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# Mission and Markets Episode 21

**Speaker:** Hello and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management. Hosted by CAPTRUST's Heather Shanahan, each episode shares research, resources, and recommendations from industry insiders.

So your nonprofit can focus on what's most important, the mission.

**Heather Shanahan:** Hello, and welcome to our latest episode of Mission and Markets. My name is Heather Shanahan and I am your host. And today I am joined by two of CAPTRUST's Finest Advisors. David Ramer and Elliot Greenberg, both of whom focus on working with nonprofit clients, endowments, foundations, institutional assets, and have a world of experience to lend to discussion on our topic today, the universe of private markets and alternative investments.

if you'd be willing to introduce yourselves, tell us a little bit about your background and your time at CAPTRUST and Elliot. I'll start with you.

**Elliot Greenberg:** Yeah. Great. thank you Heather. so coming up on four years at CAPTRUST now, and prior to that, worked at a firm with David, called Elwood Associates based outta Chicago. both of us, have similar backgrounds that we've spent our careers at Elwood, and really the bulk of that, as you mentioned, has been focused on advising to non-profit entities.

Foundations, endowments, institutional asset pools, groups that think long term. been doing that for, as I mentioned, close to 15 years. And a lot of our time, with that and in addition to advising clients has also been on the manager due diligence side. so led our public market efforts on that front, which as time has evolved, has really.

shifted towards these types of institutions focused on the alternative side, of this, space, which is.

**Heather Shanahan:** Perfect. Thank you David. Welcome.

**David Ramsour:** thanks for having me. I'm David Sauer. I am, an institutional advisor with CAPTRUST.earlier in my career was leading.

Our team's alternative research efforts. coordinating the, manager research across seven alternative asset classes along with operational due diligence. And experiencing that, through, things like the global financial crisis and, even the outbreak of, COVID-19 has really, been a lot of a good experience and see how these, asset classes fare in different cycles.

**Heather Shanahan:** Fantastic. thank you both for joining us today. certainly two excellent individuals to lean into this topic. this is an area that frequently nonprofit organizations are interested in exploring. Sometimes appropriately sometimes not appropriately

So let's begin with the discussion about the different strategies that we might wanna explore and let's start with about private equity.

**David Ramsour:** Sure,a lot of, headlines have been focused on private equity in recent, years. some great and more recently, some negative headlines. Butyou know, in general,the thought process behind private equity is that you can generate a higher risk adjusted return with your assets by investing in the private markets such as private equity, as long as you can take that illiquidity risk and take the long-term view.

And, one of the main benefits besides higher expected returns. That private equity offers versus public equity is that it also has lower volatility of, market values quarter in and quarter out. And the reason is private assets are only valued quarterly versus public markets that are valued on a daily basis.

And you can see that the volatility day in and day out with those values and how that really benefits, nonprofits, particularly those that have some sort of spending policy based on their asset value. It helps limit the overall portfolio's volatility of market value so that you can have a smoother stream of distributions, over time based on that smoother market value.

So not just higher returns, but also, limits volatility, some, which is very attractive. And the other thing that's attractive about private equity is just the sheer size of the private equity universe. There are so many thousands of. Private companies as compared to the number that are publicly traded.

So it's a big opportunity set and, a nice opportunity for managers to find companies where they can truly add value over the long term and generate returns for nonprofit clients.

**Heather Shanahan:** Elliot, do you have anything you wanted to add there?

**Elliot Greenberg:** Yeah, I think maybe I was gonna jump in and just maybe contrast some of the other strategies within private markets, because as David alluded to, a lot of the headlines, recently, have been around private equity and. It is generally a return seeking asset class, but one thing that gets missed is a lot of the strategies that you may use, whether that's private real estate, hedge funds, private real assets, are often more used from a diversification standpoint as well.

So the idea being that they're just gonna move differently than what you see in your public market holdings in both stocks and bonds. So bringing that into focus for nonprofits, very similar to that, conversation on lowering volatility, just having, differentiated sources of return and risk, which just smooths out.

that cycle for endowments, particularly those that have a stated spending policy, they know they're going to, constantly be pulling from this helps dictate a little bit more of, having some confidence in what that amount will look like year in and year out.

**Heather Shanahan:** Let's take our next category, private credit. David, you wanna jump back in on that one?

**David Ramsour:** private credit is certainly an area that has grown over the last decade, and it's really, Gained popularity because of some of the attributes that it offers, as compared to public fixed income. And so what private credit is, is when loans are made, directly to entities, usually private corporations because they're too small to go to the public markets themselves.

