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Endowments & Foundations Trends Update for 2024

Post Covid: Endowments have made the A-list

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SEPTEMBER 2024

This report provides timely insights and trend updates for nonprofits that are seeking to build out their endowment programs. The Wilmington Trust OCIO/Endowments & Foundations team categorizes them as investment trends and fundraising trends, since these are the two key ways to grow endowment funds.

In these post-Covid times, many nonprofits are reassessing their strategic plans, endowment strategies, and fundraising goals. Many have decided to start or grow their endowment programs to build their financial strength, enhance revenues, and provide a cushion in times of stress. Diversification of revenue is a key theme as the Paycheck Protection Program funds available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act have come to an end. Endowment programs have become more of a priority and key focus for many nonprofits. At the same time, we believe that nonprofits that take a holistic approach in their endowment building will have more successful endowment programs in the long term. This report can help nonprofits monitor the key trends that are impacting endowments today.

INVESTMENT-RELATED TRENDS

With more moderate equity returns projected over the next decade, endowments and foundations are exploring ways to grow endowments through a more holistic approach to support their spending rates

While the stock market rebounded sharply in 2023 and has been hitting record highs through August 2024, there continues to be some areas our Investment Committee is closely following, such as the inflation/interest rate trend, a slower economy, and the geopolitical environment, in an effort to understand their potential impact on growth.

The S&P 500 index—which measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity

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After the ups and downs of U.S. equity returns in 2022 and 2023, many nonprofit investment committees are trying to understand the future path of the markets and how this impacts their endowments.

indices—rose over 26% in 2023, and through August 2024 (despite increased market volatility in late July 2024), was hitting record levels after dismal 2022 market returns. There are many positives such as lower inflation reports, solid economic growth, and strong employment, but risks remain at home and overseas that may restrict market direction for the remainder of 2024 and beyond. The market valuations are also on the high side, with CFRA Research commenting in its CFRA U.S. Investment Policy Notes that the market price/earnings (PE) ratios are at a 33.3% premium (as of August 21, 2024) to their average since 2005 (as of June 12, 2024).

In January 2024, Wilmington Trust released our annual Capital Markets Forecast, which projects that longer-term equity returns will be lower than average over the next decade. In Burton Malkiel's book "A Random Walk Down Wall Street," it's shown that, according to Ibbottson data from 1926 to 2020, the S&P 500 index returned on average 10.2%. Lower projected equity returns will generally require nonprofits to assess their endowment spending rates and endowment growth plans to support their spending.

Observations

After the ups and downs of U.S. equity returns in 2022 and 2023, many nonprofit investment committees are trying to understand the future path of the markets and how this impacts their endowments. They are also trying to discern the trends in their specific nonprofit sectors and how this impacts their strategic plans.

In post-Covid times, many are focused on their operating budgets and seeking ways to offset the loss of the Covid money from prior years. Many nonprofits are seeking ways to diversify their revenues and have become more focused on building their endowment funds.

Many investment committees are reviewing their asset allocations more closely, while 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. Portfolio stress testing has become an important part of our client dialogue. This allows the committee to understand the potential impact on their current risk/return profile.

There has also been greater interest in private markets* investing as a potential way to enhance returns and provide some diversification. In a November 6 article by Rob Kozlowski, "Alts hamper endowments' fiscal returns," *Pensions & Investments* magazine noted that higher allocations to private equity have benefited some larger nonprofits' portfolios. Interestingly, private equity returns were much lower in 2023 and 2024 and restricted endowment returns in some cases.

A number of clients have reviewed their spending policies, and some have reviewed the study recently posted by the National Association of College and University Business Officers (NACUBO), which provides useful benchmarks for asset allocation, spending, and returns for colleges and universities (www.nacubo.org). If market returns are estimated to be lower over the longer term, endowments will need to assess their spending rates and growth strategies to make sure their portfolios can still show growth after inflation. We have been assisting some of our clients with the development of a strategic endowment plan, which is an endowment growth plan.

