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Endowment and Foundation Update

Key 2021 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. COVID-19 has led many nonprofits to assess their endowment strategies, fundraising goals, and strategic plans as the country starts to recover from the pandemic.

INVESTMENT-RELATED TRENDS

COVID-19 has led many nonprofits to reassess their endowment strategies and risk profiles

The COVID-19 pandemic and societal unrest have led to great uncertainty on many levels, particularly on the direction of the U.S. economy and capital markets. While the stock market finished strong in 2020, and continues its strength in mid-2021, nonprofit boards are reviewing their endowment strategies and strategic plans. Many boards, concerned about the 1Q 2020 stock market volatility, have reassessed 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 ten years. 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.

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At a glance:

- **COVID-19 has led many nonprofits to assess their endowment strategies, fundraising goals, and strategic plans as the country starts to recover from the pandemic**
- **While the stock market finished strong in 2020, and continues its strength in mid-2021, nonprofit boards continue to review 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

Investment committees have had to quickly review and respond to the new world of market volatility related to COVID-19. Many investment committees have reviewed their asset allocations more closely, and most of our endowment and foundation clients have maintained their target allocations and focused 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. Some boards have added underwater endowment language to their investment policy statements.

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.

The Fed's move to cut short-term interest rates during COVID continues to challenge nonprofits to find competitive returns

The Fed moved to lower short-term interest rates in March 2020 as COVID-19 slowed economic growth and led to uncertainty on the economy and its ability to rebound. The current target for short-term rates is 0–25 basis points, or bps (0%–.25%) (Source: www.federalreserve.gov). This has led many nonprofits to review their short-term investment options. Nonprofits have also watched longer interest rates move to a lower level, despite rising in recent periods.

Observations

The lower interest rate environment is making nonprofits reassess their short-term investment funds. In some cases, they are building up their reserve funds to help them withstand the current environment. At the same time, some nonprofits are exploring ways to earn a more competitive return since short-term rates have moved close to 0–25bps. Some are maintaining bank deposits, while others are looking at enhanced cash alternatives that may offer greater returns through slightly longer maturities and incremental credit risk. For longer-term fixed income, some nonprofits are watching their credit exposures through their corporate bond holdings. Some clients are considering the addition of new strategies such as high yield and hedge funds.

Greater interest in socially responsible investing and sustainable investing

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.

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

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With COVID-19, 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.

of Catholic Bishops, which releases guidelines, and health care organizations often have their own 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*.

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

The pandemic has impacted many nonprofits and their survival. Each nonprofit sector has been impacted differently. It has required boards to assess their strategic plans, endowment levels, and fundraising strategies. It has also led boards to review their sustainability and look at different scenarios for the future. New committees were formed to look at these different scenarios and board members became more involved.

Observations

Nonprofit boards have had to respond to COVID-19 and the impact it is having on each nonprofit. Boards learned how to meet via virtual sessions, just like their development teams were doing. We have also observed a number of nonprofit leadership and board changes during this time, and we observed some foundations updating and revising their bylaws. We continue to offer client education sessions that seek to help our nonprofits understand their fiduciary responsibilities. We held a breakfast session on May 18, 2021, with Ellen Labita and Patrick Yu titled *Recovering from the Pandemic: Tips for Addressing Risk, Strategy/Budgeting and Managing in Times of Crisis* to help our clients prepare for the new world.

FUNDRAISING-RELATED TRENDS

Nonprofits continue to diversify their fundraising strategies and revenue sources

With the impact of COVID-19, nonprofits saw 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 are expected to return to their pre-pandemic giving patterns in 2021. They also see the importance of starting and growing their endowments, which are a very important resource during times of stress.

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

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. While some received record donations and support, others were in crisis mode and some are expected to close. Health and social service saw increased donations while education and arts and culture saw lower donations.

Some nonprofits will focus 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 strategies.

Some commented that fundraising 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 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 increases to $600 for a joint return in 2021 (Source: www.irs.gov).

Board fundraising involvement is a key part of the diversified approach and fundraising consultant Marian Stern will cover *The Importance of Board Fundraising in the New World* at our August 3, 2021 Session #85.

