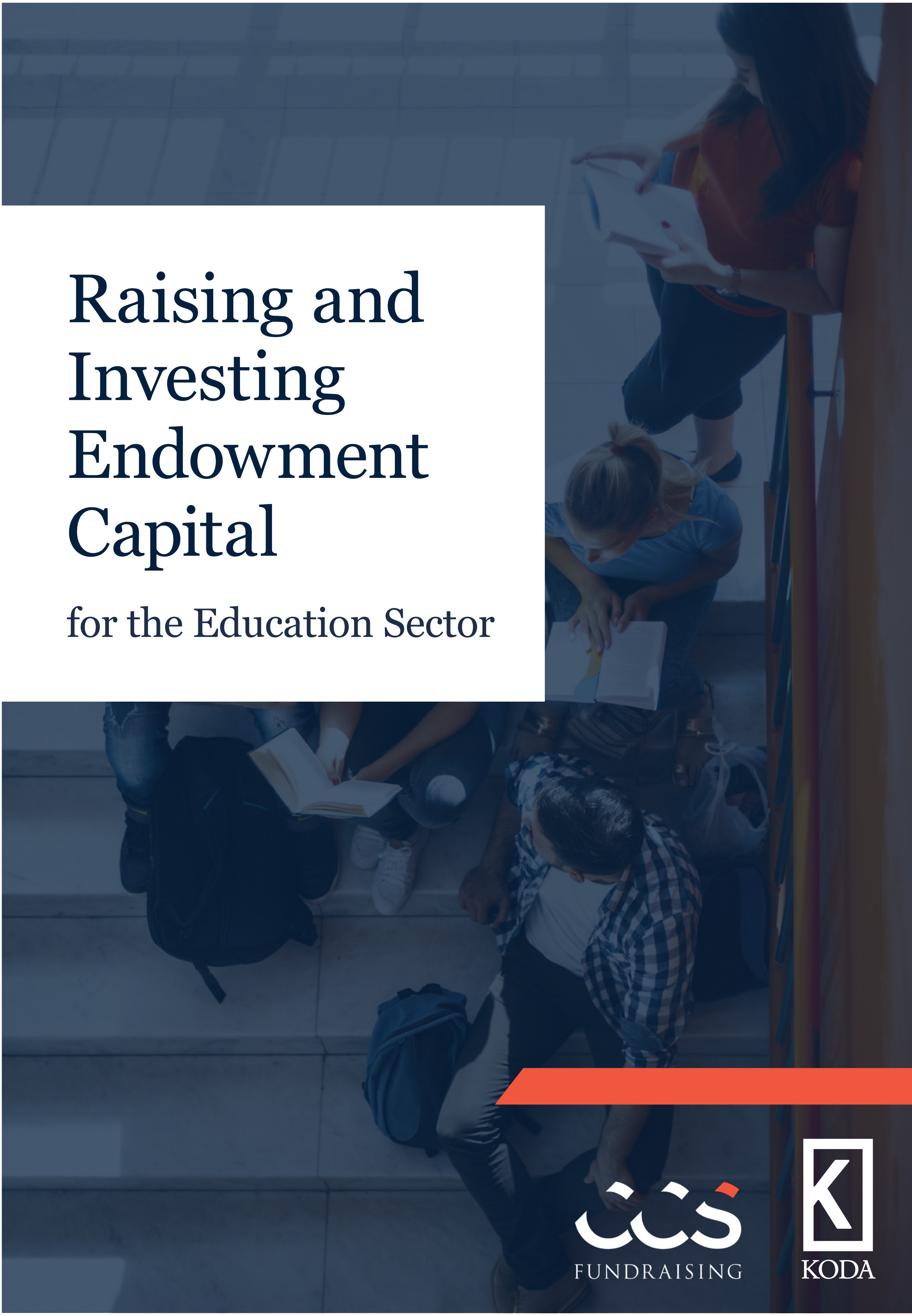
Raising and Investing Endowment Capital

for the Education Sector



CCS FUNDRAISING

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Introduction

This paper is a resource for those tasked with raising and investing endowment capital on behalf of secondary and tertiary educational bodies.