* 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. Investments such as private funds and mutual funds that focus on alternative strategies are subject to increased risk and loss of principal and are not suitable for all investors. These types of investments may use aggressive investment strategies, which are riskier than those used by typical mutual funds, and you may lose more money than if you had invested in another fund that did not invest as aggressively.

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Nonprofits have also had to review their borrowing costs, such as lines of credit, in a world of higher interest rates. The potential for lower short-term rates should lower these borrowing costs.

Many nonprofits continue to review their overall fee structures, including their direct advisory fees and the imbedded manager/mutual fund/exchange-traded fund (ETF) costs. There has been more discussions on passive versus equity strategies.

Some nonprofits have commented on their desire in having a higher level of value-added resources to help them work toward reaching their overall missions and grow their endowments in many ways. These value-added philanthropic resources are becoming more important in the Request for Proposal (RFP) process.

Many nonprofits have been focused on their operational liquidity levels and their different funding options as interest rate costs are higher on their lines of credit, and in some cases, operating revenues have been coming in lower.

On the private foundation side, foundations are typically focused on portfolio returns that can support their required 5% payouts. An article in *Candid* commented on how some foundations set 5% as their floor spending rate and strive to spend more. ("The 5 percent Foundation Payout Requirement May be a Floor, But the Ceiling is Awfully Low;" Helen Flannery Blog, July 20, 2023.)

We held our annual hybrid panel session called *Private Foundation Sector Update: Current Developments & Fundraising Insights* on May 23, 2024.

The Federal Reserve (Fed) has raised short-term interest rates 11 times since March 2022 to cool inflation and have turned their focus to rate cuts

Since March 2022, the Fed has been raising short-term interest rates as a result of higher inflation and a return to normalcy from a period of almost zero interest rates. As of July 2024, the Fed raised rates 11 times and the level of inflation (CPI) has been reduced from over 9% to about 3.4%. This has generally improved the returns on short-term fixed income portfolios, and in mid-2024, we still had an inverted yield curve. The Fed's inflation target is still 2%, and with the trend of inflation much lower, they are now focused on starting rate cuts in September. Longer-term rates have also risen during that time, which has provided for better fixed income returns and enhanced balanced portfolio returns.

Observations

These higher short-term interest rates in the markets have generally been beneficial to nonprofits as they are able to earn higher yields on their operating funds. However, the Fed is shifting its stance on short-term rates and rate cuts are expected by late 2024, depending on the economic data. This will likely lower returns for short-term investing so nonprofits will need to assess their liquidity investment strategies and review their investment plans, as this will impact their income budgets. We have seen clients starting to prepare for these lower rates by having conversations with us, extending their maturities, and locking in these higher returns.

For longer-term endowment/quasi-endowment portfolios, many nonprofits have allocated more to core fixed income and intermediate fixed income in recent periods to take advantage of the higher rates. Some are watching their credit exposures through their corporate bond holdings. Some clients have considered the addition of

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At a glance:

- With more moderate equity returns projected over the next decade, endowments and foundations are exploring ways to grow their endowments through a more holistic approach, to support their spending rates
- Many nonprofits are seeking ways to grow their endowment funds through more diversified fundraising strategies that focus on endowments, expanded donor planned giving options, and improved website/technology
- Board education is becoming more crucial, especially in the areas of sustainable investing, private markets, sustainable spending rates, and windfall policies
- Fiduciary responsibility remains an important topic, especially in this post-Covid period

new strategies such as high yield and hedge funds. Nonprofits have also had to review their borrowing costs, such as lines of credit, in a world of higher interest rates. The potential for lower short-term rates could lower these borrowing costs.

Sustainable investing is still a key trend for endowment committees, amid ongoing debates on its impact on the portfolio

There continues to be strong interest in understanding the basics and trends of sustainable investing, especially some of the recent trends and debates. There are various definitions and acronyms related to sustainable investing, such as SRI (socially responsible investing) and ESG (environmental, social, and governance) investing. SRI refers to situations where advisors screen portfolios to avoid certain types of stocks (e.g., firearms, tobacco, alcohol, etc.). On the other hand, ESG investing is when advisors actively try to identify companies with three attributes (environmental, social, and governance) in their businesses and potential for strong long-term investment returns.

