

Insights behind successful non-profit investing



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Much has been written about the uncertain environment and the challenges that non-profit fiduciaries face as they seek to reach their long-term objectives. For many non-profit organizations, the investment program has been a lever to fulfill their spending commitments, grow their asset bases, and support the needs of their communities. With financial market (and in some cases organizational) uncertainty elevated, many non-profit fiduciaries are reconsidering their approaches to their investment programs.

Russell Investments believes that the following practices are critical to the success of a non-profit organization's investment portfolio:

- Being clear on the investment outcomes you wish to achieve, and designing the strategic asset allocation to achieve those outcomes
- Constructing the portfolio with high-quality complementary managers in areas with high confidence for outperformance, while seeking to ensure sufficient liquidity to support your community
- Managing your investment portfolio and risk at a holistic total portfolio level

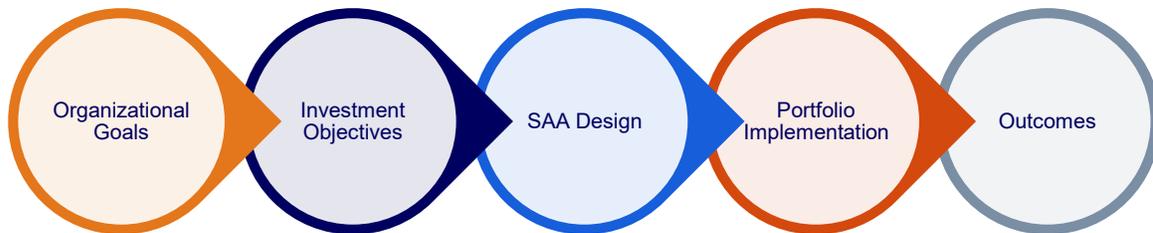
Building an outcome-oriented strategic asset allocation

Basing an organization's investment strategy on its goals may seem obvious. But as market environments change and portfolio structures evolve, an organization also needs to consider its unique current circumstances within the context of historical and future changes. For instance, a university endowment makes annual payouts to the university that are fairly consistent in addressing needs such as student financial aid, operations support, and the financing of specific programs. However, there will be times when demands change, such as when the university is facing funding challenges (which may result in a greater draw on funds) or when there is a successful capital campaign (which may result in an increase in funds inflow). At such times, the non-profit organization must [identify or reconfirm the desired outcome](#) of its investment program.

The foundation of a successful non-profit investment program is being clear about the outcomes you wish to achieve—and ensuring every portfolio decision supports those goals.

Russell Investments defines an outcome-oriented strategic asset allocation as one that is derived from matching the organization’s current investment objectives, goals, and constraints with the expected realities of future economic and capital markets environments. This means that in order to build a successful investment program, we believe you should consider the portfolio’s return objectives, the organization’s risk and illiquidity tolerance, and expectations for the performance of underlying assets over time.

Exhibit 1: Aligning organizational goals and investment outcomes



Growth objectives and risk tolerance

The first step in building an outcome-oriented investment portfolio is determining the level of growth risk that should be taken to achieve the long-term objectives of the organization. The first question is, *what is the return being targeted?* Is potential outperformance of that return target valued? Note that the portfolio’s growth potential is limited by how much risk it can tolerate to achieve that objective. The level of risk that is tolerable can be impacted by many variables that differ by organization, such as:

- The level of expected outflows
- The sensitivity to the potential annual impact of losses on the organization’s balance sheet or income statement (if applicable)
- The impact on metrics of importance to the organization’s credit rating (if applicable)
- Behavioral preference for low potential losses

Determining the behavioral tolerance for losses and setting the high-level risk budget to achieve growth objectives is just the first step in designing the strategic asset allocation.

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Portfolio exposures

Non-profit investors should want to learn from the endowment model and consider moving their portfolio beyond public equity and core fixed income. This means allowing for different factor exposures and integrating real assets, return-seeking credit and diversified hedge fund strategies into the portfolio. During the integration of diversified market betas into the portfolio, this is where understanding the organizational exposures to different economic shocks is important. Integrating real assets are

expected to provide diversification benefits for most investors. However, we would recommend higher allocations to real assets for those organizations that are more concerned about inflation shocks than economic growth shocks.

Within hedge fund strategies, the portfolio should be customized based on the investor objectives and the role of hedge funds within the portfolio. Typically, the role involves diversification, but the extent of total portfolio risk reduction versus diversified return enhancement will vary by hedge fund strategy. For example, an investor seeking greater downside protection would lean more into [long volatility and trend strategies](#), relative to an investor that is willing to accept higher equity beta (and downside) to achieve higher up-market participation. Incorporating diversified exposures through hedge fund strategies is of elevated importance in the current market environment due to the instability in the stock-bond correlation—and, therefore, uncertainty in the extent that fixed income will diversify equity risk and provide portfolio downside protection.

