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ENDOWMENTS AND FOUNDATIONS

Getting a Mackenzie Scott Gift: Is Your Charity Ready for a Significant Windfall?

Helping nonprofits build their quasi-endowment programs for the future

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IN THIS REPORT:

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EXECUTIVE SUMMARY

In June 2023, Giving USA reported that total giving for 2022 was at $499.3 billion, a 10.5% decrease after inflation from the prior year, a result of the slowing economy and stock market drop.[1] Despite the slower growth, one positive trend in the philanthropic arena has been the continued grantmaking of MacKenzie Scott, an American novelist who has become a key philanthropist in current times. She has an estimated net worth of $34.8 billion, owning a 4% stake in Amazon, which was founded by her ex-husband Jeff Bezos.[2] Mackenzie Scott has given over $16.5 billion in unrestricted grants to more than 1,900 nonprofits.[3]

The *New York Times* commented on MacKenzie Scott's philanthropy in a 2022 article:

> *"…She has set about disbursing her enormous fortune with unprecedented speed and directness to frontline charities and nonprofits with a stated emphasis on advancing social justice and combating inequality, all while trying to keep herself out of the spotlight.*
>
> *… While Ms. Scott may be seeking to stay in the background, her funds are reshaping the nonprofit sector in the United States and beyond. She has become arguably the most consequential philanthropist in the world right now—one who is very much operating on her own terms."*[4]

These unrestricted gifts have a significant impact on the nonprofits that receive them and can be life changing. Many of these nonprofits have received these large unrestricted funds for the first time and are exploring ways to maximize their impact. One way to plan for these unrestricted funds is to conduct an internal review of the organization's short-term and long-term needs. On the short-term side, some nonprofits have expanded key programs and hired new staff. On the long-term side, many nonprofits have used these funds to start or build their quasi-endowment programs. Many are seeking best practices as they develop their game plans for the future of these funds.

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Photo: Elena Seibert

Philanthropist Mackenzie Scott

Source of funds: Amazon holdings (4%)

Mission: Child development, maternal health, social justice, and other causes

Giving summary: Over $16.5 billion to more than 1,900 charities

Typical grant: $1 million to $15 million/Unrestricted

Website and data source: yieldgiving.com

Yield GIVING

As of the writing of this paper, Mackenzie Scott granted $640 million to 361 nonprofits through her Open Call program. This was more than double her original plan to give.

Source: CNN Business March 19, 2024

In this report, we provide some background on MacKenzie Scott's philanthropy and then highlight her giving plans so far. We discuss some best practices and review the importance of preparing a financial game plan that a nonprofit can follow. Key components of a plan can include:

1. **Current assessment:** Take a financial inventory of both short-term and long-term needs.
2. **Investment policies:** Build a customized investment policy statement.
3. **Governance program:** Set up policies and procedures for the endowment/quasi-endowment program.
4. **Communications plan:** Develop a communications plan surrounding these new funds for the various stakeholders.
5. **Strategic endowment plan:** Build an endowment growth plan for the future.

BACKGROUND ON MACKENZIE SCOTT'S GIVING

MacKenzie Scott's philanthropic program is nontraditional in that she has not formed a foundation to disperse the grants and has no formal application process. According to the *New York Times,* Ms. Scott formed a new shell company in 2019 in Delaware called Lost Horse. From there, the representatives of Lost Horse started to reach out to nonprofits directly. The Bridgespan Group, a nonprofit consultancy firm, also has contacted some of the nonprofits.[4]

The *New York Times* commented:

> *"On paper, Lost Horse's Headquarters are a law firm office in a downtown Seattle Skyscraper and a tax firm in Los Angeles that handles family offices for high-net-worth individuals. Public records also show that Lost Horse has an office of its own in a brand-new eco-friendly building in Seattle, where many of the staff are actually located."*[4]

The *New York Times* also commented that since Ms. Scott does not have a foundation that would require her to file an IRS Form 990-PF, there is very little information on her giving. They noted that she has been giving through donor advised funds.[4]

The magnitude of Ms. Scott's gifts has been significant. The *New York Times* goes on to provide a comparison of her giving:

> *"Over the past year, Ms. Scott has announced grants of $6.6 billion. For comparison, The Gates Foundation said it paid out $5.8 billion in grants in 2020, the most recent year for which complete data is available…. Gates made those grants with a staff of over 1,700 employees…."*[4]

As a way to be transparent on the grants and provide more information to the nonprofit community, on December 16, 2022, MacKenzie Scott launched a giving website that highlights her grants and mission and announced the name as Yield Giving.[5] On March 23, 2023, MacKenzie Scott also announced a $250 million "Open

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Unbounded Education's CEO Lacey Robinson commented on their Mackenzie Scott grant in a phone conversation with the author on October 13, 2023:

"There is nothing more exciting and challenging than to receive financial support that comes as a surprise gift. We saw Ms. Scott's philanthropy as an investment in our mission and our continued success. As a leadership team and with the Board, we began reviewing our protocols and strategy for ensuring strong financial stewardship for serving educators in the short and long term. Our investment advisor worked closely with us to develop an investment policy statement and ongoing governance processes. We continue to iterate our way toward a world where we meet our needs with a quasi-endowment program."