And so much like private equity. There are investment managers who specialize in underwriting. Private corporations to whom they may make loans. What's special about these loans is that, they tend to be senior in the capital structure. They tend to be floating rate loans, and so they're less impacted by interest rate movements and, it just generates, a significantly higher return or higher yield and then longer term return because of that, versus the public fixed income markets.

and one of the things that's interesting about it is it tends to be a higher turnover of capital, meaning these loans are typically three to five years, and so an investment manager will make the loan, you'll collect your coupon on that, and then you'll get a return of capital in three or five years.

And so the money's not locked up as long as it may be with private equity or private real estate. And For investors who are trying to reduce their interest rate risk in the public markets, this is a nice solution to, have similar, capital preservation type of exposure, but to generate a higher yield from that.

And because the market has grown so substantially in recent years, particularly, because banks have gotten out of the business of making loans, private credit has stepped in, has really expanded as an asset class. And it's much more accessible to nonprofit investors now.

**Heather Shanahan:** Elliot, anything to add? And then let's move on to our next category, private real estate.

**Elliot Greenberg:** I think I, it's a good segue into private real estate, which depending on the segment you're invested in, can have, a similar yield component as well, but certainly has a lot of the diversification benefits. So when we think about private real estate, we bucket the world in a couple different types of approaches.

You have traditional core real estate, which is what many, investors think of. It's perhaps a fully leased office building or fully leased shopping mall where you're pulling out that income. And really that's the main driver of your return going forward. A little less risk there, certainly, but also less variability on that upside and downside.

a lot of institutional investors, the nonprofits we work with are more focused on areas like value add real estate. You're seeing improvement. On an existing property to hopefully increase those rents, increase the leasing activity there. or even opportunistic real estate where you might be doing a fully, ground up development.

You might be taking over some distressed assets. All of those fall into the same bucket, but where we see the value in it is. First being diversification. So if you just look historically, very low correlations to equities and bonds, so fits nicely in a portfolio there. from an opportunity set perspective, it's actually, commercial real estate.

Here in the US is the third largest asset class. There's a big universe of properties and different property types that you can tap into, to add value there. So that's been, definitely an area over time. And I think most importantly, perhaps on the minds of investors right now, it'd just be that it's been a very good inflation hedge over time as well, because you have seen real estate income able to keep pace with inflation.

**Heather Shanahan:** I'm curious, following. Everyone departing office space and working from home, there's a lot of uncertainty around commercial real estate and what was going to happen and the volatility there. how has that fared? what are we looking at now?

how have things rebounded?

**Elliot Greenberg:** I think it's a great point and it gets a little bit into when we think about alternatives. There's also the type of vehicle you're invested in. what is the liquidity around that as well, But, traditionally publicly traded real estate, real estate investment trusts, REITs are.

Some of the biggest owners of those traditional office buildings, and that's where you saw a lot of the, hits take place in 2022. I think that's where the manager selection, the due diligence process really comes into play. Where you wanna be focused on what do I own? and a lot of the private space, where clients have been.

Focused on here over the last several years is where are the trends away from that? So a multi-family, industrial, some of the things that are going to be the next wave that, because of some of the transformations we saw coming out of COVID, how do you take advantage of those spaces?

So it really depends on the composition of that portfolio.

**David Ramsour:** and I would just add to that, there are primary sectors within real estate. So office multifamily, retail, industrial, but then there are secondary sectors, things like senior housing, student housing, even data centers have been very hot recently. life sciences where, it's office buildings with labs inside of them.

And so there are a lot of avenues now to diversify the portfolio and or tactically position the portfolio to take advantage of, whether it be demographic changes, economic changes, even, regional changes. so there is an opportunity to stay out ahead of the trends. But on the same hand, as you mentioned, Heather, office

real estate has been, facing a lot of headwinds, particularly since, the breakout, of COVID-19.

But it's also to the point now where we're starting to see investment managers buying into office because it's so attractively priced now. And the other component, and Elliot hit on this a little bit, but just the inflation hedging component that real estate offers. If you think about things like multifamily apartments.

they reset their leases each year and so that stays ahead of inflation and you get that to a certain degree with other types of real estate, whereas on the other end of the spectrum, office leases or industrial leases may be seven or 10 or even longer year lease leases. And so again, just ways to diversify the portfolio within that specific asset class and overall provide diversification and risk adjusted returns for the broader portfolio.