Donor advised funds (DAFs) continued to be one the fastest-growing areas in 2020 and remain a key fundraising trend. We had our Philanthropic Speaker Series Session #82 on Donor advised funds 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. The *Giving USA* annual report (www.givingusa.gov) showed that 9% ($42 billion) was related to bequest gifts. One planned giving strategy for nonprofits has been the use of legacy societies, which help cultivate planned giving donors.

Margaret Holman, a national fundraising and planned giving consultant, spoke at our April 13, 2021 Wilmington Trust Philanthropic Speaker Series #82 on legacy societies:

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Additional observations

Blackbaud Institute Charitable Giving Report for 2020:

- Online giving grew 20.7% versus 6.8% in the prior year
- Over the 36-month period since 2017, online giving has grown 32%
- Approximately 13% of overall fund-raising revenue, excluding grants, was raised online
- Average gift is at $177, about 19.6% higher
- Reports that 26% of online donations were made on mobile devices

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

"Recognition is vitally important for planned gift donors, as it not only acknowledges their generosity permanently, but it also encourages others to inform your charity of their charitable wishes. Legacy societies also provide development officers with multiple opportunities to continue to cultivate their planned gift donors with periodic updates, events, and personalized communications."

Observations

We continue to meet with many nonprofit organizations that are focused on building out their planned giving programs. Bequests, which typically represent about 80% of all planned giving gifts during the year, are a key area for planned giving expansion (Source: https://www.everyaction.com/blog/planned-giving-101/). Some nonprofits have mentioned greater donor interest in planned giving during COVID-19 as donors reassess 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 pools. We observed one nonprofit starting a quasi endowment from a portion of the large gift from MacKenzie Scott. We have seen greater interest in the Strategic Endowment Plan, which is a way to memorialize a nonprofit's endowment growth plans. We wrote about the Strategic Endowment Plan in our article *The Importance of Building a Strategic Endowment Plan for Community Colleges* in the AGB (Association for Governing Boards of Universities and Colleges) May/June 2021 *Trusteeship* Magazine.

We are receiving more questions on nontraditional assets such as closely held stock, alternative investments*, and cryptocurrency stocks. We are planning our #86 educational session on *The Art and Science of Donor Conversations* with Alex Brovey, planned giving expert and author, in late August.

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.

During the pandemic, many nonprofits had to change 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.

Virtual events may also remain part of the special events tool kit as some nonprofits may offer hybrid events as the norm. Virtual events can be more cost effective, easier to arrange, and allow more flexibility to the keynote speaker. But virtual events benefit from having a unique approach and value-add since donors may not engage. Nonprofits are also focused on their online recurring giving programs as a way to retain new donors that came on board during COVID.

* 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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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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Observations

Liz Ngonzi, founder and CEO of The International Social Impact Institute and Adjunct Assistant Professor of Fundraising at New York University, led an educational session for Wilmington Trust on June 30, 2021. She commented:

> *"Despite severe budget cuts due to the global COVID pandemic, according to Blackbaud, online giving grew an incredible 21%, as compared to a 2% increase in overall giving in 2020. These extraordinary results coupled with the shift of many of our professional interactions to a virtual format, indicate that the organizations that will be in the best position to rebound from the pandemic are those that understand how to differentiate themselves through effective digital storytelling and fundraising that align with donors' priorities. Along the same lines, those organizations that understand how to incorporate more digital elements/platforms into their service delivery, and thus to operate in a "hybrid" fashion combining virtual and in-person interaction, are those that will be able to evolve during this period and attract more funding."*

According to software provider Blackbaud, for 2020, online giving grew by nearly 21% compared to 6.8% in 2019 after a review of 4,964 organizations. While online fundraising is growing quickly, Blackbaud estimates that it comprises only 13% of the total fundraising in the U.S. and was at 8.7% for 2019. Approximately 40% of online giving happened in the last three months of 2020 (Source: https://institute.blackbaud.com/charitable-giving-report/). We also have seen some articles commenting on a new role for nonprofits called the "Digital Gift Officer."

