

Please note: This is an AI generated transcription - there may be slight grammatical errors, spelling errors and/or misinterpretation of words.

Key Findings from CAPTRUST's 2026 Endowment and Foundation Survey (Webinar Recording)

Intro: Hello, everyone, and welcome to today's webinar, Key Findings from CAPTRUST's 2026 Endowment and Foundation Survey. I would like to now introduce James Stenstrom, Senior Director of Institutional Portfolios at CAPTRUST. James.

James Stenstrom: Thank you. Welcome to you everyone. I am super excited to share this webinar stage with two members of the CAPTRUST team who I think have a lot to share with endowments and foundations.

We have Chris Krakowski, who's got a couple decades of experience out of our Chicago office supporting endowments and foundations as a lead financial advisor. In addition to, all the things that you would expect in terms of deep level of expertise, Chris certainly has great perspectives on the exact kinds of conversations that are going on in endowment foundation, in the boardroom with the investment committees, and is gonna be able to share that with us today.

Additionally, we have Grant Verhaeghe, who leads the institutional practice here at CAPTRUST. He's got also a couple decades of experience helping endowment and foundation investors, and he's really gonna be able to bring a practice leader perspective to this conversation in terms of what we're seeing as an advisor across all of our clients.

So super excited to share the responses to our endowment and foundation survey with everyone today. I'm James Stenstrom. I'm on the institutional portfolios team with Grant, and I lead our OCIO portfolio management team who does implementation for endowments and foundations. So without further ado let's get into it So little bit of background on the survey in terms of who responded.

I think a really great place to start, Chris, is how do you think organizations should use peer survey results like this? When is it useful in terms of finding a signal for a board discussion of what peers are doing, and when can it become noise in terms of lack of relevance to an organization or, maybe just herding with the crowd?

Chris Krakowski: Yeah, sure, James. I think that's a great starting point here. There's a lot of data that we're gonna look at throughout this presentation and throughout the survey results on a lot of important topics for endowments and foundations. But, I, I, if as I take a step back, I would really if I were running an endowment or foundation or sitting on a board or a committee trying to figure out what to do with this information I, I would first and foremost use it as a reference.

And I wouldn't necessarily focus on every single data point and try to make sure that my organization was directly aligned with, the vast majority of responses in each question. What I would really try to do is take a few key findings away maybe some areas where there might be some, divergence with your organization on a particular topic or areas you've discussed as a board or an investment committee or among staff that you feel like are key areas room for improvement within the organization, things like that.

But really the, the most important thing from my perspective is that every single endowment and foundation is unique. There's no two that are alike exactly, and there's no two that are gonna have the same set of circumstances. The, the important takeaway for me would be find a few key points that that really matter to your organization and use this as a reference point

James Stenstrom: I think that's really good background and perspective.

And now with that backdrop, we'll get into the core of the questions. We'll start with some operational capacity questions. So as you look at this exhibit, you really see at the top of the the page, the top of the screen, that donor retention, fundraising, staff burnout, staff capacity rank as significant concerns, while spending and administrative expense is lower.

What does that tell us about where nonprofit leaders really believe the greatest constraints on mission execution sit?

Chris Krakowski: This is pretty consistent James, with what I'm hearing, live on the ground from clients as well. And, my takeaway from a slide like this is,

donor retention, identifying donors bringing in sort of the inflows and the revenues necessary to operate the nonprofit are among the key concerns.

You combine that with, just difficulty in terms of finding optimal staff or retaining, your, your best staff members. What really jumps out to me is things like, you know, budgeting, administrative expenses, spending. Those are at the bottom of the concerns.

Not that these are not all concerns for organizations, but w- if I had one key takeaway from looking at this, it's perhaps organizations should focus on spending money where it optimizes their ability to bring in or retain donors, or bring in or retain key staff. So whether that's, good donor support software, or the software or tools that your staff need to really operate at maximum capacity and really put them in their best possible use, whether it's spending money on something like, good financial software investment programs, things like that that, where you can really focus on trying to maximize your output in terms of donor and staff.

James Stenstrom: Yeah, Chris, I think that's a really good point, and it's really easy for the three of us to sit here and spend other folks' money. So maybe Grant, can you walk us through a little bit of a, a framework in terms of, staff capacity and burnout are concerns? When can the solution be, spending more in terms of what's an affordable investment in institutional capacity versus, where it may be an unsustainable increase in, fixed or recurring costs?

Grant Verhaeghe: It's a good question. I ... to me it's actually a take off of C- Chris's answer, which is I think any time as an organization you're thinking about where you're gonna spend, assets, it's important to think about it in terms of a return on investment. It, it's a pretty simple equation really, which is you should really only spend where you feel like you're gonna get a return on that, and I would probably define that based on impact or fundraising or efficiency.

And I think Chris hit the nail on the head. It's ... If you look at where organizations are, feeling pressure, it's the ability to fundraise, it's dealing with staff capacity burnout. And so- I really think it's just I would argue it's a, If you're gonna make any additional sort of s- spending requirements, you'll have to stre- you'll have to stress test that against the cash flows in periods of stress w- with fundraising as well as with performance.

And, I think the key to the question is what's an unsustainable increase in cost versus what's something that you think is a good investment? And so obviously you don't want to increase materially your expenses in a given year and then,

have that path going forward and then not have thought through what the implications to that are of the portfolio.