Yeah,

**Heather Shanahan:** you talked about inflation hedge. Do you wanna keep going there and talk about real assets?

**David Ramsour:** sure. Real assets is a pretty broad category. it can include anything from infrastructure on the more conservative, almost fixed income side all the way to commodities or, even operating businesses within the natural resource space. So think about companies that might be, digging oil wells, for example.

And so it runs the gamut of risk and return within the broader real asset classes. But by and large, the two main components, and we've been talking about this a lot with other asset classes, but diversification, has very low correlation to your traditional asset classes, but also is highly sensitive to.

Not just inflation, but unexpected increases in inflation. It's a way to protect the portfolio should we enter another environment where inflation outpaces expectations. And so it's not usually a large part of our client portfolios because there tends to be a lot of volatility involved, particularly as it relates to natural resources.

but it is worth having a small piece of the portfolio there just to act as that inflation hedge.

**Heather Shanahan:** Let's take our next topic, which we tend to have strong opinions about you either love or hate. So Elliot, we'll give you hedge funds to cover.

**Elliot Greenberg:** Oh, thank you. I'm honored. I'd echo some of those comments David just made in that, hedge funds is a broad term, there's different strategies within private markets, but then when we get into hedge funds, there's very different strategies than that as well.

And again, we bucket these, the way we've thought about the world for clients is what is the ultimate goal here? Is it. A growth asset? Is it something that's meant to, preserve assets or is it something that's just meant to diversify? And there are different type of hedge funds for each one of those approaches as well.

In general, we find that you're either looking at something, that's more on the preservation side of things, It's a, substitute for fixed income. Perhaps you're hoping to get a little bit higher, absolute return, but still at the end of the day. It's viewed as, something that will preserve the capital and the corpus of that entity.

or it's perhaps something that's a bit more diversifying. And again, hopefully it'll move. The correlations look different than what you're seeing in the public markets, and you have it in that place, in order to provide again, that smoothing of your returns, particularly in some volatile environments for the public markets.

**Heather Shanahan:** So that's a good segue to our next topic. And speaking of public markets, which have done pretty well, why would an organization consider these strategies? I.

**David Ramsour:** I'll take a stab at this. first and foremost, it generally aligns with most nonprofits, time horizons, which are longer term time horizons. And so if you've got that ability to take the long-term view, and the main thing that goes with that is some, illiquidity risk in the portfolio.

Then it makes sense to allocate to things that would be higher expected returns, over that long term and being able to ride out some of that, illiquidity in the portfolio. And we've seen organizations depending on the type of nonprofit they are, and part of that includes if they are able to accept gifts or not, if they've got cash flows coming in.

We've seen nonprofits take anywhere, from 5% to 30 or 35% of the portfolio and allocate it to these private investments. Obviously staging them out over



time so that you don't have that whole amount locked up for the same period of time. but that does generally improve the risk adjusted returns of the portfolio if they've got that long-term view that they can take.

**Heather Shanahan:** That makes sense. none of these decisions are one size fits all. and sometimes one size doesn't fit anyway. It really just depends. There are a lot of factors to consider here. So what would you say are some of the most important factors for a nonprofit to consider when they're taking a look at, these strategies?

Elliot, do you wanna

kick us off there?

**Elliot Greenberg:** absolutely. And I think the first one that often, gets thrown out is size, the size of the investment pool. And in our experience, we would say that It's generally a good barometer, but to your point, one size does not fit all. we work with some very large entities with hundreds of millions of dollars who don't.

traffic in term investments and we work with some that perhaps are, sub \$50 million that you might not think have the ability to access it, but they do. So it really depends on your specific needs. first and foremost, to piggyback on, what David just said, it is liquidity.

it often, in many of these cases, particularly when we're thinking of, truly, a liquid type of strategies you're giving up, That ability to. Sell your s and p 500 mutual fund tomorrow and have access to your capital. so, you have to feel that you're comfortable in terms of, what do we need on an annual basis on a several year basis, what does that look like in a downturn?

What does that look like? in terms of our fundraising cycle and how, things might impact. From that perspective. So doing all of that modeling and making sure you're comfortable from a liquidity standpoint, it is a big. consideration there. the second, that, organizations that have operated in this arena can certainly attest to is just the administrative burden.

it's just different than your typical, log on your brokerage account. Type in a ticker and now you own that mutual fund or ETF. it's significant, paperwork in terms of the subscription process, the ongoing, process in terms of keeping up with, the various capital calls that are going out and distributions coming back for these vehicles.



