

Conversations with Commerce Trust Podcast

Funding the mission: Why nonprofits need strong financial partnerships - September 12, 2024

David Hagee: Hello and welcome to *Conversations with Commerce Trust*, our show about the markets, investment themes and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust. Today we're discussing the changing landscape of the nonprofit investing world with our Director of Institutional Services, Amy Pieper. Welcome to the podcast, Amy.

Amy Pieper: Thank you, David. I'm happy to be here.

David: I've really been looking forward to our conversation today. This is an area where I've spent a lot of time in my career. Your career has been entirely focused on the nonprofit world. It's really an interesting time for nonprofits as you've seen quite a bit of changes both in the support that nonprofits receive, as well as some of the internal dynamics. Maybe we could spend a little bit of time talking about how we work with nonprofits to be able to illustrate this conversation a little bit better?

Amy: Commerce Trust serves about 300 nonprofits across our Midwest footprint. Working with these types of organizations, we definitely understand that nonprofits have a unique structure and that they're governed by volunteer boards. They have to maintain relationships with donors for charitable giving that really funds their much-needed work, whether they're providing education to students, working to battle food insecurity or the hundreds of other ways that they support our communities. And this model really means that they have to run a really efficient operation and make the most of their resources to be able to do this important work, both today, but then for decades to come.

So, Commerce most often steps in to help our nonprofit clients by partnering with them to build and implement a sustainable investment plan. So most often, we're serving as an OCIO, or an Outsourced Chief Investment Officer, for these organizations. And in a nutshell, that really means that we are that full service fiduciary investment partner that helps them do everything from constructing their investment governance, their spending policies, helping them implement the portfolio within their guardrails, and then really managing it over time. So, they're really relying upon us to partner with them to really complete the investment management for their endowment or their foundation.

I think the next thing that we often help with, because they have that unique relationship with their donors, we've really developed some specific services for nonprofits in terms of helping them



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

receipt in charitable gifts, helping them administer some of the more complex plan gifts, or even working with their donors if they call us in to help with those types of topics.

And then finally, part of our responsibility to our clients is really to share insights from our decades of doing this work and working with all types of different organizations, really aimed at helping them achieve their goals over time.

David: As I look at the nonprofit world right now, everyone's a bit resource constrained. And so, to be able to have a partner that's able to provide those services for these institutions really is a difference maker for them in terms of being able to work on their mission, work through programming, but still have this vital fundraising and investment management component still be tended to. As we look at things, maybe it'd be helpful if we start with a little bit of history inside the nonprofit world. Specifically, I'm thinking two major channels, right? So, nonprofits that have large endowments and then also in the higher ed (education) space where you see a good amount of endowments there. What's that look like over time?

Amy: If we look at the higher education channel, they have definitely been facing some hurdles. First, institutions have been preparing for what they sometimes call the enrollment cliff, and really this is just based on our nation's demographics. By the year 2025, it's estimated that there will be about 400,000 fewer available college freshmen. So, these institutions are all going to be competing to fill their campuses with a lower (smaller) pool of students. They've also been, especially public institutions, have been challenged to garner the same level of government appropriations or support in relation to their overall operating budget. And just like any for-profit institution or individuals or families, inflation has been a huge concern. So, they think of it in terms of wage inflation to retain staffing, the cost of running their campus and all of the inputs.

So, I think what that means to higher education endowments and foundations is that they're really being called upon to do as much as they can to support scholarships and programming, attract enrollment, and really help bridge some of these gaps that are created by some of these challenges they're facing.

David: What have we seen in terms of the changing landscape? You mentioned less government support. If I'm thinking about a community-based nonprofit, what have we seen in terms of philanthropy? Is that different now than it was before from corporations and from individuals?



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust Podcast

Funding the mission: Why nonprofits need strong financial partnerships - September 12, 2024

Amy: Unfortunately, yes. So, this comes at a period of time when fundraising is already challenging. Last year, we surveyed about 100 of our (institutional nonprofit) clients and what they told us in terms of concerns that they have, inflation was their number one concern, followed by fundraising. And then we just updated this survey this past summer and it just flip-flopped. So fundraising rose to the top, followed closely by inflation. So, fundraising has been a major concern.

In addition to the work that we do as talking to our clients, we also look at some national information about fundraising. One of the studies I like to follow comes out of the University of Indiana and it's called the Giving USA Study, and it's essentially a report that talks about charitable giving for the previous calendar year and what that looks like. So, if we think back to 2022, the overall contributions or charitable gifts from donors overall in the U.S. were down 3.4% from the previous year, which is significant because that's only once of four times that giving has come down on a nominal basis. However, if you adjust that for inflation purposes, the decline was actually 10.5% in 2022. So, these organizations were really feeling it.

This study also breaks down giving into four categories, and that's giving from individuals, from foundations, bequests which are at death gifts and corporate giving. And in 2022, individual giving declined 6.4% or 13.4% on an inflation adjusted basis and given that individuals account for about two-thirds of all gifts, this had a big impact on nonprofits. And I reviewed the latest study information, which covered last year or 2023, and we saw a giving bounce back of about 1.9%, but on an inflation adjusted basis, that's still down 2.1% overall. So, I think the concern around fundraising is real.

We also follow in the higher ed space, the National Association of College and University Business Officers, or NACUBO. They do an annual study of endowments, and so the latest information is as of June 30th, 2023, but they survey higher education institutions, and last year, they had about 700 that participated in the study, and that study would tell us that new gifts to endowments during that last year declined by about 10.3%, and the declines were really across all sized institutions except for the very largest organizations which have endowments of greater than \$5 billion. So, we're getting fact after fact that fundraising is very challenging.