It draws on the combined experience of:

- **CCS Fundraising**, a global strategic fundraising consulting firm working with some of the world's leading educational institutions; and
- **Koda Capital**, an independent investment governance adviser and endowment portfolio manager advising Australian secondary and tertiary education institutions.

For educational institutions, fundraising and investment functions are often governed by the same group of people. For many school foundations and university councils, the desire to raise endowment capital is a top priority.

Despite some of the challenges of raising endowment capital in Australia, the education sector has been one of the few charitable sectors to have had some success. There is an opportunity for the sector to build on this success, by adopting the right mindset, dedicating resources and pursuing appropriate strategies, based on international best practice.

Part A of this paper explores endowment fundraising best practice and **Part B** looks at how to successfully invest endowment capital. We hope that either or both of these sections are valuable to you and your organisation.

This paper builds on previous work done by Koda and CCS Fundraising, like Koda's white paper, The Principles Of Endowment Style Investing and the jointly produced Major Giving: Timeless Principles and Emerging Trends.

Raising Educational Endowment Capital

The COVID-19 pandemic exposed how critical endowments are to both growth and sustainability. Yet few Australian non-profits have the financial security endowments provide. This paper provides insight and advice on how to make the case for an endowment at your organisation.

Many educational institutions often ask, "Can we raise money for an endowment?" While this is not a new question, it is being asked with increasing frequency and urgency as institutions grapple the need to increase tuition fees to balance the budget.

The question has great urgency for many organisations. The challenges of affordability and the impending budgetary constraints from diminished tuition revenues were exacerbated by the COVID-19 pandemic, leaving organisations that lacked sufficient endowment feeling financially vulnerable. Without the safety net of endowment savings or the operating dollars drawn from investment income, some educational institutions faced a very real threat of closure without emergency Government support. It comes as no surprise, then, that there would be renewed interest in raising money for an endowment.

The very question itself though – "Can we raise money for an endowment?" – suggests a doubt that it is possible. The question reinforces a popular perception that endowment dollars are much harder to raise than capital project dollars because they lack the tangible aspects of campus facilities. While the impact of a facility on an organisation's programs may be more obvious, the power of an endowment is far greater in its long-term, positive effect on those programs and the people they serve. Indeed, educational institutions can raise money for an endowment by focusing on some critical strategies.

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1. DEMONSTRATE IMPACT

It is often more compelling to show than it is to tell. This holds true in making the case for an endowment. Showing prospective donors how endowment gifts directly support students and faculty will go a long way in helping them understand the important impact of their gift. For example, an endowment gift to support financial aid can be directly shared through profiles of those students for whom the educational experience would not otherwise be possible. A thoughtful impact statement demonstrates to the donor that their gift does not disappear into a nebulous savings account; rather, it's creating access and opportunity for a deserving student.

The same holds true for faculty support. A gift, for instance, to endow professional development opportunities can be reflected in specific stories and examples of faculty work and travel. Consider hosting an open house for donors at the beginning of the year where the faculty display experiences and outcomes of their summer travel and study. A successful event creates a moment where a donor can engage directly and personally with a faculty member who shares learnings from a meaningful experience. The donor will leave with a lasting sense of personal impact, as well as with a clear understanding that their gift creates a legacy of these life-changing opportunities.

Practical Tips

- Tie the growth of endowment to sustaining the institution's mission for future generations.
- Create thoughtful impact statements to demonstrate tangible results of endowment gifts.
- Identify opportunities to engage donors through events or campus tours to demonstrate outcomes from their generosity.
- Highlight long-term endowment gains by reporting on performance regularly.