I think, organizations need to be set up from a staffing perspective appropriately that they can handle this or, they're asking their advisor the right questions to make sure their advisor can help assist 'em, with those functions as well.

**Heather Shanahan:** we talked about size, both of portfolio, size of staff, these are really factors that an organization needs to consider. So what are some of the different strategies that align with anywhere from small, medium, large, or, liquidity or, a staff of two?

what do we need to be thinking about?

**David Ramsour:** that really is the million dollar question because there are a lot of approaches and there are a lot of new options that can make approaching alternative investments easier. the first thing to point out is that there are different types of vehicles across all of these asset classes that we've discussed that are available for investors.

Certainly on one end of the spectrum, you've got. what we would call direct investing, where you're making a commitment to a private equity manager called a general partner, and it's a drawdown vehicle. You make a commitment, they draw it down over a number of years. It remains invested for a while, and as each investment matures, they return that capital to the limited partner or the investor.

There's also fund of funds, which is a vehicle that invests in a bunch of underlying direct funds, and This could make sense for smaller organizations that don't want to be filling out subscription documents for several new commitments every year. And instead would fill out one subscription document for a fund of funds that then invest that money for you over the next several vintage years.

And so it limits the administrative burden, gets you exposure to a lot of diverse strategies. And it's not a one-stop shop, but gets you a whole lot in one punch. And then on the other end of the spectrum are what are called, interval funds or semi-liquid, private vehicles. and the way that these work is, they're essentially evergreen funds, which means they take new money from investors.

Over time, that money remains invested. They will cycle through investments and reinvested for you. And when you are ready to take some of your money out, they have liquidity windows where you can request to get some or all of your money out. Under certain terms there are certainly liquidity provisions and so we would not call it fully liquid.

We would call it semi-liquid. The way that this impacts investors of different sizes, we generally bucket clients, based on, you probably don't wanna be doing a whole lot of privates or alternatives if you are, below \$25 million in total assets because it's hard to meet investment minimums.

Without taking too much of your portfolio and allocating it to privates. So the first bucket would be kind of that 25 to 50 or \$75 million in total assets. There. It's appropriate to have exposure to privates, but you don't wanna make a whole lot of individual commitments to direct funds because you won't be able to get the diversification you need.

So you could approach that using fund of funds. And or semi-liquid interval funds. If you're above 75 million, you could go about it by doing direct investments with, individual funds and still be able to have the diversification you need. Or you can do some combination of the three vehicles.

We've even seen some of our larger clients invest primarily in direct funds. But then we'll have a piece of their alternative portfolios and these interval funds for liquidity purposes, it keeps them invested. They can access capital for rebalancing purposes if they need to, and they still maintain a diversified portfolio, albeit with the bulk of it, focused on, direct commitments.

So there's a lot of options that can be done here and you put together a matrix where on, one access, you've got size of the total portfolio and on the other access. You might consider, the number of commitments or the capacity that the staff has to fill out subscription documents and base your vehicle decisions on that.

**Heather Shanahan:** Let's talk for a minute about higher ed. 'cause this has been quite a year in the higher ed space. a lot of uncertainty that was out there in the beginning of the year with the one big beautiful bill act. A lot of change, and a lot of pressure.

And when we think about, private and alternative investment strategy, we often see it there just because of that longer term. Time horizon as well as, larger asset pool. So what's happened this year? What, with all the change in volatility, changes in federal funding, what have we seen in the higher ed space with this strategy?

What's happened?

**Elliot Greenberg:** so often private markets and. Endowments, non-profits. it ties directly back to what's gone on with the big universities. these were the first movers in terms of getting into these spaces and in terms of getting into very large allocations to these spaces.

So the Yale model is often cited for best thinking for endowments and the Yale model. there's a lot to it, but much of it was around. High allocations to private markets for many of the reasons we've talked about today, that if you have the ability to think long term to take on some illiquidity risk, there's a return premium for doing so, and that's, served everyone very well for a very long time when you look at the long term results.

but here, more recently, what we've been tied up with is, a lot of those liquidity risks all coming together at once. And you saw it with. more recent years, interest rates have increased. We've seen less activity in the private markets, so a lot of. If you think about a deal that was done when rates were very low, as rates move up, the financing around that, the return assumptions have changed significantly, and you're seeing a bid ask spread between buyers and sellers that has not come to fruition and then they have not been able to meet, in a commonplace just yet.