Observations

We have seen steady interest from clients and prospects in the area of sustainable investing as it relates to their investment portfolios. Many are asking for customized board education so they can better understand the benefits and risks of sustainable investing and the different ways to implement these strategies. We believe these sessions have been helpful to the nonprofit leadership to understand the basics.

There is also interest in the current debates on sustainable investing. *The Wall Street Journal* commented in their March 4, 2024 article, "BlackRock Retreats From ESG Following Pushback," how BlackRock, a leader in this sector, has a new strategy where they are not using ESG, and are focused on climate. *Pensions & Investments* also reported in its June 10, 2024 article, "ESG's branding woes pushing investors, managers to adapt," that some firms are considering rebranding as some states have barred the consideration of ESG factors. Some firms are using the term sustainable investing. We are finding that some nonprofits are moving ahead with sustainable investing while others have decided to move away from it.

We have worked with a number of nonprofits over the years that have followed specific SRI criteria. For example, Catholic organizations follow the guidelines of the U.S. Conference of Catholic Bishops (USCCB). In November 2020, the USCCB 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. Some clients have been asking if their portfolios are invested in any weapons manufacturing companies that may support the current Israel-Hamas conflict. One private school was following its own ESG criteria, while another church was planning to implement some impact investing criteria. Health care organizations often have their own restrictions. One family foundation has been exploring the benefits of sustainable investing and a process to implement it.

A number of investment managers have been incorporating a sustainable investing overlay into some of their strategies. We also started to help our clients with requests related to custom indexing that allows for SRI at a passive level.

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Many nonprofits see the importance of having diversified fundraising plans that include, for example, expanded planned giving options and enhanced technology plans.

Governance: Fiduciary responsibility remains an important topic, especially post Covid

Each nonprofit sector was impacted differently by the pandemic, requiring an assessment of strategic plans, endowment levels, and fundraising strategies. It is important for nonprofit boards to understand and review their fiduciary responsibilities and do an annual review of their investment policies, gift acceptance policies, spending policies, and windfall policies.

Observations

Many of our nonprofit clients review and update their investment policies on an annual basis. During this process, they assess their spending levels. Some also take the time to review their gift acceptance policies and some are developing windfall policies.

One private foundation was updating its bylaws to provide for an expanded number of trustees as they work with the next generation. Another foundation has set up successor trustees, while one nonprofit has also instituted a trustee website, which provides better communication and information to the trustees on the board governance responsibility. In February 2024, we attended the Grant Thornton Quarterly Not-for-Profit Executive Briefing, where one of the key presentations was "Not-for-Profit Governance Trends in a Post-Pandemic World" by Susan M. Vignola at Patterson Balknap Webb & Tyler LLP. She commented that governance responsibility has expanded beyond the traditional focus on state law fiduciary duties and financial oversight. Susan commented on a few of these areas: *"Nonprofit boards of directors are navigating an increasingly complex landscape today, including increased calls for accountability and change on important social issues; impact of critical legal developments and other important current events; crisis management and response; and (arguably) increased scrutiny from regulators and on social media."*

Our recent research report on the gifting by philanthropist MacKenzie Scott provides insights on the basics of board governance, such as the best practice of setting up a windfall policy.

FUNDRAISING-RELATED TRENDS

Nonprofits seek to diversify their fundraising strategies and revenue in a post-Covid world; endowments make the A-list

Many nonprofits are planning their operating budgets without the CARES Act funds and other government funds that supported their operating budgets and asset levels in recent years. They are also dealing with much higher inflation in recent years (8% in 2022; 4.1% in 2023),* higher interest rates, a difficult hiring environment, lower government funding, and fewer donors/fundraising dollars. In *The Chronicle of Philanthropy's* Dec. 2023 issue ("The Fiscal Cliff ..."), author Sara Herschander shares: "Nonprofits face a more difficult time today with…the economy and fewer donors."