2. CREATE RECOGNITION AND STEWARDSHIP OPPORTUNITIES

Named endowment funding opportunities are an important strategy for countering the common misconception that endowment gifts don't have direct impact. An organisation can establish named funding opportunities, such as a faculty chair, a student scholarship, a professional development fund, or even an entire program. These opportunities allow an institution to celebrate the donor while sharing the direct and lasting impact of their gift. The moment where a donor meets the student recipient of a scholarship or the faculty holder of the teaching chair is a powerful stewardship opportunity that reflects the deeply personal and lasting effect of an endowment gift. These interpersonal moments humanise endowment giving. They create powerful stories of personal and professional enrichment for the donor while also celebrating the donor as an inspiration to the rest of the community.

These stewardship opportunities can be particularly important for emerging philanthropists. Families that are building their wealth might establish a fund for a partial scholarship, hoping to grow it over time to a full scholarship. The fund provides natural opportunities to update the donors and to deepen their relationship with the organisation. For families with multiple connections to an educational institution, a family fund provides opportunities to cement a common bond and allows multiple members to participate meaningfully, regardless of capacity.

A word of caution, though: stewardship and recognition of very small endowment funds is difficult. Not only are small funds an administrative headache for the business office, but their returns are so small that recognition opportunities are limited. For example, a $10,000 endowed fund may generate just $500 annually at a standard 5% draw. To avoid this, many institutions have set minimums for establishing named endowed funds to ensure that the administrative costs are worthwhile—perhaps $50,000 for a faculty development fund, $500,000 for a partial scholarship, and so forth. A higher threshold of investment also has the added benefit of ensuring that the stewardship opportunities are more meaningful.

Practical Tips

- Frequent communication is a key component of stewarding an endowment donor.
- If the opportunity is available for donors to meet the actual recipients of their endowment gifts, seize these moments! They humanise endowment giving.
- Before launching named funding opportunities, ensure there are clear policies and minimums in place to avoid confusion or complications down the road.
- An endowment gift with a naming opportunity in perpetuity may increase a donor's gift, especially for donors interested in naming a capital asset.
- When setting a threshold for an endowment gift, consider the increase in CPI in future years, ensuring the 5% draw will cover rising costs.

3. DEMYSTIFY ENDOWMENT MECHANICS

Even with demonstrated impact and recognition opportunities, an organisation risks struggling with endowment giving if it hasn't clearly explained what an endowment is. We often take for granted that our donors and communities have a shared understanding of what an endowment is and how it functions, but without regular illustration of the basics of how it is utilised, donors are left to think of endowment as little more than a savings account. Without explanations and illustrations of endowment mechanics, the endowment can seem like an abstract data point that merely reflects an institution's competitive position in the marketplace, but that has little bearing on daily operations of the institution.

Few donors will understand the ins and outs of financial management. (Even the trustees on a finance committee might be surprisingly misinformed about the role of an endowment in the institution's revenue strategy!) For example, donors may equate endowments with reserve funds, even though endowed assets often have legally binding restrictions on their usage.

Educational organisations can demystify the endowment through regular updates and examples of uses of endowment funds. For instance, a recurring feature in the institution's newsletter could highlight a scholarship and share the donor story behind the gift. Or setting and sharing a goal for long-term endowment growth that provides more opportunities to articulate the impact of the incremental gains that, over time, lead to a larger endowment. This becomes particularly important when an institution is prepared to show the human-scale impact of the endowment today and what the potential impact will be from a right-sized endowment.

Practical Tips

- Provide clear explanation of an endowments purpose and importance through frequent communications.
- Featuring endowment gifts and donors in existing publications is a great way to keep endowment giving top-of-mind.
- Clear charts and data will demonstrate the power of an endowment and illustrate its impact.
- Use routine cultivation opportunities to educate donors on endowment as a long-term strategy to increase their knowledge and comfort.

4. TEACH FINANCE 101

Beyond defining endowment and its mechanics, it's essential to provide a clear understanding of how the endowment functions within the operating budget.

Educational institutions have limited revenue sources, typically defined by tuition, annual fundraising and the draw on endowment income. Institutions that have little or no contributed endowment income to their operating budget put tremendous pressure on tuition as the primary source of revenue.