David: Maybe we could talk a little bit about what we're seeing inside endowments and foundations in terms of their changing investment models. I know I've been struck by ... We started off with a very traditional model of stocks, bonds and cash, all public market securities. In the late 90s, early



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

2000s, there was a lot of acclaim from Yale University as their director of their endowment transitioned the portfolio from that public market-based security portfolio over to including a lot of privates. Let's talk a little bit about what are you seeing right now in terms of the trend for organizations in terms of investment themes?

Amy: If you look back at that NACUBO study that I mentioned, you'll see that last year, the one-year investment return across all institutions was 7.7%. And if you think back to the market year, due to the strength in the public equity market and relative weakness within the private equity and private venture markets, the smaller institutions which tend to have a little bit less in that private space outperform their much larger counterparts. If you look at the previous year, that would be flip-flopped, but I think it's interesting to look at a bit longer term trend. If you look at that average 10-year return at 7.2%, what you'll see if you look at the different peers is that larger institutions were outpacing smaller institutions, really based on that larger private market investment.

So, what we're seeing is trends within the higher education space is there's definitely a trend towards outsourcing of investment models. There's increased alternative investments. Over the last 10 years we've seen that increase a lot even in the smaller cohorts. Institutions are starting to look at responsible investing. Not all are implementing it, but we are seeing an increase in interest in responsible investing. And then just spending has been stressed in recent years, which makes it just incredibly important to make really solid decisions around how you're going to spend from the endowment.

David: In an era where you have increased need for spending, if you're drawing more and more off of your public market securities, that can cause some turbulence inside portfolios. What sort of tools are effective in being able to help manage some of these questions here?

Amy: Now, when you look at spending and sustainability, you can invest more or less aggressively. You can include more private investments, public investments. You can look at your investment mix, but you can also spend at different rates, or you can have more or less coming in the door in terms of donor gifts. It's really important for nonprofits to have a tool to review the impact of these decisions, either on a standalone basis or more importantly, how they interact with each other. So, what we find in our experience that it's important for organizations to have a model that they can use to adjust these factors and see how it impacts them in 15, 20, 30 years, so that you have this dynamic tool to help you within that planning process.



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust Podcast

Funding the mission: Why nonprofits need strong financial partnerships - September 12, 2024

We find that nonprofits tend to really want to look at this if they are considering an investment change or maybe they're going into a capital campaign, and they want to see how that's going to impact them long-term or anything that they're going through in terms of their strategic planning. This can be a really strong tool to help them really look at the impacts of decisions they're making today and how that impacts them in the long run.

David: To be able to use some analysis tools, to be able to come to these decisions, as I mentioned, there are considerable trade-offs as you embark on both increased spending that affects future spending or whatever composition changes you have inside the investment component of the endowment. Any other industry trends that you're seeing now, whether it's inside organizations or across the spectrum of nonprofits?

Amy: I think on that same spending theme, we're seeing spending rising as a percentage. NACUBO talked about spending for fiscal year '23 (2023) was 4.7%, which was up from 4% the year before. In our most recent client survey, nonprofits stated that they were spending in a range of 4% to 5%. So that's definitely crept up over time, which okay, as they're trying to address inflation, address the fundraising challenges they're having, but it's a decision and decisions you make today can have a big impact in the future. So that is one trend that I think is really important for boards and their investment partners to work on and consider.

David: Thanks for the interesting discussion today, Amy. For more information on Commerce Trust's institutional capabilities, please visit our website at www.commerctrustcompany.com.

Also, if you've enjoyed what you've heard, you can subscribe to our show on Apple Podcasts, Spotify, Amazon Music, or wherever you get your podcast from. Thank you for joining us on Conversations with Commerce Trust. I'm David Hagee. We'll talk again soon.

Important material disclosures regarding the content of this program follow. Commerce Trust is a division of Commerce Bank. Generally, non-depository investments offered in connection with Commerce Trust and its affiliates are not guaranteed, are not FDIC insured, and may lose value.

Opinions and other information provided are effective as of the date of the recording and presented for the purpose of general education, information, or illustration only. This material provided should not be construed as a recommendation to buy, hold, or sell securities or as advice relating to the profitability of any investment product, strategy, or plan. You, as the investor, are fully responsible for any investment transaction you choose to enter into, including determining whether such investment is appropriate in light of your investment objectives and personal circumstance, and you shall not have relied on the preceding information from Commerce as the basis for any investment decision.



Commerce Trust
Banking | Investments | Planning™

commerctrustcompany.com

Conversations with Commerce Trust Podcast

Funding the mission: Why nonprofits need strong financial partnerships - September 12, 2024

This material is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. In considering whether to trade or invest, you should inform yourself and be aware of the risks. Past performance is no guarantee of future results, and the information in the commentary provided is subject to change based on market or other conditions. Diversification does not guarantee a profit or protect against all risk.

Commerce Trust does not offer tax, legal, or specific estate planning advice. And while we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice.

Commerce Trust does not provide advice relating to rolling over retirement accounts. Commerce Trust is not a Municipal Advisor under Section 15B of the Securities Exchange Act and does not offer advice or recommendations concerning bond proceeds or other municipal advice subject to this section.

Any data contained herein from third-party providers is obtained from what we considered reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed.

This material may not be reproduced or referred to in any publication, in whole or in part, or in any form or manner, without the express written consent of Commerce Trust. Any unauthorized use is prohibited.

September 12, 2024

Commerce Trust is a division of Commerce Bank.



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com