But to me it really feels like where organizations are feeling the most pain is around donor retention and also reduction in giving, which seems to me to be an area that is likely probably a good investment

James Stenstrom: Yeah, I think that's a good segue to our next conversation in terms of looking at disruptions and, potentially spending as a response to that. This exhibit highlights that, there's certainly a number of organizations in this case who saw disruption in terms of federal funding.

But I really think this... the, the context of the question is broader than that. And to the extent that the revenue model of an organization is impacted, can you walk through a little bit of a framework to identify, hey, is this a temporary revenue gap which maybe short-term spending can cover versus, structural signal requiring changes to the program, staffing, or operating model?

Grant Verhaeghe: Yeah, I think it, it's interesting. The, the question was asked in the context of government spending, but I think framed up in terms of broader just revenues, it makes a lot of sense. There's really two reasons why you see declines in what I'll call, revenue or government support and/or donor support.

And oftentimes what you find is when you have market stress like a recession, that reduces tax revenues, and so it tends to be more temporary in nature, and that's the reason why most organizations have spending policies that roll over a period of time. I think when it gets a lot harder is when those changes become political or a social environment, and oftentimes tend to be more sustained, and then might require a structural change in terms how, of how a mission is funded and may even impact spending policy calculations in the future.

So to me, the second one is much harder to plan for and the first one is about investment policy and spending policy being sound and, honoring the commitments that you make before you get into those events.

James Stenstrom: And Chris, maybe you can put a little bit of, paint them with a little bit of color in terms of organizations that you've worked with where they have a funding disruption, and so there is a need to communicate that that need that impact to donors.

But doing that without, having the appearance of instability or creating unnecessary alarm. What have you seen in terms of folks who are successful with that communication?

Chris Krakowski: Unfortunately I have seen this with several different clients recently in different environments where, reliable source of funding is in question or where it's, actually dried up.

And there are situations where, you may need to reach back out to donors, where, you may need to communicate this. A- and it really, again, going back to my initial comments, every organization's unique, so it could be broad operating funding, it could be funding dedicated to a specific program.

But for me, from what I've seen really work the best is to hit it head-on. If you need to ... if you have this issue and you've seen some funding dry up and you need to go back to your donors generally speaking it's best to be direct to, just articulate what changed, how material was it, what percentage of revenue was this, how is this gonna likely to impact operations or the program-related spending, associated with this funding.

And I think, on top of all of that is to have a plan and demonstrate that plan. Here's what happened to the funding, here's how we're gonna address it, here's how we're gonna try to bridge the gap. We're ... here's how we're gonna either, try to make this work or maybe pause on this particular segment of our spending at this point in time.

But I think we- we've seen really good results with organizations that have gone to their donors, been direct about it, had a plan and articulated their path forward. And I think that, you may be surprised you may get a pretty good reception from donors in this environment

James Stenstrom: I think, as we mentioned, government government support is a, a big pillar for some organizations, and I think there's a lot of uncertainty about that going forward.

And I think for organizations it's a great kind of starting point in terms of so what, right? We've identified uncertainty. What should we do about it? From your perspective, Chris, what are some actions that organizations should either consider or may j- be premature, in the concern phase in terms of whether it's increasing portfolio liquidity, decreasing risk, intensifying fundraising, reconsidering spending, or some combination of all of those?

Chris Krakowski: I think from a high level the, the answer is it depends. And it depends on the organization. But specifically, I, this is a good opportunity to to ... I think organizations in general should be trying to look at their investments and their operations and financials holistically and n- no single one of them can be looked at in a vacuum.

So this is a good opportunity to look at your spending policy. James mentioned a lot of times you have a look back, whether it's 12 quarters or 20 quarters or some hybrid methodology. And a good opportunity to really stress test that and, look at what these fundings losses might do to spending.

Is that offset in some way by the investment portfolio? That is one positive to this is at the time that you're seeing, some of these funding sources drying up or, being paused you're also looking at market highs in many cases. Potentially you're seeing some of that offset by investment earnings in the portfolio.

So this is just a really good opportunity to take a step back look at a stress test, look at your, your assumptions built into your portfolio, look at your liquidity. Identify if if you can keep operating under the same regime or maybe you do need to increase your liquidity in your portfolio a little bit.

Maybe you need to put together a liquidity reserve, something we can talk about a little bit you know, later in the presentation here. But I just think it's a good chance to step back, look at your financials from a whole and really try to tie things all together and see where changes need to be made.

James Stenstrom: Yeah, I think, Chris you bring up a really important perspective in terms of context, right? So the past three years in terms of equity markets have been really strong returns. I think a lot of organizations, you know, their spending is unique, but in terms of the investment return, has been strong the past three years.

So to the extent there's, a desire to spend more, I think that can be, either appealing or tempting, how- whatever term and however you wanna lead the witness there. But can you provide some perspectives in terms of, when temporary spending from reserves or portfolio may make sense, and when it may weaken that long-term sustainability of the organization, balancing, the urge to spend with the stewardship?

Chris Krakowski: Another conversation that is just going on across the board and, it's... Because it, to your point, you are seeing, portfolio values increasing which, really is great and it, can mean a desire to pick up your spending or like

you said, make some temporary withdrawals from the portfolio which, I think in certain situations that can make a lot of sense.

In certain situations it can be a big challenge for the future of the endowment, for the future of the organization. Where I've seen it really make sense is in a situation where it's temporary, you have a funding gap that you need to bridge with the, with money from the endowment or foundation and maybe over and above the spending policy.

If there's a high impact program, something that draws in, think, a, a university that has something that, that's been a big draw for students and you're seeing your, your student population increase or they're drawn to a certain program and that program is at risk, it may make sense to, to bridge the funding for that from the endowment portfolio because that's really vital to the long-term growth, and honestly, it could be a long-term benefit if if that's gonna lead to higher revenue for the organization over time.