While many educational institutions publish pie charts showing the revenue breakdown for tuition, annual fundraising and investment income, few institutions take the extra step to explain the key role of each pie slice and, specifically, how a larger endowment – and the subsequent endowment draw – becomes critical in containing the growth of tuition.

Regular communication outlining the role of each revenue source creates important context and helps even those closest to the institution (Board members, insiders, and leadership) understand the need to raise endowment funds.

Practical Tips

- Consider using an interview feature in a publication, a website landing page, or a campaign event to help donors understand the important endowment metrics and their role in the broader financial strategy.
- Use your endowment to show the prudence and long-term commitment of the organisation to create impact for decades to come.
- An endowment can help demonstrate financial sophistication which will in turn build confidence in donors and potential donors.

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5. CREATING AND NURTURING A GIFT PLANNING CULTURE

Planned giving is one of the most effective opportunities to grow an endowment over the long term. Donors may be able to stretch in their support for the organisation in a way they couldn't with just a cash gift.

Small organisations may not feel equipped to handle complex planned gift conversations. Some educational institutions leverage the experience of alumni and parents with wealth management expertise to be informal pro bono advisors to donors considering a planned gift. And there are several firms that provide off-the-shelf planned giving website plug-ins for smaller institutions.

The most successful planned giving programs nurture relationships when donors are starting to build their legacy. An organisation might begin conversations about joining the bequest society when donors are in their 50s, 60s, and 70s. Including basic questions like "have you considered including our organisation in your estate plans?" in regular annual fund and campaign solicitations can inspire donors to think differently about their legacies and to move beyond thinking that cash gifts are their only philanthropic option.

Our experience at CCS suggests that many donors, particularly alumni, increase their annual fund giving after documenting a planned gift intention. Through their long-term investment in their organisation, they come to feel more ownership and commitment to the institution, both today and in the future.

Establishing a bequest society is simple and provides a straightforward recognition and stewardship opportunity as well. An organisation can recognise donors in every issue of its magazine, on a plaque on campus, and through profiles on the website. Regularly featuring bequest society members in its publications and featuring them prominently on the website will provide compelling stories of those who are committed to making a profound and lasting impact on generations of students and faculty.

Practical Tips

- Consider incorporating planned giving into your endowment growth strategy.
- Review your donor lists for loyal donors that are in their 50s, 60s, or 70s. These donors are your best prospects for planned gifts made to the endowment.
- Establish a bequest society to create a clear pathway towards recognition and stewardship.
- Speak to your donors about their giving legacy and how leaving a bequest to your endowment will enable their philanthropic legacy to impact your organisation in perpetuity.

PART A - SUMMARY

With thoughtful communication, educational institutions can make endowment fundraising as tangible as fundraising for capital projects. Context matters though: clearly communicating the role of the endowment in the broader financial strategy of the organisation, along with the power of planned gifts to grow the endowment, help to build a culture of endowment giving.

Creating recognition and stewardship opportunities and demonstrating human-scale impact are also critical steps to making the endowment a tangible, rewarding gift opportunity.

Managing Educational Endowment Capital

A comprehensive investment management program for educational endowments is critical for both the prudent stewardship of invested capital and fundraising success.

Demonstrating that an endowment is professionally managed and well governed can help attract donors and give them comfort that their gift and subsequent legacy will be nurtured now and into the future.

Having a long-term mind-set, focusing on governance and taking the time to properly address the following topics should put endowment investors on the right trajectory.

1. FORMING AN EFFECTIVE BOARD/COMMITTEE

For most groups, delegating oversight of investment management to a highly functioning investment committee committed to the institution's mission represents best practice. It is important to determine what kind of investment committee to establish. Should it be a committee that will run the portfolio, making and monitoring individual investment decisions? Or a committee that oversees a full-time professional investment adviser? Determining this will impact who should be on the committee, how often it meets and what type of strategy is put in place.

The most effective investment committees make time in the agenda for key strategic conversations that fall outside items that are typically focused on (e.g. portfolio performance and investment decision making).