Call" initiative to the nonprofit community. The program was geared toward supporting community-focused organizations working with people and in places experiencing the greatest need.[6] This was the first time she has solicited grants and was targeting organizations that have $1 million to $5 million in total revenue. The deadline to apply was Friday, May 5, 2023.[6]

Candid, a nonprofit organization that provides comprehensive data and insights about the social sector, commented on the open call program:

> *"The open call is aimed at organizations with an annual operating budget of at least $1 million and no more than $5 million for at least two of the last four fiscal years to be eligible to apply. Following a final round of due diligence, the donor team will choose 250 from among the organizations top-rated by their peers and external evaluators, giving each of them unrestricted operating gifts of $1 million."*[6]

There has been significant interest in the program as *Fortune* commented:

> *"Billionaire philanthropist MacKenzie Scott's first open call for grants yielded 6,353 applications from nonprofits—meaning candidates have at least a 4% chance of being selected for a $1 million grant. Lever for Change, the nonprofit overseeing the application process, said Wednesday that the applications came from all 50 states, Puerto Rico and the U.S. Virgin Islands. The 250 winners will be announced in early 2024."*[7]

See box on page 2 for an update on the Open Call program.

CURRENT STATE OF MACKENZIE SCOTT'S GIVING

The Yield Giving website has provided information on Ms. Scott's giving. According to an article by The Associated Press (AP) and their research, the average gift was approximately $9.2 million.[8] Some nonprofits have opted not to provide information related to their gifts. It is interesting to note that according to AP, approximately one-third of the gifts were made to organizations in the south. In Figure 1, AP provides some sample grant data on the geography, focus areas, and largest and smallest gifts.[8]

When you look at the Tri-State Region (NY, NJ, CT), the grant allocation is as follows: New York (82%), New Jersey (10%), Connecticut (8%). The main three categories for the three states were education (27%), civil/social engagement (25%), and healthcare (18.6%). It is also interesting to note that 80% of the Tri- State grants were in New York (see Figure 3).

A December 2023 article by Mathew Lee, Brian Trelstar, and Ethan Tran of Harvard University discussed their analysis of Scott's giving and provides some insights on the past five years of data. In their article they highlight the following observations:

- Nonprofits receiving grants had higher than average revenue
- Her funding priorities shifted from education to healthcare segments, especially in 2023

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Figure 1

Sample data on Mackenzie Scott's current unrestricted gifts

Average gift		$9.2 million
Geography	One-third of gifts made to nonprofits in the south	
Focus areas	Education (k-12; vocational; some form of learning)	$8.9 billion
	Equity & justice groups	$7.5 billion
	Domestic Issues	$8.9 billion
	Globally focused groups	$1 billion
Largest gifts	Large, federated organizations-United Ways	$625 million
	Habitat for Humanity	$436 million
	Co-impact (A collaborative of big philanthropists trying to improve the health and well-being of people globally)	$75 million
	GiveDirectly	$60 million
	Hispanic Scholarship Fund	$50 million
	Prairie View	$50 million
	Enterprise Community Partners	$50 million
Smallest gifts	Junior Achievement of New Mexico	$300,000
	Caribe Girl Scouts Council in Puerto Rico	$300,000
	Junior Achievement of West Kentucky	$300,000
Overall unrestricted gifts	**1,604 gifts**	**$14 billion**

Sources: AP Article 12/16/22; Yield Giving website 2023.

- A number of her largest grants went to the historically Black colleges and Universities (HBCUs) and Hispanic-serving institutions
- Grants to human services and youth development, were much smaller, on average
- Her gifts leaned toward nonprofits in the southern U.S.
- Organizations affiliated with large national networks represented about 1/3 of the grantees[9]

PRE-ENDOWMENT CHECKLIST: SHORT-TERM AND LONG-TERM NEEDS

It's very exciting to get an unexpected grant from Mackenzie Scott. Before making any decisions, we recommend that nonprofits take a step back and make an assessment of their short- and long-term needs.

The checklist on page 6 is a starting place to determine what these short- and long-term needs may entail. Often, nonprofits realize that they need to spend some of these funds for immediate needs in the short term. At the same time, they may have

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Figure 2

MacKenzie Scott gifts: Northeast Tri-State Region: New York, New Jersey, Connecticut

Organization category	2020 sum of gift amount	2021 sum of gift amount	2022 sum of gift amount	Total sum of gift amount	Total % of annual gifts
Arts & Culture		$41,000,000	—	$41,000,000	9%
Civic and Social Engagement	$67,000,000	$33,000,000	$25,200,000	$125,200,000	26%
Community and Economic Development	$12,000,000	—	$27,250,000	$39,250,000	8%
Education	$43,000,000	$16,000,000	$71,900,000	$130,900,000	27%
Equity and Justice	—	$2,000,000	$33,000,000	$35,000,000	7%
Health care	$20,000,000	$32,000,000	$37,500,000	$89,500,000	19%
Youth Development Programs	$10,000,000	$1,500,000	$9,700,000	$21,200,000	4%
Grand Total*	**$152,000,000**	**$125,500,000**	**$204,550,000**	**$482,050,000**	**100%**

*The total amount excludes 22 gifts which did not report their gift amount.

Sources: Yield Giving website 2023; Wilmington Trust.