Where I think it, it becomes challenging is if it's recurring and if it's used to postpone tough decisions, if there are clear, decisions that need to be made from an organization, but it's easier to draw from the endowment and access of the spending policy to try to, bridge that gap that can be a little bit more challenging.

But if you are, buying a little bit of time for a solution that's gonna be better off for the organization in the long run then it may make sense

James Stenstrom: And Grant, you get the tougher end of the question in terms of when markets aren't great, right? We see portfolios declining, capital markets are weak, and often correlated to that, especially within social services is you see demand for social services picking up at the same time.

I guess to the extent that you can, like how can an organization prepare or think through a framework, before those times hit to successfully navigate those periods?

Grant Verhaeghe: Yeah. I think you gave the... I think you gave the answer to the question in the question, right? Which is it's interesting when we have conversations with nonprofits, there's this separate conversation around donor engagement and a conversation around spending and a conversation around markets.

And what's really interesting is that all of those things tend to be really highly correlated in a negative market environment, right? Your portfolio goes down at the same time your donors dry up, at the same time likely your spending potentially needs to go up, and you might also be stressed from a liquidity perspective.

And so to me, the time to address those concerns is not in the 11th hour when those events are happening, but rather when you're thinking through strategic asset allocation, you're thinking through investment policy. It's to stress test your sources of funding and donations at the same time you stress test the potential volatility and liquidity in your portfolio.

In other words, look at the extreme events and plan for them and then make sure that you have alignment with your potential liquidity needs so that you're not forced to sell long-term assets at a discount to fund short-term investments or short-term spending. Also I think it's really important to think intentionally with decisions on spending policy.

I, I've seen all too often where we have a pre- a sustained bull market or an environment where there's just a lot of donor engagement, and there's a lot of great needs that come up and boards are looking at those needs and saying gosh, the portfolio's done really well. Can we spend more than our spending policy?"

And sometimes that makes sense, but a lot of times what ends up happening is if you spend more when things are doing well, then you don't have that buffer when things are going poorly. And so again, that's the reason why we're such a big proponent of doing the stress testing, but also thinking about how you modeling, how you model the various different types of spending policy that one might, address because there's different policies that might make sense for different types of organizations

James Stenstrom: Yeah, I think, Grant, you touched on the investments there. We're gonna talk a little bit about investments here. Something that I wanna highlight for everybody on, in the audience is that the full endowment foundation survey will be posted tomorrow, and there's a lot more on investments as part of that full survey.

We're talking today about some of the executive summary elements, some of the highlights. And one of the areas where we think there was a lot of interesting feedback from organizations was around alternatives. So Grant, maybe as an introduction, maybe just tee up, why invest in alternatives?

What are organizations seeking from those types of investments that may be harder, or they may be harder to obtain f- in traditional markets, public markets?

Grant Verhaeghe: Yeah, it's interesting. I, that Chris has made the point that every organization's a little bit different. And so why an organization might invest might, might be very different depending on the type of organization it is.

I also think it's important to note that, sometimes the responses are as good as the questions, and so when you ask about alternative investments, that means a lot of different things, and we'll dig into that in a little while. But largely, I would say investors or organizations in particular are looking to either improve returns, outpace inflation, maybe reduce the risk of correlated assets in their, public equity or public fixed income portfolios inevitably to try to create a smoother return pattern and ultimately a more predictable spending pattern.

However, I think there's also something to be said about just the market environment in general. The landscape has changed dramatically since the '90s. The number of public companies now is roughly 50% of what it was in the '90s. Companies tend to stay private a lot longer and I think, we saw or have at least read about Space SpaceX and Anthropic OpenAI and either their previous IPOs or future IPOs being some of the largest once they go public, some of the largest companies in the public market space.

That's very different than the way than it used to be in the '90s, and if you're not thinking about how to invest in what I'll call alternative asset classes or maybe even private markets, it becomes very difficult to gain access to a really significant component of the market

James Stenstrom: Yeah, Chris, so Grant mentioned some of the potential benefits in terms of investing in alternatives and specifically private markets.

On the other hand, should a organization's ability to explain the investment and really understand it to the full board impact whether they actually own the investment? And should that governance capacity, for lack of a better term, place a, an upper bound on portfolio complexity?

Chris Krakowski: I personally, I think to a large degree, yes.

I think that there, a- as Grant said, there's a lot of different organizations with a lot of different types of boards or different, public versus private profiles. And really not every single board member necessarily needs to understand every single intricacy of each alternative investment.

But, by and large a very sophisticated board of a lot of investment professionals that really understands the, the true risk and return opportunities there you may have what you might consider a relatively small portfolio with a large allocation of alternatives because the board's comfortable with it.

And I think that can certainly make sense. Conversely, I, I work with a couple, what you would, consider rather large clients that have no alternatives whatsoever. And, the logic there is they're like, the board, may or may not have a good understanding of what's underneath the hood.

And also importantly, how public-facing is the organization. You know what you're buying when you buy the S&P 500 index. You know each of those 500 companies, and you can generally justify, even if something, publicly goes wrong with one of those companies it's hard to fault an organization for owning the S&P 500.

But, if somebody has a hedge fund that, has, a company in it that, that has some sort of issue that's public and, it's on the front page of The Wall Street Journal, and, then you have to explain why this organization owned that. We don't see this often, but to a, a sophisticated organization without a public profile, that may not matter whatsoever.