These strategic conversations may include:

- Reviewing the organisation's investment governance documents
- Assessing if the investment strategy is aligned to the purpose of the capital
- Evaluating the performance of the investment committee
- Formulating a stakeholder engagement and communication strategy
- Hearing from the executive of the institution to ensure the committee's work is aligned to the mission and strategy of the organisation.

The world never remains static and new opportunities and challenges are constantly presenting themselves. What worked in the last decade is unlikely to be the right answer in the next decade. Investment committees that continually look to educate themselves and for opportunities for improvement are the most effective.

Practical Tips

- Dedicate time to considering what type of committee to form and what skillsets will be needed around the table, over and above technical investment ability.
- Ensure there is sufficient focus on establishing and reviewing your investment policy statement; it's the cornerstone of success for endowment investing.
- Stress test your portfolio to ensure you have the optimal asset mix to achieve your objectives with the least exposure to risk.
- Ensure you surround yourself with the right people and advice, paying to get it right will often be less costly than getting it wrong.
- Work with your investment adviser to get the right information in the right format to enable you to be fully informed and to make effective and efficient decisions.

2. UNDERSTANDING OBLIGATIONS AND COMMITMENTS

Having robust records and governance processes in place to manage endowments is critical to ensuring an institution complies with legal obligations, fiduciary duties and donor commitments. It is not uncommon for investment committee members to approach the task of managing a portfolio by applying their professional investment skills per se, without fully understanding the fiduciary context in which the assets exist. Over time, institutions can also lose this institutional knowledge and awareness, which puts them at risk. Understanding obligations and commitments is crucial in the context of investment strategy and management.

Funds must be managed according to applicable laws, governing documents (for example a trust deed) and in line with formal and informal donor contracts. It may be vital to segregate and quarantine assets in order to avoid co-mingling assets held on separate legal terms. This topic may be a question that comes up with donors wanting assurance that their endowment gift will be preserved, with the capital, its identity and its purpose all protected over time. Being able to demonstrate the integrity of accounting and reporting processes is critical, as is the ability to rely on sound governance practices.

Practical Tips

- Complete and audit of the legal and regulatory make-up of your endowment, including all records of commitments made to donors and bequests received.
- If there are trusts in operation, locate the original trust deed(s) and any deeds of amendment.
- Work with your investment adviser to model the sustainability of gifts to ensure you are setting the right thresholds for potential donors.
- At many institutions, capital will have to be segregated into separate portfolios with differing conditions, objectives and strategies. This may be due to different requirements of the capital (e.g., a building fund versus a scholarship fund), different commitments to donors (e.g., the existence of a sunset clause versus a perpetual endowment) and the need to quarantine donated assets for legal and/or reporting reasons.

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3. DEVELOPING INVESTMENT GOVERNANCE PRACTICES

Good investment governance of an endowment typically involves having clear delegations of authority. A well-run investment committee with the right people around the table and a well thought through investment policy that is adhered to and regularly reviewed.

Good governance is not only essential for effectively managing endowment capital, but also fundamental to raising endowment capital. Being able to demonstrate effective governance will give donors confidence that their gift will be well stewarded now and into the future.

The two key investment governance documents are:

1. **Investment Committee Charter** – this document should be clear on delegations and clearly articulate what type of investment committee the organisation has put in place and it should state unequivocally how decisions are made.

2. **Investment Policy Statement** – this document is critical to successfully investing endowment capital. It clearly defines objectives and parameters, addressing items such as responsible investment, liquidity, risk and return.

Having clear spending policies and cash-flow budgets is critical and should be clearly communicated to the investment committee. This helps to ensure two equally important outcomes. Firstly, that the appropriate liquidity is in place for distributions back to the school or university and secondly, that funds not required for liquidity purposes can be invested in the optimal manner.

Practical Tips

- Take the time to get your investment policy right. Putting the time into this document will give you confidence that you have the right investment framework in place in all market cycles.
- Make sure your investment policy reflects the legal and fiduciary context in which the assets are held and make sure investment committee members understand this context.
- Remember that the investment process is a means to an end- the end being the purpose for which the funds were donated, be that the institution’s overall mission, or a more specific purpose.
- From time-to-time endowment donors may want to see your investment policy, so write it with external stakeholders in mind.