Figure 3

Number of gifts granted by state

Organization category	CT	NJ	NY	Grand total
Arts & Culture		1	13	**14**
Civic and Social Engagement	1	3	19	**23**
Community and Economic Development	2	3	9	**14**
Education	1		15	**16**
Equity and Justice			12	**12**
Health care	1	2	4	**7**
Youth Development Programs	2	4	7	**13**
Grand Total	**7**	**13**	**79**	**99**

Sources: Yield Giving website 2023; Wilmington Trust.

an objective to build a quasi-endowment, or an unrestricted endowment. During Covid, many nonprofits realized that they wanted to either start an endowment program or grow their endowment program for the future.

It is interesting to see how one nonprofit assessed their needs after they received their grant. In July 2023, MacKenzie Scott awarded $10 million to the National Housing Trust (NHT), founded in Washington DC in 1986.[10] Their mission is to create and preserve affordable housing, supporting rent payments for tenants, and making the homes more sustainable in the process.[10] The funds can help them to support their mission. In an article by *FastCompany,* Executive Director Priya Jayachandran commented on the current needs as well as the consideration to build reserve funds:

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Pre-endowment check list:
It's important to understand your current financial and mission-related needs first.

- Use a portion to expand current programs and mission?
- Are there key capital improvements that are needed today?
- Plans for future staffing?
- Give some of it away?
- Should you put most of it in savings for a "rainy day" fund?
- Invest in a quasi-endowment to grow more income?

> *Jayachandran confirmed that NHT did not apply for a donation, hence her surprise at the email. With the nonprofit's annual budget of about $11 million, the donation represents almost a whole year's worth of funding. It may choose to scale up its work in certain areas, though Jayachandran says the idea is "really doubling down on what we are already doing."*
>
> *Crucially, NHT will be able to reserve some funds for a rainy day. "What a lot of nonprofits like us don't have is a lot of cash reserves," Jayachandran says. "You're like a small business. You're very vulnerable to good years and bad years."*[10]

OPPORTUNITY TO BUILD AN ENDOWMENT/QUASI-ENDOWMENT PROGRAM

The building and expanding of the endowment programs are important to consider for all nonprofits, especially in these changing times. As discussed earlier, nonprofits should begin by taking an inventory of their short- and long-term needs as they decide how to allocate their funds for the future. It is also crucial for the nonprofit to set up a Windfall Policy in advance as part of their Gift Acceptance Policy, which will help guide them on future unexpected gifts. The Windfall Policy is unique to each nonprofit and board and is a written policy that details how to handle large, unexpected gifts.

Endowments can come in many flavors, such as a restricted endowment or quasi-endowment. Restricted endowments are donor restricted funds and need to be carefully administered and monitored, while quasi-endowments are unrestricted funds and overseen by the board, for donor intent. Both restricted endowments and quasi-endowments are often managed together and have the same mission, to have a long-term portfolio that provides an income stream (typically 4–5%) and a cushion during stressful times. Many nonprofits have both restricted and unrestricted funds.

Through our research, we were able to find a number of nonprofits, many in the higher education arena, that have taken their MacKenzie Scott funds and added them to their endowment programs. Figure 4 lists some of those organizations that have invested a portion of the grant funds into their endowment.[11]

Amarillo Community College is an example of how these funds can have such a significant impact on the fiscal support of a college as they have moved the funds to their endowment account as commented below:

> *"The $15 million has already been transferred into the college's account," Dr. Russell Lowery-Hart, College president, said. Moving forward, the college is planning to invest the funds in an endowment, expanding the value of the gift to have an impact on the community "for generations." Lowery-Hart sees the college as the stewards of the money for the community as a whole.*[12]

These significant MacKenzie Scott gifts can often spur other donors to support the organizations. Norfolk State University (NSU) received a $40 million grant and has also used the funds to support the endowment and has seen other donations increase based on the positive news.

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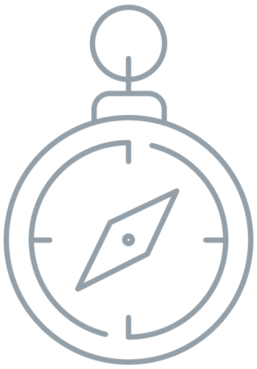

"Scott's gift almost doubled our endowment, and since her gift, we've seen an increase in major gifts of over $50,000," said Clifford Porter, vice president for University Advancement. "When you receive a transformational gift like that, it really is a seal of approval for the institution and leadership. It says to people that you're doing the right thing at the right time. For us, it has really given a green light to other donors."

Corporations, individuals, and foundations have reached out to NSU and become new donors since Scott's donation. Some of NSU's existing donors also increased giving, Porter added. In 2020, excluding Scott's gift, NSU received gifts of over $50,000 that totaled $1.2 million. Then in 2021, NSU received a total of $4 million *"and counting"* from gifts over $50,000. *"Her gift was a catalyst,"* said Porter.[13]

THE ENDOWMENT INVESTMENT PROCESS

As nonprofits start to build and expand their endowment programs as a result of these new donations, they will need to develop an investment process. As mentioned earlier, a key starting place is to determine the breakdown between short-term and long-term funds. Investing the long-term funds will require one to develop an endowment mindset. This requires an understanding that investing is not like running a sprint when you start a marathon. You need to maintain a long-term focus and steady pace. And, when investing in the capital markets, always be ready