These challenges are reminding nonprofits of the importance of having diversified revenue sources. Fundraising plans are also becoming more diverse, especially for nonprofits that are focused on special events (e.g., galas, golf); direct mail;

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* Source:
Hiranmayi Srinivasan, "Historical U.S. Inflation Rate by Year: 1929 to 2024," Investopedia.com, July 31, 2024.

According to Giving USA's 2024 report, total giving was almost $557 billion in 2023, which shows how philanthropic Americans are even in these uncertain times.

(www.givingusa.org)

significant government funding (e.g., health care, social services, and public colleges), which is prone to government cutbacks; and attendance (religious organizations, museums, performing arts). Many nonprofits see the importance of having diversified fundraising plans that include, for example, expanded planned giving options and enhanced technology plans. One way to compare fundraising plans is to do an annual peer review of other similar type organizations, which we offer to our clients.

They also see the importance of starting and growing their endowments/quasi-endowment funds, which are a very important resource during times of stress. We did an earlier study on Catholic Community Foundations in the U.S. which showed how many Catholic dioceses around the county had started separate foundations to build out their endowment programs and diversify their revenues.

CCS Lilly Family School of Philanthropy presented a report on June 25, 2024: *Perspectives on Philanthropy, Giving USA*. Fundraising for 2023 (published each June) was weaker than expected, as *Giving USA* reported a 1.9% rise (2.1% decline, inflation adjusted) in charitable giving for 2022. After inflation, this is only the fifth time that giving has dropped since the report started in 1956. For example, total giving also fell in 2008/2009, a result of the Great Recession, as well as in 1987, after the significant stock market drop. The *Chronicle of Philanthropy* commented that economic factors may have influenced giving, such as higher inflation, which impacts a family's financial capacity.

At the same time, total giving was almost $557 billion in 2023, which shows how philanthropic Americans are even in these uncertain times. Over the past few years, these totals have been positively impacted by the estimated $17 billion in unrestricted, one-time gifts (more than 2,300 nonprofits) made by American novelist and philanthropist, Mackenzie Scott, to a variety of charities.

The *Chronicle* also goes on to mention that as a result of some of their preliminary research, they are seeing a strong start to 2024, and fundraisers are cautiously optimistic about the second half of the year. Their research shows that wealthy donors have given approximately $300 million more to nonprofits in the first five months of 2024 than they did over the same period last year.

Observations

According to the *2024 Giving USA Report*, the sources of giving were: individuals 67%; foundations 19%; bequests 8%; and corporate contributions 7%. As a trend, 1983 showed: individuals 82%; foundations 6%; bequests 6%; and corporations 6%. If you take a more expansive view of individuals and include bequests and half of the foundation giving, individual giving is approximately 84% of all giving, a key component. They also reported that giving by individuals has been declining as a total share of giving over time, while foundation giving grew from 6% of the total to 19% of the total over the past 40 years. Giving by foundations went over the $100 billion mark for the second consecutive quarter.

It was also reported that total giving as a percentage of gross domestic product was 2% in 2023, which has been reported in recent years. *Giving USA* also reported that giving to foundations was the fastest growing area in 2023. In prior years, it was

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Another important planned giving strategy for nonprofits has been the use of legacy societies, which help to cultivate planned giving donors.

closer to 2%. Corporate giving as a percentage of corporate pre-tax profits has also trended down to 0.9%.

The *Chronicle* commented that donor advised funds (DAFs) continue to grow in importance as a funding source for nonprofits. DAFs were one of the fastest growing areas in the past decade and remain a key fundraising trend. We have had a number of clients benefit from DAFs as a fundraising and planned giving strategy. We covered DAFs in our webinar session on June 12, 2024: *DAFs: What They are and How They Work.*

Bequests are part of the annual fundraising total and were $46 billion for 2023, or 8% of overall giving. Bequests continue to be an important part of planned giving programs as well as endowment growth plans; some planned giving professionals estimate that bequest donations represent 80% of planned giving each year.

