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# Endowment and Foundation Update

## Key 2022 trends for the endowment, foundation, and nonprofit marketplace


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**The following article summarizes key trends we're tracking as we continue to focus on the endowment, foundation, and nonprofit marketplace. The Wilmington Trust Endowments and Foundations team categorized them into investment and fundraising trends, since these are the two key ways to grow endowment funds. With the pandemic essentially behind us, many nonprofits are now assessing their endowment strategies, fundraising goals, and strategic plans in light of recent geopolitical turmoil.**

## INVESTMENT-RELATED TRENDS

### Interest rates, surging inflation, and the Russia-Ukraine situation are leading many nonprofits to assess their endowment strategies

Surging inflation, rising interest rates, and the Russia-Ukraine situation are leading to greater uncertainty on the U.S. economy and capital markets. While the stock market finished strong in 2021, nonprofit boards are reviewing their endowment strategies and strategic plans. Many boards, concerned about the recent stock market volatility, are reassessing their asset allocations and liquidity positions. Investment committees are also speaking regularly with their investment advisors about their risk levels and applying stress testing to their portfolios.

Boards also continue to monitor and refine their investment policy statements, which include strategic and tactical asset allocation targets and endowment spending rates, as market returns are expected to be lower over the next decade. Some nonprofits have assessed their spending levels, which has led to an increase in some cases. In these current times, endowments and foundations are also asking about the overall value-add their managers bring to the relationship as they seek to grow their endowments in other ways, such as fundraising insights and peer reviews.

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## At a glance:

- **Surging inflation and geopolitical tensions are leading to greater uncertainty on the U.S. economy and capital markets**
- **While the stock market finished strong in 2021, nonprofit boards are reviewing their endowment strategies and strategic plans**
- **Many nonprofits are seeking ways to grow their endowment funds through a holistic approach that includes fundraising**
- **Fiduciary responsibility remains an important topic, especially during these unusual times**

**Observations**

The current geopolitical environment is extremely tense and uncertain. Risks have risen, but our base case remains that the global economy will continue to grow. Our Investment Committee is in constant discussion as we continue to evaluate the economic ramifications of the Russia–Ukraine war.

Many nonprofit investment committees have had to quickly review and respond to the new world of market volatility related to potential higher interest rates and geopolitical concerns. Many investment committees have reviewed their asset allocations more closely, and most of our endowment and foundation clients have maintained their target allocations and focus on being diversified. Some investment committees have moved to rebalance back to their targets, while some more conservative committees have remained underweight to their equity targets.

A number of clients have reviewed their spending policies and have reviewed the recently posted by the National Association of College and University Business Officers (NACUBO) study, which provides useful benchmarks for asset allocation, spending, and returns for colleges and universities (www.nacubo.org).

Many nonprofits continue to review their overall fee structures, including their direct advisory fees and the imbedded manager/mutual fund costs. Some nonprofits have commented on their desire in having a higher level of valued-added services to help them reach their overall missions.

### The Federal Reserve (Fed) has started to raise short-term rates, potentially, impacting fixed income returns

In March 2022, the Fed started to raise short-term interest rates as a result of higher inflation and a return to normalcy. The number of increases will be data dependent. This should improve the returns on short-term fixed income portfolios. Longer-term rates have also risen in recent months, which has hurt longer-term fixed income returns.

**Observations**

The higher short-term interest rates in the market are beneficial to nonprofits as they are now seeing higher yields on their operating funds. It may also allow them to earn more competitive returns without having to take on greater risks. For longer-term portfolios, some committees may move to more intermediate fixed income to reduce the impact of higher rates. Some are watching their credit exposures through their corporate bond holdings. Some clients had been considering the addition of new strategies such as high yield and hedge funds. Pensions & Investments magazine noted that higher allocations to private equity benefits some larger nonprofits' portfolios.

### Greater interest in ESG investing and DEI policies (diversity, equity & inclusion) continues

There continues to be interest in SRI (socially responsible investing) and ESG (environmental, social, and governance) investing. SRI investing refers to situations where we screen portfolios to avoid certain types of stocks (e.g., fire arms, tobacco, alcohol, etc.). On the other hand, ESG investing is when our managers actively try to identify companies with three attributes (environmental, social, and governance) in their businesses and potential for strong long-term investment returns. We have seen new interest on how ESG connects to DEI and a firm's internal DEI policies.

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With geopolitical turmoil and potential interest rate hikes, nonprofits seek to be even more diversified with their fundraising plans, especially nonprofits that are focused on special events (e.g., galas, golf), direct mail, and significant government funding (e.g., health care, social services, and public colleges), which is prone to government cutbacks.

**Observations**

We have worked with a number of nonprofits over the years that have followed specific SRI criteria. For example, Catholic organizations follow the U.S. Conference of Catholic Bishops, which releases guidelines, and health care organizations often have their own restrictions. The USCCB in November 2020 released updated investment guidelines that refine their earlier restrictions. Other religious groups have their own specialized screens; for example, one church was focused on excluding weapons, while another church was reviewing fossil fuel stocks. We have seen greater interest from some clients as they explore ways to add ESG strategies. One private school was following its own ESG criteria, while another church was planning to implement some impact investing criteria. A number of investment managers have been incorporating SRI as an overlay into all of their strategies.