Figure 4
Mackenzie Scott's grants and endowments in motion

School	State	Donation	Comment
Alcorn State University	Alcorn, MS	$25MM (Dec. 2020)	"It more than doubled the endowment"
Amarillo Community College	Amarillo, TX	$15MM Grant (June 2021)	"Plan to invest the $15MM in their endowment"
Bowie State	Bowie, MD	$25MM Grant (Dec. 2020)	"Put 90% or $23MM into endowment"
Delaware State University	Wilmington, DE	$20MM (Dec. 2020)	"$12MM to the endowment"
Elizabeth City State University	Elizabeth City, NC	$15MM (Dec. 2020)	"90% or $15.5MM to the endowment"
Lincoln University	Lincoln University, PA	$20MM (Dec. 2020)	"All $20MM to the endowment"
Long Beach City College	Long Beach, CA	$30MM Grant (June 15, 2021)	"LBCC's initial plan was to dedicate a portion to student scholarships and also maximize the gift by investing a portion that will yield additional revenue in years to come"
Morgan State University	Baltimore, MD	$40MM Grant (Dec. 2020)	"Put 98%, or $38MM of gift into endowment"
Norfolk State University	Norfolk, VA	$40MM (July 2021)	"Helped double endowment"
North Carolina Agricultural and Technical State University (NCAT)	Greensboro, NC	$40MM (Dec. 2020)	"Use part of funds to create new endowments for scholarships"
Prairie View A&M University	Prairie View, TX	$50MM (May 2021)	"$33MM added to endowment"
Tougaloo College	Jackson, MS	$6MM (Dec. 2020)	"$2.35MM to scholarship fund"
University of MD Eastern Shore	Princess Anne, MD	$20MM (Dec. 2020)	"100% to the endowment"
Voorhees College	Denmark, SC	$4MM (Dec. 2020)	"Some used to establish endowment chairs"

Sources: Nonprofit websites 2023; The PLUG website 2023.

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> *"When you receive a transformational gift like that, it really is a seal of approval for the institution and leadership. It says to people that you're doing the right thing at the right time. For us, it has really given a green light to other donors."*[13]
>
> **Clifford Porter,**
> **Vice president for University Advancement**
> **Norfolk State University**

for some market surprises. For example, during 2023, we were dealing with higher than expected inflation which had a negative impact on the market. Even when the trend of the stock market is positive based on the economic fundamentals, it can still be volatile during the year. Finally, it is crucial to have an investment game plan which is in the form of an investment policy statement (IPS). This is the foundation of the investment program.

The IPS should cover, among other things, a discussion of suitability, diversification, rebalancing, and fees. A key part of this plan is a confirmation of the goals and objectives of the funds, which helps to structure the investment program and process.

One way to start the process is to review the following three steps:

- **Needs assessment:** Start by determining the goals and objectives of these funds, the time horizon, and your risk profile.
- **Asset allocation determination:** The asset allocation step is key and helps us to determine the target asset allocation between stocks, bonds, and cash. How is the investment pie divided?
- **Portfolio construction:** This is a key step and includes the investing of the funds, the selection of the managers, and an ongoing review process.

An important trend in the endowment world over the past few years is the utilization of the OCIO model (Outsourced Chief Investment Officer). This model is a full-service approach where the nonprofit works with an outside OCIO manager to oversee the entire process, which can include investment consulting, investment management, custody, access to private markets, governance support, sustainable investing options, and philanthropic education and research. The model is becoming more popular and a number of nonprofits that have received MacKenzie Scott grants are utilizing this option.

While some of these new funds can be unrestricted, some other donors may ask for their funds to be managed separately so there needs to be a process on how these individual funds can be administered.

THE GOVERNANCE STRUCTURE FOR THE ENDOWMENT PROGRAM

It is important to set up governance policies and procedures that allow you to manage and monitor your endowment and quasi-endowment programs to make sure they are invested responsibly and legally. If you are starting an endowment program, it is imperative to build these governance policies and procedures at the onset. If you already have an endowment program, it is a chance to review and refine your current governance policies and processes.

The board of trustees has the overall responsibility of the endowment program and oversees the financial operations of the organization. Usually, the board delegates the finance or investment committee to implement the day-to-day review of the

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An article in *Fundfire* commented on outsourced CIOs:

"Outsourced chief investment officers are finding more opportunities to manage the money for smaller foundations and endowments that have seen their assets skyrocket after receiving transformational gifts.

An uptick in donations from ultra-high-net-worth individuals, such as author and philanthropist MacKenzie Scott, has changed the investment strategies these institutions can gain access to and created a need for advice on managing a massive cash donation."[14]

endowment program. These committees in turn often engage third-party advisors and custodians to assist in the endowment's management. Some nonprofits have developed a written charter for the investment committee that outlines the details of the committee.

David M. Rottkamp, CPA, partner and Nonprofit Practice leader at Grassi & Co. commented on endowment governance in a conversation with the author on October 12, 2023:

> *"It is especially important for all nonprofits to have a strong overall governance structure and process, which includes its endowment activities. Nonprofits should create, approve and adhere to specific policies and procedures that relate to its donor-endowment and quasi-endowment programs. Board members must always remember they are fiduciaries, even when they delegate endowment management to various subcommittees and/or outside third parties."*

Having a fiduciary mindset

The first step is to understand the role of a fiduciary. In its publication, Endowment Management for Higher Education, the Association of Governing Boards of Universities and Colleges (AGB) talks about the role of the fiduciary, which can be applied to many types of nonprofits. A fiduciary can be defined as a person acting in a position of trust on behalf of the organization. Fiduciaries include boards of trustees, investment and finance committees, and professional investment staff at the nonprofit. Their responsibilities have evolved over time with the various regulations for different types of fiduciaries. Fiduciaries can delegate the management of the endowment to an external party but cannot delegate the internal responsibility.[15]

The three main responsibilities of a fiduciary according to AGB are as follows:

1. **Duty of Care:** This requires the investment committee to exercise reasonable care as they make investment decisions related to the portfolio. This is usually denoted as the requirement to provide the level of care that an ordinary prudent person would exercise in a similar position under the same circumstance (known as the Prudent Person Rule).