To a large organization with a public-facing board and, political pressures that, that may be a huge concern of theirs. So I don't think that, size really is necessarily the primary driver here. To me, you really wanna make sure that you just have broad consensus on, on this.

And, it's also one of those things, once you start an alternatives program you can't just turn it off tomorrow. Especially if you're dealing with complicated limited partnerships and drawdown vehicles. Building consensus on the front end is really key to a successful alternatives program.

And I think a lot of that stems from, having good buy-in from the board.

Grant Verhaeghe: The, the only thing I would add to that, Chris, is, when you asked the question, I think you, you used the word full board. R- right? Most of our clients have an investment committee or a finance committee who's gonna get a lot more in depth and detailed around the sub-investments that are involved and why, and then the board tends to have a much higher level view of what that asset allocation looks like and, why it's aligned with goals and objectives.

So there's gotta be alignment there, but it's one of the, it's one of the reasons why we do subcommittees, right? Not e- not everybody's on the board is gonna be an investment expert and have comfort or experience with alternatives. They need to understand the risk that they're taking, but they don't need to have the nuanced detail

Chris Krakowski: Good point.

James Stenstrom: Within alternatives, we've asked this question over, over a number of years. We see a rotation towards private equity and private credit. Grant, what do you think's driving that?

Grant Verhaeghe: To me the, the trend is a little bit more interesting than maybe the question, which is you can see, if you look at the exhibit here, that in 2025 results, an increase in exposure to private credit, private credit and private equity, and a decrease in exposure to hedge fund of funds, private inter-infrastructure, real assets and private real assets, at least as the assets that we defined in alternatives.

And to, to me, what it tells me is that I think people are boards are somewhat frustrated by fees and results in hedge funds. I think they have concerns over interest rates. I think they're very much so interested in making sure that they're optimizing their portfolios within private credit and private equity.

And I think it's also just a function of the environment that we talked about, right? The number of companies that are staying private longer means you don't have access to that in your portfolio as a, an opportunity set if you're in the public markets. And so I think you're gonna continue to see more and more of that.

And of course, the, the pure answer to the question is I think folks are really looking for return and risk features that help with correlation in the portfolio, and they're trying to create better returns, more consistent returns and ultimately more consistent spending

James Stenstrom: Yeah, Chris, within private credit, for those folks who are investment professionals, that's certainly an area that there's been a lot of headlines in... I think when organizations or, even myself when I think about investment risk, the first thing that pops to mind is volatility.

But within private credit, there's a lot more than that. What do you think boards are most likely to potentially not to... really just to underestimate? De- defaults,

valuation practices, leverage, manager dispersion, illiquidity, take it anywhere you, you like.

Chris Krakowski: I think you hit it on the head with volatility.

When I think about what could be... If you just look at the numbers, what could be underestimated in private credit is you can look at an asset class that i- that generally has a very low volatility in returns, and also provides relatively high stable income. It's almost like the... It sounds like the perfect asset class.

And in times like this it can be a, a great asset class in the right portfolio and in the right context. And then you combine that with the fact that most private credit is floating rate, meaning that it doesn't have much interest rate sensitivity. There's nuances there, but that it doesn't have the amount of interest rate sensitivity as perhaps a publicly traded high-yield bond.

It can look like a, a great asset to add to the portfolio, and even, in many cases, think of as part of an enhanced version of a fixed income portfolio. That to me would be a, a bit of a concern as a board because when you do see stress pick up in the markets eventually, you're always gonna see business cycles and if you do get a typical business cycle recession what you're...

what could happen is a lot of these companies they may have difficulty making some of these debt payments. And what you're not likely to see, huge levels of defaults or, the- these funds, going down by, large percentages. But what may have been viewed as a stable, income source with low volatility could pretty easily turn into something that's losing money and that is i- if it was semi-liquid that has, become illiquid.

We think that's probably temporary, but it would... that would be the time when you'd probably have boards reevaluating the asset class at a time when there's not a lot you can do about being invested in there. It's really one of those things you wanna go in with all the information, and you wanna make sure it's part of a diversified portfolio within your alternatives and sized appropriately

James Stenstrom: Yeah, I think Chris you mentioned they're semi-liquid, so we'll drill down on that for a second.

Do labels like semi-liquid help boards understand liquidity structures? Or does saying semi-liquid potentially create a false sense of comfort or confidence in terms of, hey, we'll be able to rebalance out of that, or we'll be able to withdraw our capital?

Chris Krakowski: So I think semi-liquid can...

I think it's both, but I think it can create a false sense of comfort because it generally is liquid when you don't need it to be liquid, and when you do need it to be liquid, it's not. So where does a semi-liquid fund, make the most sense in a portfolio? It might be a great place to put some capital that you wanna deploy to a drawdown vehicle that's gonna be calling capital, and it's a good...

in, in good times you can use it as a source of capital. Or it's a good way to access private credit. But I would not view it as a, a liquid portion of the portfolio because, again in times when things are good and nobody's concerned about private credit, it is liquid.

But when you want it to be liquid these funds have the ability to gate their withdrawals and for good reason. What you don't want is a run on the fund and everybody trying to redeem at the same time, and the manager having to sell assets at a fire sale at less than they're worth.

So it really is an investor protection to have these gates in there. But, I would not tie up more capital or have, more capital than you'd want to be illiquid in a semi-liquid vehicle

James Stenstrom: You can, Grant, you can see, everyone I guess can see breakdown in terms of portfolio liquidity.

What are your thoughts on boards establishing explicit illiquidity limits?