4. FORMING AN EFFECTIVE INVESTMENT STRATEGY

Investing on behalf of a long-term, potentially perpetual endowment comes with distinct benefits. Institutions can take a multi-generational mindset and invest through market cycles, taking advantage of illiquidity premiums and long term global thematics to generate additional alpha (excess returns above the market). Leading global educational endowments, like Yale University, have understood this for decades and over that time have looked to invest in a wider and more diverse set of asset classes to help drive returns and reduce risk.

Whilst leading super funds and institutional investors such as the Australian Future Fund have followed Yale's lead, many Australian university and school foundations have been slower to adjust their investment strategies. This is changing and today educational endowments are beginning to finesse their approach and move their portfolios away from simple listed equity and bond allocations.

This shift requires a series of adjustments, which often involve reviewing and updating:

- **Investment policy settings** – allowing for options like a more diverse group of investments and greater illiquidity, where appropriate
- **Investment fiduciaries** – to ensure the right skill sets and attitudes are in place for prudent oversight of a new strategy
- **Investment advisory arrangements** – identifying the right partner to provide research and access to global investment opportunities across both core and niche asset classes.

Educational endowments are also having to adjust their strategy to consider the community and the environment their institutions operate within. Today, responsible investment is mainstream and it is expected that educational bodies will invest in line with their mission, values and stakeholder expectations. Building a comprehensive approach to responsible investment can help reduce investment risks, create new return drivers and enhance diversification. Adjusting an endowment's strategy to accommodate responsible investment is no longer just a hygiene factor.

Practical Tips

- Review your investment approach. Are you doing what is best for the organisation or simply falling in line with how it has been done historically.
- Be careful of having your investment strategy influenced too heavily by your immediate sphere of influence. Many schools and universities feel obligated to invest using the services and skills of their alumni or parent group. This can add significant value, but it doesn't always lead to the best outcomes and often an arms-length approach, using a professional, independent adviser is preferable.
- Expect internal stakeholders to get to grips with the concept of an endowment and the way it is managed in different ways and at different rates. Prioritise discussion and communication
- Community expectations are rapidly changing when it comes to responsible investment. Ensure that you regularly review your investment policy and engage with your stakeholders to keep pace with their expectations.

5. EFFECTIVELY COMMUNICATING WITH STAKEHOLDERS

Many donors will come with their own ideas of how the capital they donate should be invested and fundraisers need to be prepared to respond. A comprehensive investment policy should be a powerful engagement tool for such donors, giving them comfort that a well thought through investment strategy is in place. For less detail-oriented donors, an overview of the investment management program can be used.

Such an overview might include:

- Who makes the decisions (e.g., an investment committee)
- A summary of the investment policy and strategy (objectives, responsible investment parameters, etc.)
- How the investment portfolio help to achieve real-world outcomes
- A breakdown of the investment portfolio and its historical performance
- An overview of the professional investment adviser(s) appointed to manage the endowment

Donors aren't the only stakeholders who need to be communicated with. Students, faculty, the institution's board or council should all be considered in a communication strategy. Transparency, especially around responsible investment is critical to managing risk. Institutions who have got this wrong have seen the consequences play out publicly, with protests not uncommon, especially in the university sector.

A communication strategy is not just about risk mitigation, it can also be utilised to show the power of an endowment over time and the legacy donors can create for themselves and future generations of their family. Endowments provide a powerful income stream for an organisation, and despite fluctuations in markets, they are often more reliable than other sources of revenue. We only need to look at some of our great philanthropic trusts for inspiration about the power of endowment giving. For instance, in 1951 the late Helen Macpherson Schutt (née Smith) left a bequest of £275,000 in her will for the establishment of the Helen Macpherson Smith Trust. It has since distributed $137 million to Victorian charities and was valued at $134 million in December 2022. It is stories like these that endowment fundraisers can leverage to demonstrate to donors the power of endowment giving and what can be achieved from a financial and philanthropic perspective.