2. **Duty of Loyalty:** This is related to a board member's self-interest and potential conflict this can create for the nonprofit. The board member must put the nonprofit first and act in the best interest of the organization.

3. **Duty of Obedience:** A board member has the obligation to make decisions that uphold the mission of the nonprofit. It is crucial to make sure the endowment is operating in compliance with all laws and regulations and that any restricted donor gifts are being handled correctly. It is also important for boards to be familiar with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was approved in 2006 by the Uniform Law Commission and relates to institutional funds and donor restricted endowments. Most states have adopted their own versions.

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Figure 5 provides some insights on each of these guidelines as well as questions to consider related to these concepts.

It is important to review the endowment regulations

There are also state guidelines related to endowments that the investment committee members should be aware of, such as UPMIFA and the Uniform Management of Institutional Funds Act (UMIFA). UPMIFA replaced UMIFA, which has been the law for about 35 years.

According to the National Association of College and University Business Officers (NACUBO):

> *"UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as "endowments" to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for purposes of any endowment fund held by a charitable institution. These two principles have been the twin lodestars of asset management for endowments since UMIFA became the law of the land in nearly all U.S. jurisdictions, UPMIFA continues these fundamental principles as a needed upgrade of UMIFA."*[16]

There are nuances to UPMIFA and trustees should know some of the key requirements. In 2006, UPMIFA was approved by the Uniform Law Commission and was enacted by 49 states (except Pennsylvania and Puerto Rico) over the next few years; each state has its own version.

AGB commented on these key regulations:

> *"In 2006, UMIFA (Uniform Management of Institutional Funds Act) was replaced with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Among other changes, UPMIFA refined and strengthened the standard of care applicable to fiduciaries, requiring them to act 'with the care an ordinary prudent person in a like position would exercise under similar circumstances,' and to consider specific factors—such as general economic conditions, expected tax consequences of an investment, the role that each investment plays within the overall investment portfolio, the other resources of the institution, and the needs of the institution—in order to make the distributions and to preserve capital. In addition, whereas under UMIFA, an 'underwater endowment fund' (i.e., an endowment whose market value is less than its historic dollar value) could only distribute current income (e.g., dividends and interest), UPMIFA permit an endowment to distribute the amount that its fiduciaries deem prudent after considering donor intent, the purposes of the endowment, and other enumerated factors. UPMIFA has been adopted by 49 states and the District of Columbia. The requirements of a given state's UPMIFA statute should be understood by the governing board and investment committee members as they make important investment and spending decisions."*[15]

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Figure 5

The three main fiduciary responsibilities

Fiduciary responsibilities	Summary	Specific comments & questions to consider asking
#1: Duty of **Care**	**This requires the investment committee to exercise reasonable care as they make investment decisions related to the portfolio. This relates to the level of information, competence, and judgment that is required of a board member. Known as Prudent Person Rule.**	• Is there a written charter for the investment committee (IC)? • Is there a chair of the IC, and is that chair effective? • Are there at a minimum, quarterly IC meetings with the investment advisor? • Do the trustees attend the IC meetings, and is there an agenda? • Do the trustees understand the mission of the funds? • Does the IC have the necessary investment experience and knowledge? • Is there a summary report of all the investments for each IC meeting? • Do IC members read the materials before the meeting, and come prepared? • Do members know the short-term and long-term needs of organization? • Does the IC know the source of the endowment funds? • Is there an understanding of endowment versus quasi-endowment? • Is there a summary of the portfolio and the quarterly performance versus a benchmark? • Do IC members ask key questions? • Are all the different investment pools reviewed and monitored by the IC? • Is there a current investment policy statement, and is it reviewed annually? • Does it include the strategic and tactical asset allocation targets? • Is there a portfolio benchmark? • Are there risk measures? • Does the committee do a stress test on the portfolio? • Is there a review of the spending rate and is it realistic? • Is there an ongoing endowment education program for IC members? • Is there an orientation program for new IC members? • Does the Gift Acceptance Policy have a Windfall Policy?
#2: Duty of **Loyalty**	**This is related to a board member's self-interest and potential conflict this can create for the nonprofit.**	• Do board members and committee members receive the conflict-of-interest policy? • Is this conflict-of-interest policy's annual disclosure signed annually? • Is there a policy that allows trustees to do business with the nonprofit? • Do you have a policy which would strive to avoid the appearance of conflict? • Does the trustee need to recuse himself/herself from the decision and meetings?
#3: Duty of **Obedience**	**A board member has the obligation to make decisions that uphold the mission of the nonprofit. It is crucial to make sure the endowment is operating in compliance with any laws and regulations and that any restricted donor gifts are being handled correctly. It is also important for boards to be familiar with UPMIFA, which was enacted in 2006 and relates to institutional funds and donor restricted endowments.**	• Is the board familiar with UPMIFA and other laws? • Are the trustees aware if any of the investments are used as collateral for financing? • Is there a named endowment fund policy? • Are UPMIFA guidelines mentioned in the IPS? • Is the board and staff educated on UPMIFA? • Do you consult with legal experts to review your compliance with UPMIFA? • Does the nonprofit maintain donor files? • Who confirms that the endowment funds are following the specific regulations? • Does the board review the overall fee restructure, which includes direct advisory fees and implementation fees related to the specific managers? • Does the trustee keep certain types of information confidential? • Are the funds aligned with the values of the nonprofit? • Does the nonprofit maintain a file of key records and committee minutes?