Wilmington Trust's Head of Sustainable Investing and Senior Equity Portfolio Manager Steve Norcini hosted a webinar discussion with Chief Investment Officer Tony Roth on April 21, 2021: *ESG Strategy Returns-Why We Believe They May Be Sustainable*. You can also read Steve's thought leadership piece on this topic, *Sustainable Investing: Rewards Beyond Returns*.

And, last September we hosted our session #87: *A Holistic Approach to Socially Responsible Investing-A Look at How ESG Meets DEI* with Steve Norcini and Chief Diversity Officer Glenn Jackson.

### Governance: Fiduciary responsibility remains an important topic, especially during these unusual times

Each nonprofit sector was impacted differently by the pandemic, requiring an assessment of strategic plans, endowment levels, and fundraising strategies. Now with geopolitical concerns on the table, boards are reviewing their sustainability and looking at different scenarios for the future.

**Observations**

Some nonprofits have moved to update their investment policies and some have added underwater endowment language to their investment policy statements. We have had a number of emerging nonprofits that have received significant restricted donations ask about starting or growing their endowment funds. We continue to offer client education sessions that seek to help our nonprofits understand their fiduciary responsibilities. We held a session on March 15, 2022, with David Rottkamp, number #91: *Board Governance in a Changing World: Building Better Board Practices to Help Nonprofit Boards Understand Their Roles in Changing Times*.

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Planned giving continues to be a very important fundraising channel for many nonprofits.

## FUNDRAISING-RELATED TRENDS

### Nonprofits continue to diversify their fundraising strategies and revenue sources as donors turn attention to Ukraine

Throughout the pandemic and now with these times of global strife, nonprofits understand the importance of having diversified fundraising plans, especially nonprofits that are focused on special events (e.g., galas, golf), direct mail, and significant government funding (e.g., health care, social services, and public colleges), which is prone to government cutbacks. Many nonprofits see the importance of having a diversified fundraising plan as donors responded to the pandemic by giving at record levels in 2020 (2021 data will be available in June 2022); however, 2022 is starting off murky as philanthropy turns its focus to the Russia-Ukraine situation. They also see the importance of starting and growing their endowments, which are a very important resource during times of stress.

Fundraising for 2020 was stronger than expected amidst COVID, as *Giving USA* reported a 5.1% (3.8% inflation adjusted) change in charitable giving from 2019 (Source: www.givingusa.org). Initially many thought that overall fundraising would be down sharply as the stock market declined dramatically and the economy went into a recession with high unemployment. For example, *Giving USA* reports that, giving was down in the 2008 financial crisis by 15–17% over the following two years. But donors were more philanthropic in 2020 as the need was so great, especially in the health and social service sectors. These totals were positively impacted by the estimated $5.7 billion in unrestricted, one-time gifts made by American novelist and philanthropist, Mackenzie Scott, to a variety of charities.

**Observations**

Some observed that the impact on fundraising was uneven, with there being some winners and some losers, depending on the sector. In 2020, while some received record donations and support, others were in crisis mode and some are expected to close. For 2020, health and social service saw increased donations while education and arts and culture saw lower donations.

Some nonprofits are focused on retaining their new donors, while others will be focused on reconnecting with their donors that did not give. Many smaller and mid-sized nonprofits had sharply lower fundraising and are concerned about 2021. Many nonprofits are reviewing their strategic plans and fundraising as we head into a new world in 2022 with the Russia-Ukraine situation.

Some commented that fundraising has benefited from the strong stock market, that people of wealth were less impacted by COVID, and donors connected personally with the crisis, since it was a national crisis. Others are commenting that 2022 has started with uncertainty due to the Russia-Ukriane conflict.

Others talked about how many, with their stimulus funds, stepped up to respond to the disaster to help those in need. The $300 above the line tax deduction also could have helped overall fundraising. This increased to $600 for a joint return in 2021 (Source: www.irs.gov).

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## Additional observations

**Blackbaud Institute Charitable Giving Report for 2021:**

- Online giving grew 9% versus 6.8% in the prior year
- Over the 36-month period since 2018, online giving has grown 42%
- Approximately 12% of overall fund-raising revenue, excluding grants, was raised online
- Average gift is at $204, about 15.3% higher
- Reports that 28% of online donations were made on mobile devices

Source: https://institute.blackbaud.com/charitable-giving-report/

Board fundraising involvement is a key part of the diversified approach and fundraising consultant Claudia Zeldin covered *Building Effecting Fundraising Staff and Board Teams* on March 21, 2022 at our session #92 Philanthropic Speaker Series.

Donor advised funds (DAFs) continued to be one the fastest-growing areas in 2020 and 2021 and remain a key fundraising trend. We had our Philanthropic Speaker Series Session #82 on DAFs on April 29, 2021 *(Donor Advised Funds in the New Decade)* where our panel reviewed expected DAF growth trends.