And what that's meant is a lot less distributions outta these private markets for the last several years. So you've had less distributions on one hand. You had the threats of increasing, taxes on these larger endowments that some of that did come into play with the one big beautiful bill. It did end up really only impacting the largest of the college endowments, but it's still a factor.

And I think it also led to others thinking about, what is my exposure to this? Can my investment income tax perhaps increase, higher than it was ever anticipated to do So. And then you bring that all together. There was also some concerns around funding to certain institutions.

So now you have three places where. You're seeing less liquidity than your assumptions were going into investing in these private markets and that's where a lot of the, negative messaging around private markets took place so far in 2025. It did impact a small cohort, but it definitely, opened the eyes to a lot of other nonprofits just to make sure, let's re-underwrite our liquidity assumptions.

Let's re-underwrite, our spending needs and make sure, we have the right size. For our, own situation.

**Heather Shanahan:** David, talk to me as if I know nothing. What should I know about pacing models? What does that mean? What are the primary objectives and how can investors get in trouble potentially?

**David Ramsour:** I think that builds nicely on exactly what Elliot was just discussing in that, the one thing that you really want to try to avoid when allocating to private markets is over allocating, having it end up being too large of a piece of your portfolio because it's very hard. To sell private assets in the secondary market.

And when you do so, you usually take a pretty big financial hit to unload those. And so it's very important, especially at the beginning, but throughout the whole time that you're investing in privates to really have a long-term game plan with how much you're going to invest. So what type of strategy and when you expect to get that money back and one of the primary.

Pillars of private investing is to diversify by vintage year, which means commit the same amount more or less each year because these are long-term investments. You won't know until well after the fact whether it was a good year to invest in privates or not. And so you want to be diversified by vintage year, and you do that by committing the same amount each year.

So how do you figure out how much to commit? Each year so that you get to your long-term target without going over your long-term target or going under your long-term target. And that's where pacing models come into play. Pacing models are essentially, pretty complex models that factor in a lot of information about the investment that you're making.

So it, factors in how rapidly capital will be called by that investment manager, how long it will stay invested. What's the rate of return that you're expected to earn on that investment? And then when distributions will start to come and it's all, relational in that, if it takes longer to call the capital, then that pushes your distribution schedule further out into the future.

And so we've done a lot of work over the last couple of decades building a pretty complex pacing model. That ultimately solves for if this is your target, here's how much you should commit to each strategy over the years, so that you maintain that target and don't go over, and don't go under.

And we use this with clients, at the outset to kind of lay out a plan and make the committee aware of what we're expecting to do over the next seven to 10 years. From a commitment standpoint, how much to commit each year, what types of

strategies we'll be committing to each year, and then we update that every year with the committee to update expectations.

And so it is a dynamic model, it's a dynamic exercise. So as Elliot mentioned, we've seen the amount of deal activity in the private market slow down significantly in the last three years, once interest rates went up. That has changed the math of the pacing models. And some clients haven't seen the level of distributions or the level of capital calls that they would expect.

And so revisiting the pacing model each year and adjusting it live based on what's actually happened, and updated expectations helps keep you on pace, so that you don't get over allocated.

**Heather Shanahan:** Elliot, can you spin off of that and take a look at other administrative complexities in addition to pacing that organizations need to be aware of?

**Elliot Greenberg:** Yeah. So once you think about that pacing approach, it's going to build out a strategy that says within any of these asset classes, and let's focus on private equity, for example, you're gonna be making several commitments per year, frankly over the long run, In perpetuity, just to continue to keep pace with your targets in that space.

So what that means is every time you make a commitment, there'll be, a process of. Reviewing and selecting that manager to go with and then going through their subscription process, which. Can be hundreds of pages in terms of a document plus a limited partnership agreement outlining all of those terms.

so you really wanna make sure, you're asking your advisor, what their due diligence process looks like to review, not just the investment side of things, but also that operational, legal tax, fee focus to make sure that these funds are up to par in terms of what you're seeing from a best industry.

Practice perspective. So you're doing those ongoing subscriptions, but then many of these funds we're speaking of or draw down vehicles, which means you may commit to give them \$3 million, but they have a period on which they can take that capital from you. So now you're dealing with the administrative, standpoint of you don't know the predictability of those capital calls.

you'll get an email Describing, we've purchased this company and we need, 20% of your commitment within the next, two weeks. So working through your

liquidity needs, making sure you have that available, making sure you have a good custodial partner that can help facilitate those transactions as well.