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Carsten Sierck, director of Endowment Management at the Episcopal Church Foundation, which advises many organizations with a combination of donor restricted and board designated funds, commented in a call with the author on October 23, 2023:

"All investment committees need to read up on UPMIFA—its investment provisions apply to all institutional funds, not just permanent endowment funds."

Trustees should review the basics of UPMIFA

We have focused on the New York version of UPMIFA, The New York Prudent Management of Institutional Funds Act (NYPMIFA), to illustrate key points trustees should be familiar with. Passed in 2010, here are some observations of the New York Act:

1. According to the Attorney General's Office of New York State's website (ag.ny.gov), NYPMIFA provides guidance and authority to nonprofits (public charities and private foundations) concerning the management of nonprofit institutional funds and the spending on endowment funds (enacted in 2010). Fiduciaries are empowered to delegate investment management functions to outside parties.
2. The act applies to all institutional funds, including spending guidelines on donor restricted endowments.
3. Portfolio diversification: Fiduciaries are required to make sure their portfolios are diversified. Fiduciaries are required to focus on the risk/return of the entire portfolio and not the details of an individual investment and follow total return investing.
4. Trustees are now able to spend below the historic dollar value of the endowment fund, so there is more flexibility for spending. The spending policy should be documented and reviewed annually and should be part of the investment policy statement.
5. An investment policy statement (IPS) is required by all nonprofits in New York for all nonprofit assets, which complies with the law. The IPS should be reviewed annually and should include investment and spending policies. NYPMIFA requires the consideration of eight specific investment factors for all nonprofit investment portfolios, supporting the standard of prudence.
6. Delegation of investment management: A nonprofit may delegate the management of the funds to a third party but must have a prudent process in the selection and monitoring of the external party.
7. Transparency: Nonprofits are required to prepare annual financial reports and have them available for the regulatory agencies if they are requested. The investment management costs must be monitored and be reasonable.
8. Boards and investment committees should be educated on the nuances of NYPMIFA and may consider having an experienced legal counsel to review their compliance.
9. New Endowment Fund Solicitation Disclosure: Nonprofits soliciting new endowment gifts must provide a new disclosure in their donor materials.

Continued

David Samuels, a partner at the law firm of Perlman & Perlman in New York City, commented on NYPMIFA in a conversation with the author on October 18, 2023:

"Most states have adopted UPMIFA and some have added their own requirements to the law. For example, in New York, NYPMIFA requires that each nonprofit has an updated investment policy statement. Board members should be aware of their respective state guidelines."

Developing an endowment governance structure

It is also important to have an endowment governance structure that includes the responsibilities of the various types of decision makers and how they relate to each other. The endowment stakeholders include investment staff, trustees, investment committee, investment advisors, and custodians. Some nonprofits develop a "governance policy statement" to document the structure. Taking a closer look at the day to day, The CFA® Institute commented:

> *"The framework that connects these decision makers is the governance structure. A strong, well-articulated governance structure provides the mechanism for decision makers to function together effectively. A weak ill-defined governance structure breeds confusion and acrimony."*[17]

The CFA Institute talks about basics of an investment governance structure and views it as a three-legged stool in its Primer for Investment Trustees:[17]

1. **Roles and Responsibilities:**
   There are a number of stakeholders related to the endowment investment process which include trustees, internal investment staff, investment advisors/consultants, and custodians. There are also outside parties including legal counsel and auditing firms. It is important that each of these parties understand their roles and how they work together.

2. **Lines of Authority:**
   It is crucial that lines of authority should be clearly documented among all parties. They commented on lines of authority:

   1) the lines of authority must be clearly specified and
   2) the supervising decision makers must scrupulously refrain from reaching down to the reporting decision makers and attempting to control decisions. Furthermore, the reporting decision makers need to feel empowered to push back and remind the supervising decision makers in those instances when the line between explicit and implicit authority becomes blurred.

3. **Accountability Standards:**
   It is important to determine who is responsible for what and what is success. Having both qualitative (how the team and COI work together) and quantitative (the results versus the benchmark) reviews over a market cycle is necessary.

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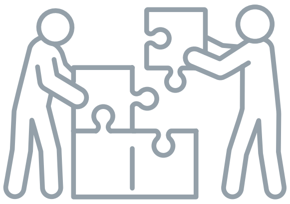

A closer look at the investment committee meeting process

It is also important to develop an ongoing investment committee process. One way to view the investment committee process is to break it down into three parts: the investment committee pre-call prep, the investment committee meeting, and the investment committee post call. Each meeting is important and is detailed below.