Practical Tips

- Work with your investment adviser to find ways to demonstrate the power of endowment giving (e.g. modelling of expected financial outcomes).
- Work with your investment adviser to showcase how your endowment is being prudently managed.
- Educate your fundraising team on the basics of endowment investing and involve them in the investment process to help with their communication with donors.
- Take the time to map out your stakeholders, what their expectations of your investment approach might be and how best to communicate with them.

PART B - SUMMARY

Endowment investing is about using the power of time, the magic of compounding and the benefit of available tax concessions to generate exceptional outcomes for educational institutions and their students across generations. Having the luxury of time and the courage to build for the future allows institutions to invest in the optimal manner, without fear of short-term needs or disruptions compromising long-term gains.

Conclusion

Raising philanthropic funds for educational endowments is a critical aspect of ensuring the long-term financial stability and sustainability of educational institutions. The current economic environment and shifting demographics have made it increasingly difficult for institutions to rely solely on traditional sources of funding, such as tuition and government grants. Philanthropy provides a valuable source of support for institutions and their mission.

The key to success in raising philanthropic funds for educational endowments is to have a clear and compelling case for support that resonates with donors. This case should include information about the institution's mission and priorities, as well as the specific ways in which their gifts will support students, faculty and the institution as a whole.

Effective stewardship and communication with donors are also essential to building and maintaining strong relationships with donors. This includes regularly updating donors on the impact of their gifts, providing opportunities for donors to engage with the institution, and recognising and acknowledging their contributions.

Investing educational endowments is a crucial aspect of ensuring the long-term financial stability and sustainability of educational institutions. As the higher education landscape continues to evolve and change, it is important for educational institutions to build a diversified investment portfolio that can withstand market fluctuations and provide consistent returns.

Additionally, it is important for educational institutions to have a clear investment policy and strategy in place, and to regularly review and update it as needed. This allows for a consistent and transparent approach to investing the endowment and helps to ensure that the institution's financial goals and mission are being met.

It is important for educational institutions to work closely with development professionals and other experts who can help them create and execute effective fundraising strategies. By taking a strategic and comprehensive approach to raising philanthropic funds, educational institutions can secure the resources they need to support their mission and provide students with the best possible education. Once philanthropic funds are secured, it is important for educational institutions to work with experienced investment professionals and independent financial advisers who can help them navigate the complexities of investing for the long-term. Ultimately, by taking a thoughtful and strategic approach to investing precious capital, educational institutions can ensure their long-term financial stability and ability to provide students with the resources and opportunities they need to succeed.

ABOUT CCS

CCS Fundraising is a strategic consulting firm that has partnered with non-profits for 75 years. We provide transformational change through a wide range of services that support and strengthen non-profit fundraising programs. CCS operates in more than a dozen offices in countries around the world. The firm's experts—skilled in campaign and development strategy—work closely with organisations of all sizes across non-profit sectors.

ccsfundraising.com **+61 2 9053 7505**

Sydney
Queen Victoria Building
PO Box Q759
Sydney NSW 1230

New York
527 Madison Avenue
5th Floor
New York NY 10022

London
54 Hatton Garden
5th Floor
London EC1N 8HN

ABOUT KODA

Koda Capital is an independent investment adviser serving private clients, charitable and non-profit organisations and philanthropic foundations. We go beyond the provision of portfolio management, to provide expert advice on best practice investment governance, fundraising and professional development for non-profit leaders.

kodacapital.com **+61 2 8651 3400**

Sydney
Level 8, 20 Bond Street
PO Box R216
Royal Exchange NSW 1225

Melbourne
Level 15, 385 Bourke Street
GPO Box 5356
Melbourne VIC 3001

Brisbane
Level 27, 1 Eagle Street
PO Box 15519
City East QLD 4002

Perth
Level 3, 66 Kings Park Rd
PO Box 277
West Perth WA 6872

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