Then in an ongoing perspective, there's often a lot of, know your client type of administration that these private, strategies have to go through to make sure, the profit that is subscribing to their investment is who they say they are. The people behind them are who they say they are, and these are, US regulations that, all strategies are beholden to.

So it's just an additional layer where you're gonna be. Required to provide identification, and additional, address, verification. So it all comes together a bit of an onerous process in terms of, making sure you're just staying on top of each one of those aspects.

And that was just for one asset class. Your nonprofit may be investing in private equity, private real estate, private credit. So rinse and repeat for each one.

**Heather Shanahan:** It's a lot. David, are there other issues that you find that nonprofits don't think about or fail to ask in this arena?

**David Ramsour:** there's a lot of other issues, a lot of things to consider. A lot of the focus is based on, when you're underwriting a manager, for example, what returns have they generated? Or, Asset class, are they in, what do they have access to?

But there's not a lot of attention spent on things like operational due diligence. And that's, a very important area, where we have seen over the last 25 or more years where alternative investment firms quote blow up. by and large it's from the operational side, they're not taking care of some of the basics of running.

The business, whether it be, from a trading standpoint or a counterparty standpoint or, things like leverage practices, are they having non-recourse leverage versus recourse leverage in the funds that they're buying. And so spending a lot of time on the operational side to make sure that you're not gonna step in a bucket there, is very important.

I do think another consideration that. People don't spend a lot of time on is why are they getting access to this strategy? we've all heard about how important it's to find the top tier managers in any asset class, but particularly on the private market side. And a lot of those managers tend to be oversubscribed, meaning there's more interest or more investing dollars that want to invest in that fund than they are willing to raise.

And so. Why are you getting access? Is it because, you've got a special relationship with the organization and they're willing to allow you in? Is it because your investment advisor has built a relationship over time with that manager and provides access? Or is it just because nobody else wants to be in that fund and so they're offering it to you?

And so it's very important to zoom out and think about what is the opportunity? Why am I getting access? And then thinking about both the operational and investment side of things when you're evaluating, where to lock your money up for, five to 10 years.

**Heather Shanahan:** It's really difficult to evaluate if you don't have a lot of experience in this arena. What guidance would you give to nonprofit organizational leaders who may not have a super savvy investment committee? How do you handle that? Because how do you know what you don't know there?

**Elliot Greenberg:** I think when you're dealing with your advisor, asking the probing questions to understand what their process is. Because again, you're dealing with illiquidity, you're dealing with administrative complexity. So before you're ready to sign that subscription document or write that commitment check, you want to make sure you're going in with eyes open.

So I think a lot of it is centered around first education. So having these types of conversations with your advisor, just give us the lay of the land. What are the types of strategies. Why would we consider them? And as you start to think about your nonprofits goals, is it, we need to increase the return of our entity over time, because, that's our goal is have this real growth after our spending.

Is it, we need to minimize our volatility because we just have a, different cycle in terms of our spending needs. And it'd be really important to us once you determine what that is. Through that education process, then you're gonna go through the SAPs and understand what is the type of illiquidity you can take on.

And I think then that next phase is really understanding what is the approach, of the investment advisor you're working with. How do they get access? To the best and brightest alternative, markets because something we haven't touched on is it's not just, okay, if I'm in private equity, that means everything we just spoke about is true.

It's still like any other asset class, like we've seen in public markets. There's a dispersion between the best performing investment managers and the lower



performing investment managers. So you wanna make sure you're partnering with a group that can help you identify. Who are the right, investment managers for your entity, and how they have an edge, how they get access, and then importantly to David's point, how they think about all the operational issues as well.

there's one skillset to underwrite the investment acumen of a manager, but it's a completely different skillset to underwrite. Do they have the best practices, from an administrative perspective, from a legal perspective. Are there terms, in line with industry standards, are there things underneath the hood, that set off the alarm bells that, perhaps, are just, gonna be too onerous on an limited partner like a nonprofit?

**Heather Shanahan:** speaking of unexpected surprises, David, can you talk to us about UBIT and where this could potentially come into play here and what does it stand for?

**David Ramsour:** Sure. UBIT, unrelated business income tax is something that nonprofits very much want to avoid. and the way that it's generated is when, the nonprofit makes a profit from something that's not related to the primary business, So think about, a museum that has a for-profit bakery on the first floor or something like that.

when you generate UBIT. You end up having to pay an excise tax on that and it can be punitive at times. And so it's very important for nonprofits to be conscious of that and to get out ahead of it in advance because once you make a decision that leads you towards UBIT, it's really hard to reverse that course.