Investment committee (IC) pre-call preparation:

- Setting up a quarterly call
- Making sure attendees can join
- Confirming the meeting
- Recap of prior meeting
- Preparing an agenda
- Materials: Full portfolio summary; capital markets update materials; IPS; summary of fees including investment advisory, product fees, custodial fees

The investment committee meeting:

- Setting up the time and venue
- Attendees: Investment committee and CFO
- Agenda: Does every member participate and have a role?
- Recap of notes from the prior meeting and follow-up items
- Bring questions to the discussion
- Target asset allocation
- Performance trend
- CFO Update: Changes at nonprofit?
- CFO: Liquidity needs?
- Socially responsible investing?
- Investment trends
- Reviewing the fee schedule and all manager and custodial fees
- Potential questions:
  - Where do we see markets going?
  - Should we consider changing our strategic asset allocation?
  - Any managers looking to replace?
- Confirmation of the investment and implementation fees

Investment committee post call:

- Documentation: Call report and notes
- Follow-up items
- Board approval for any IPS changes
- Setting agenda and date for next meeting

COMMUNICATING WITH STAKEHOLDERS ON NEW FUNDS

One observation on the data provided on the Yield Giving site is that a number of nonprofits have not announced the details of their gifts, which MacKenzie Scott has allowed for. The decision to announce is an interesting dilemma for a nonprofit. On the one hand, the announcement of the gift is a positive for the nonprofit since the nonprofit gets to announce to its stakeholders about this very successful gift. On the other hand, the gift can impact the way their donors see the nonprofit and it could impact future donations. There is a great need for a nonprofit to develop a communications policy.

Interestingly, *The Chronicle* researched this topic and found that announcing has not been an issue in many cases. One nonprofit commented:

> *"For us, it was in the best interest to announce this donation and to share the victory with our peers in the movement," says Sean McCarthy, who manages donor relations at the National Housing Trust. The affordable-housing group landed a $10 million gift from Ms. Scott last month, its largest donation to*

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Along with the communication strategy, the nonprofit will need to review its level of transparency and the different ways it can provide financial information. We studied this concept in our research report on Catholic Foundations, which talked about how new [Catholic Foundations] were reviewing different ways to disclose their financial information on their websites through donor reports, posting of their IRS Form 990, and audited financial statements.

> *date. "We view this gift as a vote of confidence. Still," he says, "the decision to announce the contribution publicly was not made lightly. There were pros and cons to consider."*[18]

McCarthy says that he and other trust officials wanted to announce the gift to show the public and other donors that a high-profile philanthropist like Scott has faith in the trust's mission and in its ability to manage a gift of that size.

They discussed the potential downsides to publicizing it, too. Chief among them: concerns that other donors would think Scott's gift provided the trust with all it needs to carry out its mission, which McCarthy says is decidedly not the case.[18]

At the same time, some nonprofits have not disclosed their gifts. One nonprofit we spoke with in Florida received a donation from MacKenzie Scott and was considering their communications plan. They commented that one annual foundation sponsor was so focused on these new monies that they wondered about the future support from this foundation.

As mentioned, one positive of announcing could be that other donors see this as a strong message of support. An article in *FundFire* on the MacKenzie Scott gifts by Sam Heller commented on this: *"Outsourced chief investment officers are finding more opportunities to manage the money for smaller foundations and endowments that have seen their assets skyrocket after receiving transformational gifts."*[19]

There have also been concerns in the philanthropic arena that some nonprofits would not be able to handle these unexpected unrestricted donations. According to a three-year study by the Center for Effective Philanthropy,[20] the charities have been able to plan for these new funds and expand their programs. The *Chronicle of Philanthropy* commented: *"Nonprofits that received large, unrestricted donations from MacKenzie Scott have experienced few challenges or unintended negative consequences, despite grantmakers' concerns that the gifts might cause financial and operational problems in the near or long term."*[21]

THE STRATEGIC ENDOWMENT PLAN

As these MacKenzie Scott grantees start to build out their investment programs, many will want to continue the momentum and grow their endowment/quasi-endowment plans for the future. Many nonprofits have seen the importance of having an endowment program or reserve fund post Covid. One key observation from our work with nonprofits and their endowments is the importance of building a strategic endowment plan. The plan memorializes the history of the current program and the ways to grow the endowment through both fundraising and investment gains. It is important to document these strategies into a strategic endowment plan and monitor its progress. We have provided a sample blueprint in Figure 6.

The most successful nonprofits grow themselves most effectively by focusing on both their fundraising and investing strategies, hand in hand. This is crucial because over the next decade, future portfolio returns are anticipated to be lower than historical returns, which can limit the growth of the investments from an internal performance

Continued

Figure 6

Sample strategic endowment plan for endowments: Questions to ask as you plan your strategy

History of the endowment

- Why and how was the endowment started?
- What is the objective of the endowment?
- What is the asset level goal of the endowment?
- Does the endowment have a Windfall Policy?

Increasing the endowment's assets through fundraising

- What are the different ways to grow the endowment's assets?
- How can fundraising benefit an endowment?
- How do peer organizations build their endowments?
- Is there a Windfall Policy for all types of funds?

Increasing the endowment's assets through investment management

- What are the growth expectations of the endowment?
- Are these realistic given current markets?
- Has an investment stress test been performed?
- Are the investments on track?
- Does the current asset allocation make sense?