We covered bequests at our Philanthropic Speaker Series Session #101 on March 2, 2023: *Bequests Revisited: Expanding Bequest Programs in Current Times,* where we discussed how to start and potentially build a successful bequest program and how it relates to endowments.

At the end of the *Giving USA* report presentation, presenter Dr. Una Osili from the IU Lilly Family School of Philanthropy commented that economic forces, technology, and demographic shifts will shape giving in the future.

Planned giving remains a key focus area for nonprofits

Planned giving continues to be a very important fundraising channel for many nonprofits, especially in this new world as they seek to grow their endowment programs. A key trend in philanthropy is the great transfer of wealth from the baby boomers that is estimated at $90 trillion.* Another important planned giving strategy for nonprofits has been the use of legacy societies, which help to cultivate planned giving donors.

Lori Kranczer, JD, CAP, CEO of Link Elevating Philanthropy, spoke again at our Session #106 on February 27, 2024: *Planned Giving Update: Focus on Beneficiary Designations: A Review of Donor Marketing Strategies*. During the session, Lori commented on the importance of enhancing planned giving programs in these changing times, including having a full array of beneficiary designation donor options:

> *"Planned giving departments are wisely collaborating with donors to explore the multitude of options available to them. Donors are increasingly aware of their potential social impact on causes they cherish, seeking tailored solutions. In my experience, numerous organizations are seeing a rise in younger donors who aren't yet focused on estate planning but are eager to make a difference. For these individuals, alternative gift vehicles like remainder beneficiary gifts from retirement assets offer a way to fulfill their philanthropic goals while retaining control over their assets during their lifetime. For older donors, designations can also be useful charitable options. It is a best practice that nonprofits do an annual review of their beneficiary designation options to make sure they are up to date."*

* Source:
Sarah Green Carmichael, "The 'Great Wealth Transfer' Is a Delusion," Bloomberg, April 5, 2024.

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Additional observations

Blackbaud Institute Spotlight 2024

- Online giving remained stable during 2023 compared to prior year. Approximately 12% of overall fundraising revenue, excluding grants, was raised online, versus 8% in 2022.
- Small organizations (revenues less than $1 million) saw the biggest increase in online gifts, with 17% of their donations being from online sources.
- Websites are key connectors for many donors: Mentions the benefits of improved donation forms that automate the recurring giving option as well as inviting donors to pay for your transaction fees.

M+R Benchmarks 2024

- Revenue from monthly (recurring) giving increased by 6%, and accounted for 31% of all online revenue.
- Direct mail revenue fell by 66% in 2023.
- Email revenue declined by 7% on average.
- The majority of nonprofits' website traffic came from users on mobile devices—52%, with 48% of traffic from users on desktop devices. However, 78% of revenue came from users on desktop devices.
- About half of M+R Benchmarks participants reported working with social media influencers in 2023. Of those, 17% relied on paid partnerships, and 30% used a mix of paid and unpaid influencer work.

Sources:

https://www.blackbaud.com/newsroom/article/blackbaud-institute-shares-spotlight-on-2023-trends-in-giving

https://www.mrss.com/lab/check-it-out-mate-the-2024-mr-benchmarks-study-is-here/

Observations

We continue to meet with many nonprofit organizations that are focused on starting or building out their planned giving programs, and this is a key topic for board discussions. Bequests, which typically represent 80% of all planned gifts during the year, are a key area for planned giving expansion. Other focus strategies have been appreciated securities, IRA rollovers, beneficiary designations, and donor advised funds. Some nonprofits observed a greater interest in planned giving during the pandemic as donors reassessed their estate plans.

Many nonprofits have also viewed planned giving as a way to grow their endowment and quasi-endowment funds; 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 large, unexpected unrestricted gifts and the use of a windfall policy.