### Planned giving remains a key focus area

Planned giving continues to be a very important fundraising channel for many nonprofits especially in this new world. The Giving USA annual report (www.givingusa.gov) showed that 9% ($42 billion) was related to bequests, a key planned giving option. One important planned giving strategy for nonprofits has been the use of legacy societies, which help to cultivate planned giving donors.

Ellen Dudas, MNA, CAP®, President of Planned Giving Advancement, spoke at Wilmington Trust Philanthropic Speaker Series session #90 on the *Planned Giving Strategies for 2022 and Beyond: A Key Way to Grow Endowment Funds* on January 25, 2022. During the session, Ellen commented on the importance of planned giving.

> *"I continue to work with many nonprofits that are starting or expanding their planned giving programs. Planned gifts are often a donor's largest, most significant gift and a valuable way to diversify a nonprofit's revenue stream. With the great transfer of wealth that is happening in the U.S., nonprofits should refine their planned giving options as the markets change and evolve. Also, I am finding that planned giving is often a way for a nonprofit to build an endowment or quasi endowment."*

**Observations**

We continue to meet with many nonprofit organizations that are focused on starting or building out their planned giving programs. Bequests, which typically represent 80% of all planned gifts during the year, are a key area for planned giving expansion (www.everyaction.com/blog/planned giving 101/). Other focus strategies have been appreciated securities, the Individual Retirement Account (IRA) rollover, retirement plan designations, and donor advised funds. Some nonprofits observed a greater interest in planned giving during COVID-19 as donors reassessed their estate plans. Many nonprofits have also viewed planned giving as a way to grow their endowment funds and quasi endowments; unrestricted planned gifts are an important way to add to these investment funds. We have observed a number of smaller nonprofits starting quasi endowments as a result of a large unrestricted gift from donor Mackenzie Scott. We have seen greater interest in developing a Strategic Endowment Plan, which is a way for a nonprofit to memorialize a its endowment growth plans. We wrote about the Strategic Endowment Plan in our latest research report: *Catholic Foundations in the U.S. Revisited*.

We are receiving more questions on nontraditional assets as donations, such as closely held stock, alternative investments, and cryptocurrency stocks*. We have also seen some clients add the IRA rollover to their planned giving pages on their website as well as donor advised funds, which can be viewed as a planned gift.

* Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

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Virtual sessions have enabled some nonprofits to expand their geographical reach and donor base.

### Technology strategies may remain crucial as we pivot away from the pandemic

Nonprofits have moved to enhance their technology plans over the past decade and have incorporated these ideas into their overall fundraising strategy. This includes donor databases, automatic gift processing, online giving, recurring giving, surveys, analytics, donor emails, website development, virtual events, and social media, just to name a few. COVID highlighted the importance of having these capabilities and having a comprehensive technology plan.

Many nonprofits changed their major gifts approach to virtual discussions, which allowed them to still meet key donors "face to face." These virtual sessions have enabled some nonprofits to expand their geographical reach and donor base. Fundraisers have pivoted back to a combination of face-to-face and virtual meetings in our new world. Nonprofits are also focused on their online recurring giving programs as a way to retain new donors that came on board during COVID.

**Observations**

Peter Hoskow, senior partner at CCS Fundraising, shares his observations on the importance of technology:

> *"The pandemic expedited organizations' need to adopt new technologies to engage with their constituencies in a virtual world. As we near the mid-point of 2022, we are seeing many nonprofits adopting these platforms and novel approaches as part of their standard repertoire for engagement. In a recent CCS survey, over 60% of our almost 900 respondents cited that they would continue to conduct virtual events, even as in-person options reemerge.*
>
> *As we consider the future of technology and philanthropy, the increasing trends in online giving are noteworthy. As Blackbaud reported in 2021, approximately 12% of overall fundraising was raised online, and 28% of that giving was via a mobile device. When coupled with the rise in e-commerce sales, these online behaviors should encourage every nonprofit to explore the benefits of leveraging technology as part of their fundraising program.*
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> *With that said, while technology has opened new avenues for engagement, evergreen fundraising best practices do still apply: meet your donors where they are, and make it easy for them to give."*

According to software provider Blackbaud, for 2021, online giving grew by nearly 9% in 2020 after a review of 4,964 organizations. While online fundraising is growing quickly, Blackbaud estimates that it comprises only 12% of the total fundraising in the U.S. and was at 13% for 2020. Approximately 40% of online giving happened in the last three months of 2021 (Source: https://institute.blackbaud.com/charitable-giving-report/).

**Our Wilmington Trust, N.A. New York-based Endowments and Foundations Team assists nonprofit organizations throughout the Northeast region and nationally in meeting their investment and philanthropic objectives.**

**Please do not hesitate to contact Walter for more information.**

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## A final word

We continue to observe that the most successful foundations take a holistic approach to their growth strategies, in that the focus is on both fundraising and investment performance to grow their endowments. We call this a strategic endowment plan (SEP). These strategies can help a foundation expand for the long term, despite how the world evolves.