Endowment game plan

- What type of endowment disclosure:
  — Is there a named endowment process?
- Is the advisor providing valued-added services?
- Is an annual peer analysis conducted to compare the endowment with other similar organizations?
- Is there an investment RFP?
- What are the endowment trends being followed?

perspective. It will be crucial to look externally to grow the endowment through new gifts. Thus, the fundraising side of the program can have a great impact for endowments/foundations as a key way to grow. For example, planned giving strategies are a very important way to increase endowment/foundation funds.

One important aspect of developing an endowment growth plan is the consideration of a Windfall Policy. A Windfall Policy can be part of the Gift Acceptance Policy and is used by a nonprofit to guide them on unexpected gifts. The MacKenzie Scott grants are a prime example of this. These policies are customized by each nonprofit and can comment on operating funds, planned giving funds, and restricted funds. We believe the most successful nonprofits develop these policies in advance, which often has helped them grow their endowments much more quickly.

FINAL COMMENTS

MacKenzie Scott's philanthropy continues to be a bright spot for the nonprofit community. Just recently, the *Chronicle* reported that her giving for 2023 was at $2.1 billion as of December 2023. The article shared:

> *"This year's contributions went most likely to groups working on economic security, education, equity and health. While previous announcements have included detailed essays about the reasons for her donations, Scott offered only a three-sentence post titled '(Giving Update)' this year, writing, 'Excited to call attention to these 360 outstanding organizations, every one of whom could use more allies.' She added, 'Inspired by all the ways people work together to offer each other goodwill and support.'"*[22]

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While these funds are crucial for the success of these nonprofit organizations, it is a time to step back and take a financial inventory of both short-term and long-term needs. There are often short-term financial needs to address immediately, but also some longer needs in the form of an endowment fund/quasi-endowment fund for the future. During Covid, many nonprofits realized they needed to either start or grow their endowment/quasi-endowment program.

Finally, as nonprofits start to build their current endowments and quasi-endowment plans, it is a great time to peek into the future. Many nonprofits see the benefits of having a new endowment and also set a future growth goal. We discussed the benefits of building a strategic endowment plan, which memorializes the nonprofit's growth plan for the future, and looks at both investment performance and fundraising as possible ways to accomplish this. As part of this, it is crucial for the nonprofit to be educated on the basics of starting an endowment program. In light of these important trends, we have developed an educational module called *How to Start an Endowment Fund,* which has been helpful to our client discussions. Board education on endowments will continue to be an important ingredient for a successful long-term program.

TOP THINGS TO CONSIDER WHEN BUILDING A QUASI-ENDOWMENT PROGRAM FOR THE FUTURE

1. **Work with an experienced endowment and foundation advisor that offers a full-service, value-added approach, and has experience with emerging endowment programs.**
2. **Take a financial inventory of both short-term and long-term needs.**
3. **Set up a custom Windfall Policy, as part of Gift Acceptance Policy.**
4. **Have a well-thought-out governance structure and process.**
5. **Develop a communication and reporting strategy for donors.**
6. **Develop a strategic endowment plan for the future.**

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ABOUT THE AUTHOR

Walter specializes in working with endowments, foundations, and nonprofit organizations to help them grow, evolve, and weather changing financial and economic environments. He works closely with his clients on their investment, philanthropic, endowment management, and planned giving objectives. As director of the National Endowments and Foundations Practice, Walter is responsible for working with market leaders and advisors in each region to lead the growth of this important business and to create a coordinated and consistent approach to working with our clients. He has also led the firm's Philanthropic Speaker Series events since 2011.

With more than three decades of experience in the financial services industry, much of which focused on nonprofit and institutional clients, Walter has a unique perspective on the changing needs of the endowment and foundation marketplace. He has authored original research that has been covered by the financial press on a number of nonprofit sectors, including health care organizations, community colleges, public libraries, private schools, and religious organizations. Reports include:

Endowment and Foundations Update: Key 2023 Trends

Independent Schools Revisited 2023

Catholic Foundations in the U.S. Revisited

Community College Foundations Revisited

Catholic Foundations Continue to Advance in the United States

Trends in Healthcare Philanthropy and the Use of Separate Foundations

Fundraising and Endowment Strategies for Independent Schools in New York

Overview and Insights on Public Library Foundations

Walter holds an MBA from Babson College, a master's degree in philanthropy from New York University, and a bachelor's degree in economics from Bates College. He is a CFA® charterholder and a member of the CFA Institute. He is also a member of the New York Society of Securities Analysts, the Philanthropic Planning Group of Greater New York, and the Healthcare Finance Management Association. Passionate about philanthropy and perpetuating the ability of nonprofits to impact their communities, Walter is a trustee and treasurer of Fisher College (Boston), a trustee at The Nancy Woodson Spire Foundation, and served on the Forest Hills Gardens Corp. Finance Committee. He is also an adjunct professor at NYU where he teaches *Endowment Concepts and Practices* and the *Philanthropy and Fiscal Management* classes.

Our National Endowments and Foundations Team assists not-for-profit organizations throughout the country in working to meet their investment and philanthropic needs. The team can provide value-added services that go beyond the investment relationship, such as an ongoing Philanthropic Speaker Series, nonprofit sector white papers, and specialized peer reviews. They work with the firm's endowment clients either as a full-service investment advisor (Outsourced Chief Investment Officer) or as a single investment solution provider. The team has helped clients complete a competitive analysis (peer review) and strategic endowment plan, which is part of its full-service, value-added approach.

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