We have seen interest in developing a strategic endowment plan, which is a way for a nonprofit to memorialize its endowment growth plans. We wrote about the strategic endowment plan in our latest research report.

Some nonprofits have taken advantage of peer reviews to enhance their planned giving menu and their websites. Several have added language related to the earlier SECURE ACT 2.0 options around IRAs and Qualified Charitable Distributions (QCDs) to their websites. One included an article, "Create a Charitable Gift Annuity: If you are 70 ½ or older, you can now use your IRA to create a gift that pays you. Get fixed, reliable income for life by making a one-time election for a qualified charitable distribution up to $50,000 to fund a CGA."

Some nonprofits have added legacy societies and others have refined their legacy societies by refining the benefits of being a member of the program.

Technology strategies may remain crucial in post-Covid times

Nonprofits continue to enhance their technology plans and have incorporated these ideas into their overall fundraising strategy. It is important to have an overall technology plan.

This technology plan includes donor databases, automatic gift processing, online giving, recurring giving, surveys, analytics, donor emails, website development, virtual events, social media, and peer-to-peer fundraising options, just to name a few. The pandemic highlighted the importance of having these capabilities and having a comprehensive technology plan. As part of their plan, a number of nonprofits are taking advantage of the GuideStar Transparency Seals and listing these assessments on their websites and telling their donors.

Observations

During the pandemic, 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

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We continue to observe that many successful nonprofits take a holistic approach to their growth strategies, focusing on both fundraising and investment performance to grow their endowments.

recurring giving programs as a way to retain new donors that came on board during Covid. Some recurring giving pages have become more flexible by offering multiple donation options.

Artificial intelligence (AI) has also found its way into the nonprofit arena and is starting to become a key topic for some nonprofits.

Peter Hoskow, senior partner at CCS Fundraising, shares his observations on the importance of technology and new opportunities related to AI.

> *"Process automation through machine learning (ML) and artificial intelligence (AI) is an area of increasing focus for nonprofits seeking to revolutionize fundraising. While our recent survey of over 600 nonprofit organizations revealed that a majority of respondents (58%) have yet to leverage AI, the capacity of this technology is of tremendous interest. Harnessing AI's predictive capabilities could allow nonprofits to personalize strategies, optimize communication, and invite broader support to advance missions. From predicting donor behavior to generating immersive experiences, AI offers a path to enhance engagement and streamline operations. Through natural language generation, sentiment analysis, chatbots, and more, nonprofits can leverage AI to effectively engage donors, maximize resources, and foster lasting influence.*
>
> *However, success with AI hinges on careful evaluation and planning, ensuring alignment with organizational goals and donor expectations. As nonprofits navigate the complexities of AI adoption, they must remain vigilant in balancing innovation with ethical considerations and donor relationships. With thoughtful implementation and an understanding of trends across the philanthropic landscape, technology can help nonprofits amplify their impact and create transformational change."*

Technology can also be connected to growing endowment funds. We have observed many websites that include information and donor opportunities related to endowment funds. There are still many nonprofits that are marketing for endowment but still have very little information on their websites. As part of this listing, nonprofits will need to develop the specifics of their endowment plan.

A final word

We continue to observe that many successful nonprofits 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.

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Our Wilmington Trust, N.A., OCIO/Endowments and Foundations team assists nonprofit organizations nationally in working to meet their investment and philanthropic objectives.

Please do not hesitate to contact Walter for more information.

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Starting and expanding endowments: Questions to ask

1. Do you have an endowment goal for the long term?
2. Do you maintain a balance of both donor restricted endowment and quasi-endowment funds?
3. Do you take a holistic approach to growing your endowment by including fundraising/operating strategies?
4. Have you developed a windfall policy that details how unrestricted planned gifts will be added to the endowment?
5. Do you highlight the endowment and different donor options on your website?
6. As part of your endowment game plan, have you completed a peer review that looks at similar nonprofits and their endowments?
7. Have you developed a communication plan for stakeholders that spells out the importance of the endowment for the future?
8. Have you completed an annual strategic endowment plan?

