and investment objectives intersect and allow us to stay focused on achieving better results for our partner parishes, schools, and ministries. Our SEP includes clear benchmarks and KPIs to monitor our progress."

A closer look at Waldron's organization shows the proof is in the proverbial pudding. Under his leadership and with the implementation of a SEP, the foundation has experienced 44% annualized growth, compounding assets more than 18-fold—with AUM swelling from \$3.3 million to \$60 million, as well as significant bumps in the number of partners (16 to 127) and endowment funds (14 to 164). See Figure 4 for some SEP-creation starting points.

Extremely successful nonprofits grow themselves most effectively by focusing on both their fundraising and investing strategies, hand in hand. This is crucial because, over the next decade, future portfolio returns are anticipated to be lower than historical returns, which can limit the growth of the investments from an internal performance perspective. It will be crucial to look externally to grow the endowment through new gifts. Thus, the fundraising side of the investment program can have a great impact for endowments/foundations as a key way to grow. For example, planned giving strategies are a very important way to increase endowment/foundation funds.

Figure 4

SEPs for endowments: Questions to ask for strategic planning

History of the endowment

- Why and how was the endowment started?
- What is the objective of the endowment?
- What is the asset level goal of the endowment?
- Does the endowment have a Windfall Policy?

Increasing the endowment's assets through fundraising

- What are the different ways to grow the endowment's assets?
- How can fundraising benefit an endowment?
- How do peer organizations build their endowments?
- Is there a Windfall Policy for all types of funds?

Increasing the endowment's assets through investment management

- What are the growth expectations of the endowment?
- Are these realistic given current markets?
- Has an investment stress test been performed?
- Are the investments on track?
- Does the current asset allocation make sense?

Endowment game plan

- What type of endowment disclosure:
 - Is there a named endowment process?
- Is the advisor providing valued-added services?
- Is an annual peer analysis conducted to compare the endowment with other similar organizations?
- Is there an investment RFP?
- What are the endowment trends being followed?

FINAL COMMENTS

While receiving a windfall is a tremendous gift for a nonprofit, it also creates a need to step back and take a financial inventory. There are often short-term financial needs to address immediately, but also some longer-term needs in the form of an endowment fund/quasi-endowment fund. And, if a windfall policy is not already in place, it is crucial to develop one.

Finally, as nonprofits start to build their current endowments and quasi-endowment plans, it is a great time to peek into the future. Many nonprofits see the benefits of having a new endowment and also setting a future growth goal. We discussed the benefits of building a SEP, which memorializes the nonprofit's growth plan for the future, and looks at both investment performance and fundraising as possible ways to accomplish this. As part of these efforts, it is crucial for the nonprofit to be educated on the basics of starting an endowment program. In light of these important trends, we have developed an educational module called *How to Start an Endowment Fund*, which has been helpful to our client discussions. Board education on endowments and peer reviews will continue to be important ingredients for a successful long-term program.

Bringing it all together: From the windfall policy to building out an endowment management process to establishing a growth plan for the future

1. Work with an experienced endowment and foundation advisor that offers a full-service, value-added approach, and has experience with emerging and established endowment programs.
2. Take a financial inventory of both short-term and long-term needs.
3. Set up a custom windfall policy, as part of gift acceptance policy.
4. Have a well-thought-out governance structure and process.
5. Develop a communication and reporting strategy for donors.
6. Develop a SEP.

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