And so the way that nonprofits get out ahead of that is most investment solutions. Offer two vehicles. There's a onshore and an offshore, and those are generic terms that the industry uses, but an onshore is typically for taxable investors, whereas an offshore is for tax exempt investors. and the way that it works is it's the exact same investment, but the offshore fund is set up as its own, corporate entity, for lack of better term, that corporate entity pays the taxes.

Before passing through any earnings to you. So it allows the nonprofit to not have to deal with the pass through and then dealing with the UBIT and having to pay taxes on it. And so it's important for certain investment, strategies to be an offshore fund.

for example, one of the things that triggers it is using leverage. On an investment to generate gains. And so hedge funds are known to use a lot of leverage. Private equity funds use leverage when they're buying a company, and so those certainly you would want to invest in an offshore vehicle. other things like real estate, it's different rules, around it, some of the rules apply to holding period of the asset if it's a quick turnover of an asset.

That can generate UBIT. And so you wanna make sure that you're in an offshore vehicle. There,

The other thing with real estate is if you are investing, in a taxable vehicle instead of a tax exempt vehicle, you oftentimes will generate state sourced income, which is income generated by a property located in a specific state.

And if you are in a different state, you would then have to file taxes in that state. The issue with that, not only are the filing fees and the potential tax that you'd have to pay. But in most cases, when you file in another state, once, you have to file in that state in perpetuity, So even if you have state source income in three new states a year, all of a sudden you get five years out and you're filing 15 state tax returns for a tax exempt entity, and it just gets very messy.

This is an area where you've read a lot of. Nonprofit organizations have accidentally found themselves subject to that and wish that they would've made a different decision when they were investing. So very important to get out ahead of that and think about the potential UVIT pitfalls down the road from, whatever vehicle you select.

**Heather Shanahan:** let's keep on that theme of. messy filings and move to audits and reporting and how these vehicles with complexity can create some different challenges for nonprofit organizations. Elliot, can you talk to us about that?

**Elliot Greenberg:** Yeah, we talked about vehicles earlier, and there's both the liquid and a liquid portions. And on the e-liquid side, that's where you see, some of these concerns and some of these issues. So reporting, while it's often. On a quarterly cycle, so you're gonna get a quarterly statement.

It's can come with a significant lag. So you could be looking, 45 to 90 days, post quarter end until you get that final valuation for that quarter. I think that just comes with one, it's just new To, accounting staffs at nonprofits, to their auditors at times, depending on who they're working with.

So it's just getting comfortable around that, change in reporting cycle and how you want to go about having an estimate in the interim and how that'll function going forward. And then I think importantly, for the audit season as well, it just creates more inputs that the auditors are going to need.

So again, partnering with the right advisor who can help you navigate, the types of questions you're receiving from your auditor to make sure you can get them all the information that they'll need to complete that on time. but then also I'd say, making sure you have the right audit partner as well.

So someone who has some experience dealing with alternative investments, so that this isn't, new to them. as you start to go down this road, because again, it'll just build and build if you're gonna continually make commitments over time.

**David Ramsour:** Elliot, another issue we see particularly with higher education nonprofit clients is that their fiscal year ends on June 30th, and most private managers do their, financial statements as of 1231. So there's a mismatch of timing. And so to your point, the more experienced auditors that deal with these types of investments know how to make that work, whereas.

Other auditors sometimes keep running into the same wall with a mismatch of timing and trying to figure out how to do that. So again, it's just something to be aware of and, get out in front of where you can. But, feels like we're painting all the reasons why not to do private.

But, I think we are firm believers that if there's the ability to take on some of these issues, it will. Provide for a better outcome for the portfolio longer term.

**Heather Shanahan:** Elliot, positive takeaways in terms of strategy? Why, in spite of all these challenges that have to be considered, why is this an important place to look for diversification?

**Elliot Greenberg:** the reason you hear us harp on a lot of the challenges is because we just want, nonprofits to be educated on the other side of the coin, because I'll get into the great benefits, but advise our clients to go in with eyes wide open and, we would, caution just all nonprofits to do the same and make sure they understand, what the tradeoffs could be.