Grant Verhaeghe: Yeah, I think when I look at this exhibit, it, it's pretty clear that even within alternatives, the the biggest component of the portfolio is becoming less and less liquid. And when I think about how boards should think about that, to me I think Ch- Chris hit the nail on the head.

Just because your fund says it's semi-liquid doesn't mean that it is. If the assets underneath it are potentially illiquid, then you should view it as an illiquid investment. And I think the real answer to this question is, we've talked about this idea of stress testing a portfolio, but organizations should stress test the liquidity of their portfolio relative to what their spending needs are, and that might be different for an organization that has a, a very predictable operating need to support maybe like a higher education institution versus maybe a grant-making institution that can control its spending more in certain environments, which is why it's just super important to avoid surprises and illiquidity.

And the way that you do that in the private markets is by develop- by developing pacing models. And so that means, really thinking through what's gonna be illiquid, what you anticipate the capital calls and distributions to look like, and how you can continue to make commitments to target, an allocation, but revisiting that pacing model at least annually and maybe even more frequently because, as we know, just because you have an expectation about how something's gonna play out doesn't mean that's exactly how it's gonna play out.

In fact, there's a whole- all kinds of discussion in the private equity markets right now about how the time horizon of private equity seems to be longer and longer

James Stenstrom: Wrap up this investment section, which I think a pretty interesting chart in terms of what nonprofits are worried about, what their concerns are. So Chris, as you take a look at this, what do you make of it in terms of... Looks like at the top folks seem to be more concerned about inflation, geopolitical risk, market volatility, things largely out of the control of an investor, whereas folks tend to be less concerned about liquidity, fees, portfolio complexity.

Chris Krakowski: To me, you hit it on the head there with that comment that the biggest concerns are things that organizations can't control from a day-to-day standpoint. So you can control how your portfolio reacts to these top concerns like geopolitical risk or volatility or inflation. A- and I think you...

That's, to us, it's really important to get the strategic asset allocation right, to get your investment policy statement right, to do the stress testing that we've talked about many times, to tie in your investment portfolio to your operations, and understand what happens to our spending on this rolling calculation in a market drawdown.

What if the drawdown persists for more than a year or two, three years? How is that gonna impact operations? What you can't do is control these things on a quarter by quarter basis. So I think it's important for organizations to react to clear signals in the market, to react to opportunities, paying attention to where interest rates are, where inflation is when equity markets are, doing quite well, when there's opportunities to take profits to, to meet upcoming spending needs, cashflow analysis, things like that.

I- in that regard, I think these, these top areas are important to pay attention to. But, to your point, the areas that can be controlled are the ones that seem to be

of the lowest concern. And I think the most successful organizations are the ones that focus that have a blended focus.

They clearly discuss the implications of what's going on from a geopolitical macro environment and how that impacts the portfolio, but really focusing on how the portfolio is structured and things that you can control. Make sure you do have ample liquidity. If you feel like markets are reaching a high level, you feel like risk is increasing, is there an opportunity to, put aside a little bit of cash for spending in three months that, you might have raised two months from now?

Maybe you raise it today. All things that you wanna discuss specifically with your, with your advisors. But I do think that there should be a healthy balance between discussion about things that are out of your control or not really in your control and those that you can control, very easily on a day-to-day basis.

James Stenstrom: Chris, I think that's a, that's an excellent transition to the next topic, 'cause the next topic is definitely something that organizations can control, definitely something that organizations can plan for in terms of operating reserves. So taking a step back from the investment perspective, from a more planning perspective, how should organizations go about determining or maybe even reaffirming an appropriate operating reserve?

And how should that reserve be coordinated with endowment distributions, spending, capital commitments, fundraising volatility, emergency needs? What's a good framework to start that conversation with?

Chris Krakowski: We said the word, unique and every organization is different and, I feel like we'll probably say that 10 more times on this call, but this is probably where that is most pronounced because a, an endowment that is, for example, has a stated, a standard spending policy maybe operations are, not highly dependent on the endowment it's, it's nice to have, it's...

those sort of things, I feel like those, they can, a- and many of these organizations can just rely on raising cash when needed, get a plan in place, put it aside. And then there's other organizations that have you know, maybe much less predictable cash flows or they might have upcoming capital spending, repairs, deferred maintenance, things that that, that may need to be addressed.

They're not sure when. I, I really think every organization should, go through a cash flow kind of analysis, cash flow planning with their investment advisor. How far out can we project cash needs? How predictable versus unpredictable are they? In a situation where they're unpredictable and we have, a lot of

concerns in many cases it may make sense to establish a sep- a separate, reserve portfolio, a separate liquidity reserve, maybe even outside of the typical endowment or foundation portfolio.

Maybe you utilize multiple liquidity buckets. Maybe you have a long term and an intermediate term and a short term pool with different time horizons, with different risk levels. This is just unique to each organization, and it really is a good opportunity to walk through this cash flow planning exercise when times are good before there's market stress and figure out what the optimal cash level is for each organization.

James Stenstrom: Yeah, Grant, I think something that, that we've seen and like your perspective on is Chris mentioned the concept of having a cash reserve so that you have that resiliency so that you're not necessarily selling, assets that are down or distressed when the market's down. But there's the potential for, if you have rules where just every month you move it over, you potentially inadvertently do that.

And so I guess from your perspective, philosophically or maybe 201 type rules that may not, a- appear at surface level, how do you see the most the organizations that are most successful using cash reserves to create operational resiliency using cash reserves?

