



Private Investments 101: A Practical Guide for Nonprofits

Recent headlines about private investments—especially private credit—have raised understandable questions from nonprofit investors. Cases of isolated defaults, investors hitting redemption limits, and emerging pressure in certain sectors have created uncertainty and, in some instances, discomfort among nonprofit boards and leadership teams.

Even if these headlines fail to capture the full context, they draw attention to key risks and operational considerations that nonprofits should evaluate carefully to ensure private investment exposure advances, rather than constrains, their mission.

For nonprofit leaders, the priority is aligning investments with the organization’s mission, liquidity needs, and governance capacity. This article explains how to evaluate private investments with clarity, discipline, and long-term perspective.

What Are Private Investments?

Private investments are assets that are not traded on public exchanges like stock markets. Instead of buying publicly listed stocks or bonds, private investors commit capital to private funds that invest directly in companies or assets. These may include one or more of the following.

- **Private equity:** Ownership in privately held companies
- **Private credit:** Loans made directly to businesses outside of public bond markets
- **Venture capital:** Investments in early-stage or high-growth companies
- **Other private assets:** Real estate, infrastructure, and similar long-term investments

Unlike publicly traded securities, private investments are typically held for several years at a minimum. They are not easily bought or sold (in other words, they’re less *liquid*), and they carry a unique set of opportunities and risks compared to other investments.

Why Nonprofits Use Private Investments

Some nonprofits may already be well-positioned to use private investments effectively. In particular, these strategies tend to fit organizations that:

- have long-term time horizons;
- want broader diversification; and
- are seeking additional sources of growth or income.

As public markets have grown less predictable, these advantages have grown more interesting to nonprofit investment committees.

Financial markets are now contending, simultaneously, with geopolitical pressures, economic uncertainty, and rapid technological change. This means institutional investors are no longer focused on predicting a single most-likely outcome. They're preparing for a range of possibilities. Amid this environment, private investments have garnered more attention as a potential tool to build portfolio resilience across various potential outcomes.

But those potential benefits must be weighed carefully against the illiquidity, manager-selection risk, and operational demands that private investments can introduce, particularly for nonprofits with limited internal capacity.

The Trade-Offs: What to Watch

Private investments can offer meaningful benefits, but they are not appropriate for every organization or every dollar. Nonprofit leaders should be aware of several key trade-offs.

- **Illiquidity:** Capital is typically locked up for multiple years, with limited ability to exit early.
- **Complexity:** Private funds involve detailed legal structures, valuation approaches, and reporting.
- **Variability of outcomes:** Returns depend heavily on manager skill and market conditions.
- **Administrative burden:** Beyond investment risk, private funds can require significant back-office work.

For nonprofits, this burden is not just conceptual—it is operational. Private funds often require organizations to manage capital calls on tight timelines, review and execute subscription documents, coordinate with legal and tax advisors, and absorb delayed tax reporting due to K-1s. These demands can place additional strain on lean finance teams, especially when an organization is utilizing multiple managers or strategies at once.

In practice, the question is not only whether a private investment is attractive on paper, but whether the nonprofit has the staff capacity, systems, and outside support to administer it effectively.

A Closer Look at Private Credit

Recently, *private credit* (and specifically, lending directly to companies) has received particular attention, with headlines questioning the asset class's overall stability. But it's important to separate broad trends from specific areas of concern.

Not all aspects of the private credit market are experiencing the same dynamics, says Kevin Van Buskirk, CAPTRUST senior manager of investment research. "The headlines are getting a lot of attention, but the data doesn't point to widespread problems."

Much of the recent volatility in private credit has been concentrated in semi-liquid funds designed for retail investors, says Van Buskirk. These vehicles allow periodic redemptions, which can create stress when many investors try to withdraw money at once, as has happened in the past few months.

In other words, the problems caused by recent withdrawals were more about the structure of the investment vehicles and their unique redemption characteristics than about the underlying credit quality of the asset class. The core institutional private credit market—where most nonprofits invest—has remained relatively stable and has not experienced the same level of outflows as the semi-liquid, retail-oriented funds that are making headlines.

At the same time, private credit is not without risk. Several areas warrant attention.

1. Increased payment-in-kind (PIK) interest, where borrowers defer cash payments
2. A rise in loans being placed on manager watchlists
3. Greater scrutiny of specific sectors, particularly software

On that last point, Van Buskirk cautions against broad generalizations. "There's a clear distinction between higher-quality and lower-quality software names," he says, noting that artificial intelligence may affect some business models more than others.

In other words, the risks are real, even if they are not uniform. "There are a few areas of concern that people need to do their due diligence on," says Van Buskirk.

Why Manager Selection Matters

One defining feature of private investments is the wide dispersion of returns. Outcomes can vary significantly depending on the manager, strategy, and timing.

This makes manager selection especially important. In private credit, for example, understanding underwriting standards, sector exposure, and portfolio construction is critical in distinguishing between more and less resilient investments.

Here, experience and due diligence acumen matter most. Two funds that look similar on paper can produce very different outcomes, which makes it essential to work with managers who demonstrate consistent underwriting, discipline, and a repeatable process.



Governance: The Deciding Factor

Across all aspects of private investing, governance plays a central role. In this context, governance extends beyond broad oversight from a board or investment committee. It includes a clear investment policy statement, defined decision-making authority, disciplined due diligence, liquidity planning, operational processes for handling capital calls and documentation, and coordination across finance, tax, audit, and legal functions.

For nonprofit investors, governance also includes execution. A sound policy framework is key, as is the team's ability to respond to capital calls, monitor cash needs, keep documentation current, and manage tax and audit timelines that may be affected by private fund reporting. Without those processes in place, even a well-designed allocation can become difficult to implement.

Of course, strong governance won't eliminate uncertainty, but it can help an organization stay disciplined during periods of stress.

"The goal is to create a framework to evaluate what we do know, rather than letting uncertainty overwhelm the decision-making process," says James Stenstrom, CAPTRUST senior director of institutional portfolios.

In practice, strong governance around private investments usually includes:

- A documented role for private investments in the organization's investment policy statement (IPS), including allocation ranges and liquidity parameters
- Clear board, committee, staff, and advisor responsibilities for approving commitments and monitoring exposure
- A process for manager due diligence and ongoing review
- A plan for cash management and capital call funding
- Internal or outsourced support for subscription documents, tax reporting, audit coordination, and recordkeeping
- Periodic review of whether the allocation still fits the organization's mission, spending needs, and risk tolerance

"In uncertain markets, governance does some heavy lifting," says Stenstrom. "The clearer the framework, the steadier the decisions will be." For many nonprofits, that framework may include an experienced advisor or an outsourced chief investment officer (OCIO) to help guide decisions and support ongoing oversight.

The Bottom Line

Perhaps the most important takeaway for nonprofit leaders is balance. It's easy for headlines to shape perceptions, whether those headlines are currently focused on market stress, market upswings, or emerging risks. But the underlying reality is often more nuanced. For nonprofits, this reinforces a familiar principle: investment decisions should be grounded in long-term objectives, not



short-term noise.

Private investments can be a valuable tool—but they require patience, discipline, and thoughtful oversight. For some nonprofits, the benefits may justify those demands. For others, especially organizations with tighter liquidity needs or lean internal resources, a smaller allocation—or no allocation at all—may be the more prudent choice. The right answer depends not only on return objectives, but also on governance readiness and the organization’s ability to manage the practical realities that come with private funds.

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