Having said that, we do believe, this specific type of institution, because so many nonprofits have such a long-term focus, they wanna persist, for generations to come impacting their communities. leaving a mark. This is a

great way to align that timeline in terms of what you're thinking about, on your impact perspective.

but also to add, we think, a return premium over the public markets and be able to just. Increase that investment portfolio, return that much more so that the spending you're taking out in any given year, in future years continues to grow. We also think the diversification benefit is substantial.

we touched on in different asset classes where it can be a little bit more important than others, but overall you're going to have a different return stream than what you're getting. With your public markets, which will still remain the vast majority of your portfolio. And for all those reasons, we have demonstrated, we've seen the results over time that this does add a lot of value to our client's portfolios and, been pleased with our experience and

alternatives.

**David Ramsour:** it, and we've talked in generalities, but if you really look at the numbers, Across most private asset classes, we are looking for a three to 4% premium versus the public market equivalent. So if you have, let's say, 20 or 25% of your portfolio in these asset classes, that should generate a 1% higher return, which doesn't sound like a lot unless you're going from six point half or 7% to 7.5 or 8%.

That really changes the math, particularly for organizations that are making it an annual distribution. from the portfolio and then the reduction in volatility. Just a near term example, if we think back to 2022 where we saw correlation between public fixed income and public equity approach.

fixed income was down 13% and the public equity markets, depending on what you're looking at, we're down 20, 22%. a diversified 60 40 portfolio is probably down 17 ish percent. But if you had privates, a lot the portfolios that we saw that had, some exposure to private markets, were down single digits that protects that capital, that smooths the distribution and then puts you on better footing for a rebound that, likely will occur in the coming years.

there are a lot of headaches that come with this. but overall it does serve the entity better in the long run. Again, assuming that you can take. That illiquidity risk and, are able to model out scenarios and make sure that you'll be protected even in a worst case event.

**Elliot Greenberg:** I'll add on to that. maybe famous last words, but often, the periods where it feels like privates are out of favor or public markets are vastly outperforming. And we're certainly in one of those pockets right now. Those are often the best times to invest,

This is like anything else. It's cyclical. and if you look. Following the financial crisis, following the .com bubble, those were often the best periods to get started within privates because there's volatility, there's dispersion in terms of what's happening, in markets.

That's often been some of the best entry points.

**Heather Shanahan:** Thank you both for taking a really vast and complex topic and walking us through it and really leaning into a lot of the considerations As a final question. I'd love to hear from both of you the question that we ask our guests, and that is mission impact. What does that mean to you?

You've both made the decision to align your career supporting. Nonprofit organizations that have incredible missions and really support people across the country and in many cases across the globe, you made that decision. curious. What does it mean to you? Why do you do what you do?

**David Ramsour:** I think, and this didn't come until later in my career, but it really started to resonate with me how an incremental 50 or a hundred thousand dollars of earnings. Can impact somebody's life, I remember during the financial crisis, some of our clients were talking about reductions in force and, saving on salary.

generating 50 or a hundred thousand dollars extra return doesn't seem like that much. It's a rounding error for some of our clients, but it's meaningful to somebody's life. The same thing can be said about. generating that amount for scholarships. I've got two kids that are approaching college and as I'm looking at the price of college and thinking about how just that marginal return that we can provide through, sound advice or better manager selection or whatever it may be, if it generates just that little bit more return, then it might be able to help one more person.

And I think that at the end of the day is pretty meaningful when you put it in human terms.

**Elliot Greenberg:** I think the term mission impact and mission alignment has really, increased in our space over the last. decade, So often we were in a silo,

we were the investment portfolio, and we would come in and give our report and then, we leave the fundraising group comes in and gives their report.

and finance and audit does the same. And I think what's changed, in the nonprofit space is that this has all come together, everyone is aligned towards one common goal, and it's really focused on what are those outcomes. So can we determine what's the impact of everything? We're doing, and, in the investment space, where it's changed for us is really, getting down to why alternatives might make sense,

How can we increase the overall portfolio return? Because again, every dollar counts, every incremental metric that we can bring, goes back to the bottom line that allows you to achieve your mission. so I think just the changing, Dynamic has been really fun to watch.

We're more involved in the total conversation. We're more involved in the whole piece of how the nonprofit works and instead of just viewing the investment pool is off to the side and these are, just numbers that flow up to the top. It's okay. How has this all come together to help us achieve our goals?

**Heather Shanahan:** thank you both for being guests today. Appreciate your time. It's been a pleasure.

**David Ramsour:** Thanks for having us.

**Elliot Greenberg:** Yeah. Thank you, Heather.

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