Grant Verhaeghe: Yeah at the risk of echoing Ch- Chris a little bit I think it depends on the organization, right? Organizations that are using their corpus of assets to support, very predictable operating needs are very different than organizations that have less predictability in that. And we see folks break down their portfolios by, as Chris mentioned, cash reserves in short-term and intermediate and long-term, and they have different liquidity profiles in those buckets and oftentimes those pools waterfall or feed down into the others.

We also see folks just say, we're gonna have a mindfulness to that because we're gonna do that liquidity planning or cash flow modeling that Chris talked about, but at the end of the day, we wanna really think about risk in a total portfolio context." I would argue both make sense to some extent.

And really the whole idea is you just gotta be really clear about what your structure is and what the rules and purposes of the funds are to the extent that you bifurcate your portfolio. So all too often, we'll see an investment policy statement, and it'll have a portfolio broken down by maybe different time horizons or different purposes, but there's really not a lot of clarity provided in

the policy around what those purposes are how the board will decide what to spend from where.

And so I just think the more clarity you can create on those things from a documentation perspective, if you've got good governance, then the more likely it is that you're gonna be more resilient when you have to dip into operating reserves or maybe some of those shorter term portfolios. And a, and a- another key, that Ch- Chris mentioned a minute earlier is the whole key is to avoid selling a long-term asset at a depressed price when you need liquidity.

And depending on the organization and what that liquidity predictability is, how you solve for it's different

James Stenstrom: Awesome. So we'll transition a little bit into, governance and decision-making framework. So we'll talk a little bit about OCIO adoption, to avoid jargon. Chris, first question: What is an OCIO?

Chris Krakowski: Just like every organization's unique, there may not be one precise answer for what an OCIO is.

It, in, in, in broad terms, it's an outsourced chief investment officer. And at its core to me, it means an organization an investment advisory firm where you are delegating the day-to-day decision-making to a, a third party to a fiduciary. And I think that there are different ways that, that sort of it can be done, but at its core, you're outsourcing day to day, but the board, the investment committee are still heavily involved in the strategic planning process and ensuring you have the right long-term targets and ranges and investment policy statement in place.

James Stenstrom: Yeah. So Chris, you mentioned, outsourcing and turning over some of those decisions to to a fiduciary, grant. What can that solve for organizations in terms of outsourcing, and what are some things that, boards and staff, regardless of the service model, just aren't able to outsource?

Grant Verhaeghe: Yeah, I think the, the easy answer is from a portfolio management perspective, an OCIO can increase the speed of decisions. They can provide expertise in selecting and monitoring and implementing portfolio decisions. And depending on who you're using as an OCIO, they also potentially have the ability to implement tactical asset allocation and/or focus on, m- maybe midterm or shorter term risk management.

The other thing that I think often comes into play and is a, is one of the reasons why folks hire OCIOs is this idea of freeing up capacity for staff of for the

administration and implementation. I just wouldn't underestimate the complexity of what's involved in implementing the decisions that, that the board makes.

But what I think an OCIO can't fix is whether or not strategic allocation is aligned with gover- or with organizational objectives as defined in the policy. Meaning the most successful OCIO relationships are ones where the board is actively engaged, the investment committee is actively engaged in clearly identifying objectives and putting a set of parameters around the OCIO so that the parameters that the OCIO is operating in are aligned with what the organization wants to experience.

Said more succinctly, i- if the board's engaged in that way, you're less likely to have surprises. What I might view an organization's ability and willingness to take risks might be very different than how their board might view it. And so examples of things that I think you have to have really good framework around are asset allocation guidelines, permissible investments, are we gonna invest in privates or not?

Are we gonna use alternatives or not? Am I gonna give the outsource chief investment officer the ability to make that decision? And if so, what kind of liquidity constraints am I gonna put on them? And what decisions are they gonna be able to make versus the decisions that they're gonna need us to make?

And, I think you, you kinda nailed it with the question, which is and how Chris answered the first question, it's really depends on the relationship between the board, the investment committee, and the OCIO that you've hired. Those relationships often look very different

James Stenstrom: Yeah, so there's certainly a, a number of decisions that are collaborative.

At the end of the day, that influences portfolio performance. I think every investor wants world-class in- investment performance. But Chris, beyond purely that aspect of the relationship, how do you think OCIOs should be evaluated by investors?

Chris Krakowski: Clearly performance is important. It's that, is, that, that really is the return on the money that's, that, that matters a lot relative to a benchmark, relative to, your peers, to a universe.

But I do think it goes beyond that. I think that you need to look at the tactical that James mentioned, what sort of decisions are being made with the portfolio. Is the OCIO being responsive to markets? Paying attention to what's going on, tweaking the portfolio as needed.

But also non-investment services. I think that there's a lot that a, a good OCIO can do for an organization. We've talked a lot about stress testing and cash flow planning and tying operations into your investment portfolio. And I think that all of those are an important part of a, a relationship.

If it's just, you're just kinda getting an investment report every quarter and you're not really engaging with the investment advisor I think there's a lot more that, that could be done there. And it's worth asking your advisor about that. The way I like to think about it is do you view your investment advisor as an extension of your staff?

I think that every OCIO should be viewed as an extension of staff for the organization, where they're basically like a staff member that's not sitting there in the room, but questions if they have, things that come up, issues that, that need to be addressed they're able to reach out to their advisor and work directly with them and get a, a pretty quick response '

James Stenstrom: Cause we talked a lot about, OCIOs, what they do, what's a successful relationship.

We look at who's using outsourced chief investment officers. We see the most utilization in midsize endowments. Grant, why do you think that is?

Grant Verhaeghe: This is one of those things where I can take a guess as to why and after I saw the results, I wish I'd asked a follow-up question, which is, "And why?"

But I, I think there's an obvious trend here, which is, you look under 50 million, the and really even under 25 million, oftentimes those portfolios just tend to be a little bit more simplistic in nature, right? They're on the precipice of having the asset level and the sophistication to be thinking about direct privates.

They may be using some access vehicles. But it's just a lot easier portfolio to implement. Whereas I think when you get in that sort of 51 to 100 range oftentimes you're starting those programs and o- m- many times the, the board and committee and staff members don't have experience in that space, and so

they're really looking to outsource and take advantage of a skill set which takes a long time to establish.

And then I think when you get north of 100, what ends up happening is you start seeing folks building out those skill sets internally in their staff and relying less on outsourced chief investment officers for implementation. But again, that's my opinion on ... I can't base it in any fact.

James Stenstrom: Yeah, Chris, from, your vantage point working with investors, this page highlights what organizations are outsourcing. But, what is the pattern of what organizations are outsourcing tell us about their need for outside expertise or implementation capacity? What do they value most in terms of that ability to deliver services?

Chris Krakowski: It's interesting that tactical and strategic asset allocation are tied at the top there. And I think there's a bit of nuance from my perspective with outsourcing strategic asset allocation. What I think you're what I think you're outsourcing is having a quarterback who's gonna come in and lead the process to develop the right strategic asset allocation, gather all of the sort of input from the board and the investment committee members and staff, and understand the real needs that are unique to each organization and develop an investment policy statement and a strategic allocation and allowable ranges around that strategic allocation based on the input from the group.

So to me, where OCIO really comes into play there is running that entire process and making sure that the organization lands at the optimal place. Tactical asset allocation I think that's just an area where it's a lot easier to outsource something like that.

Tactical asset allocation can be very difficult under a, a dis- a traditional advisory relationship where you need to get, approval for every trade that's made in the portfolio because, there may be opportunities to quickly adjust to the current interest rate environment, for example.

And, the Fed does something unexpected, we need to make a change in the portfolio, it's hard to go to the finance committee, get approval from everybody, go and make that trade and still have it be, timely enough to be meaningful for the portfolio. That plus manager selection that's another area where, maybe the time of the investment committee members they're...

Everybody's got limited time. You're often dealing with volunteers. If you have a half hour or an hour and a half meeting and, you're spending, the bulk of that

meeting debating which large cap value manager might be the best for the portfolio there may... That time may be better spent elsewhere talking, back a few slides about things that you can control, things that matter, might be potentially more to the organization like liquidity needs or operations.

To me that all kind of jives with what an optimal OCIO relationship would look like.

James Stenstrom: And then Grant, which responsibilities or decisions should a board potentially look at retaining even when a significant amount of the analysis and implementation is delegated? And, where might private markets fit in with that?

Grant Verhaeghe: Yeah, I think so again, I think the answer's sort of in your question, which is, the private market stuff is really complex. And what folks think of when they think of private market administration might be different, right? It might be the know your customer rules, it might be the complex offering memorandums and documents that come with them that have a, they're usually hundreds of pages of legalese and require a lot of experience to interpret. Some organizations are very comfortable saying, "We're very comfortable with you, either executing or helping us get to execution in that regard." Other organizations are very much so focused and concerned about the, the representations and warranties, maybe even the indemnification language that shows up in those contracts.

And when you're locking money up in, private equity as an example, some sub-asset classes of private equity could be 15, 16-year investments, so you better know what you're signing and you better know how that will play out if things don't go well because you don't wanna be surprised after the fact.

And so some organizations just wanna retain some piece of that. And then I think also just managing the the day-to-day interactions of capital calls and distributions and how that ties to pacing and thinking through, the, the cashflow management of that tends to be something we see folks more comfortable outsourcing, but it really just depends on the organization.

Chris Krakowski: And I'm just gonna add one thing, Grant. To me, the bottom of this page, the last two lines, that's the best bang for your buck with an o- with an OCIO. When you think about limited staff availability from a finance side looking at a fresh set of subscription documents that it's 100 pages long that you've never seen before can be a very long process for finance, whereas you have a, an, an OCIO that has, has looked at that set of documents 50 times over.

That's just that, that jumps out to me on this page as well.

Grant Verhaeghe: I agree.

James Stenstrom: Awesome. I think we get, we all get an award for going 52 minutes into this without saying AI. But we are at that segment of the conversation. And as you can see here, a question that we've asked year over year is, questions about governance.

And we've seen certainly a maturation within endowments and foundations in terms of adopting a lot of these best practices. At the top of the page, AI is certainly for most organizations something that's newer in terms of governance. And so Chris, from your perspective, what do you think is a greater, near term challenge?

Either adopting AI as an organization too quickly and without guardrails, or potentially moving too slowly on adoption and providing employees without support, without that support?

Chris Krakowski: They're both real risks, in my opinion. But, I think if you look at what could be a catastrophic risk, it would probably be implementing AI too quickly.

When I look at something like the fourth line from the bottom that says, 31% have an acceptable use policy for artificial intelligence I, I still think there's a lot of questions where this data goes and what ... so I think they're both risks. I, I do think that the greater risk with maybe the bigger downside risk is sort of an unencumbered, allowing AI for everything in the organization.

But on the flip side of that I think that, there, there is also risk of underutilizing AI for, employees when you have a limited staff and, burnout in situations like that. To me, what would make the most sense for an organization that's grappling with this is to start with something low risk that's high value added something like drafting changing text around, formatting, things like that can take a lot of time that AI can do fairly quickly that are relatively low risk.

James Stenstrom: And you mentioned that acceptable use policy. I think, Grant, if a m- minority of organizations have acceptable use policies, should boards assume that employees aren't using AI, or assume that, let's just call it informal, not explicitly sanctioned use is already occurring?

Grant Verhaeghe: I think it's probably a mix of both.

I think it could be the employees are already using AI more prevalently than the board is aware in which case, as Chris said, there could be concerns over privacy, cybersecurity, appropriate use of the tools, particularly if only 31% of organizations have an acceptable use policy.

But it also could just be that folks are not comfortable with it and sometimes the idea of creating an acceptable use policy and then creating some encouragement, to Chris's point, allows people a jumping-off point to see where there are easy low-hanging fruit areas where they can create efficiency.

There's kind of a big irony to ... here to me, which is if we were to shift all the way back to the front of the presentation, talk about the operational challenges and concerns that organizations face, staff burnout, staff capacity, we're gonna need our folks to do the best work and highest use work possible, which means there's some things that everybody does that, at some point probably falls under under AI.

The other thing that was, that kind of stood out to me in this regard is I think, trying to create a policy before you have any use and understand what the policy needs to govern is hard, and so it's probably one of those things where you dip in, you write a policy around it, where that works and doesn't work, and you start refining the policy over time.

And eventually that creates more use and adoption and and potentially hopefully creates some efficiencies and allows folks to be focused on, more things that are related to mission engagement and fundraising and other things that are gonna have a bigger impact on the organization.

James Stenstrom: Yeah. So appreciate that's the end of our prepared comments. So certainly appreciate Chris and Grant taking the time to prepare and share their perspectives with everyone today. As I mentioned earlier the full survey is going live tomorrow. There will be a communication that goes out to all the participants tomorrow as well.

So super excited for all of you to dig into that. I know the team spent a lot of time putting that together and we feel like there's some really great insights in addition to the specific data points that we've shared today. So we have a minute or two to do a little bit of Q&A. We did have a question from the audience that, Chris, maybe I'll shoot your way first.

But going back to that conversation about alternatives and potentially even private investments, have you seen clients revisit that conversation or that

decision where they may have not made the decision to use alternatives or private investments in the past, but there's been board turnover or something has changed?

How do you view, having maybe the same conversation at a different time or the same conversation with a different group of folks?

Chris Krakowski: This is a great question because I have seen this live multiple times. One way I- we try to get ahead of this is periodically working with the boards to do...

we do a risk tolerance survey and asset allocation review. We try to do that, an asset allocation review at least every year just to reaffirm the risk and the viewpoints and the liquidity needs of the organization and so forth. But there have definitely been situations where somebody comes in that's, wholly against alternatives, and you have an alternative allocation in the portfolio.

And, the, the way that I've tried to resolve that is first of all, most of the time, there's... they're either illiquid or less liquid in the alternative side, so it's not something you can just, terminate tomorrow and just move it into public equities or public fixed income.

But to, really take a step back and look at if the organizational needs have changed or if the sort of the viewpoints of the boards have changed. Did liquidity really... Did the liquidity needs really change? And if they did maybe there's an opportunity to shore up liquidity in other parts of the portfolio.

The, the, the last thing we'd wanna do is try to liquidate those alternatives in a, a secondary market where we didn't need to. It's an option, but it does cost a lot of money to do that. And I think that's just a good conversation to look at the whole portfolio identify what portion is in alternatives, are those really needed today?

Maybe the decision is made, the whole board agrees that you stop committing capital to alternatives, and you let it roll off. Or maybe, with some discussions about asset allocation, risk tolerance, liquidity needs the decision can be made that, hey, maybe this does have a place in the portfolio, and we still have X amount of this that's liquid and daily traded and it's also a time when nothing has beat the S&P 500 index.

It, it could be a challenging time to reevaluate whether you should have alternatives when the best performing asset class has been public. I just think

this is a, a deeper conversation and I'm gonna just finish with the word that we've said, 100 times, but that it really depends on the uniqueness of each organization and an in-depth conversation on risk and asset allocation can hopefully mitigate that.

Grant Verhaeghe: Yeah. I've also seen organizations question past allocations to alternatives because of a bad experience, right? So- something happened in the portfolio that either the board or the investment committee wasn't really, aware of. Which is why, again, I think this asset class is one you have to be very informed going in, and you have to understand and model what the potential outcomes are because you just don't wanna experience any surprises in a world where you have really long-term illiquidity challenges.

James Stenstrom: All right. I think that took us to the hour. So thank you again to Chris. Thank you again to Grant. Appreciate everyone's participation today. Have a super Tuesday.

Chris Krakowski: Thanks everyone.

Speaker: Thanks everybody

“CAPTRUST” or “CAPTRUST Financial Advisors”) is an Investment Adviser registered under the Investment Advisers Act of 1940. However, CAPTRUST video presentations are designed to be educational and do not include individual investment advice. Opinions expressed in this video are subject to change without notice. Statistics and data have come from sources believed to be reliable but are not guaranteed to be accurate or complete. This is not a solicitation to invest in any legal, medical, tax or accounting advice. If you require such advice, you should contact the appropriate legal, accounting, or tax advisor. All publication rights reserved. None of the material in this publication may be reproduced in any form without the express written permission of CAPTRUST: 919.870.6822 © 2026 CAPTRUST Financial Advisors