Enhancements through private markets

The final strategic asset allocation design question is the extent to which private markets should be used within the portfolio. Private investments typically introduce return enhancement above their listed counterparts along with risk reduction through diversification, as they provide access to different parts of their markets and the smoothing of returns through time due to the lack of daily market pricing. However, their role in the portfolio is limited by the ability to undertake illiquidity.

We find from a functional perspective, [most nonprofits can tolerate meaningful allocations](#) to less liquid investments. Although there may be varying liquidity needs, the significant differentiator is often not in expected outflows, but the potential for unexpected liquidity needs. A private foundation that consistently spends 5% with no requirement to increase spending will have greater tolerance for illiquidity than other types of nonprofits—such as healthcare systems—that have lower expected annual outflows but could require a significant increase in outflows in the event of a negative operating environment or an expansion opportunity. We also find disparities in the behavioral willingness to tolerate the inability to rebalance and potentially deviate significantly from the strategic asset allocation in stressed markets. This impacts the level of allocation to illiquid investments that is tolerable.

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Portfolio construction - Bringing the SAA to life

Designing your SAA is critical. However, it isn't enough to ensure the portfolio is aligned with organizational needs and objectives. Some of the additional implementation decisions you'll need to make include the specific liquidity profile of the underlying investments and the type and level of active manager excess return that should be incorporated into the investment portfolio. Not only should this be based on organizational objectives, but it should also be an acknowledgement of the resources and priorities of the organization.

Balancing total portfolio illiquidity risk

Often there are different fund structures within the same asset class that offer different liquidity terms. Understanding the different offerings and managing the liquidity profile of the total portfolio becomes more important as the total allocation to less liquid investments increases.

Within private investments there is often a choice between closed-end funds and evergreen funds. Traditionally, private equity and most other private investments have been mainly offered in closed-end funds, where capital is drawn down from the investor over time as investments are made (capital calls) and then distributed back to the investor as the underlying investments mature (distributions). However, although evergreen funds have been common in core private real estate for decades, they are now also gaining prevalence within private credit and private infrastructure fund offerings. In an evergreen fund structure, once invested, the money is continually re-invested until a redemption is made. Details vary by fund, but typically redemption requests are available quarterly with notice—though they may not always be met immediately, especially in periods of market stress.

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Exhibit 2: Comparing closed-end and evergreen fund structures

	Closed-end Fund	Evergreen Fund
Capital Calls	Drawn over multiple years	Varies, typically within a year
Return of capital	No control aside from secondary sales	Periodic redemptions, subject to available liquidity
Commitment pacing	Required	Unnecessary
Common use cases	Private equity	Private credit / real assets

For illustrative purposes only. Suitability depends on fund terms, underlying assets, liquidity needs, and investor-specific circumstances; not all funds within these categories are structured the same.

With closed-end funds, to maintain a steady allocation through time, an investor must constantly be committing to new funds. This creates two liquidity risks for investors: the investor can't control when they get money back, and they also need to be prepared to take liquidity from other parts of the portfolio to fund the capital calls. With evergreen funds, the primary liquidity risk is the notice period for redemption requests and the possibility that the redemption request will not be immediately met, as the investment period is relatively short without the need of ongoing commitments and



therefore the continual overhang of uncalled commitments. As a result, even though liquidity is not guaranteed and redemptions requests may not be immediately met evergreen funds help reduce overall portfolio illiquidity relative to closed-end structures.

Despite the potential liquidity benefits to evergreen funds, there can be drawbacks if the underlying investments create too much liquidity mismatch with the terms offered to investors. Income-paying private investments, such as private credit and mature private real asset investments, are often best-suited to evergreen investment vehicles due to the natural ongoing liquidity provided by the income. Although hedge funds are typically not considered private investments, they are often in similar fund structures where liquidity is available on a fixed schedule but not guaranteed.

We believe that within an illiquid portfolio it can be beneficial to include evergreen funds aimed to reduce total portfolio illiquidity risk, while maintaining closed-end fund programs in areas such as private equity.

Constructing the less liquid portfolio

Once the desired liquidity profile of the private investments is determined, filling that out with robust manager and fund selection is crucial for total portfolio success. In alternative investments there is a wider distribution of performance across managers than is typically seen in traditional asset classes, making the ability to find and select top quartile managers essential for successful implementation. This requires the skill and resources to find and select top quartile managers, along with access to be able to invest in their funds. The resource requirements are especially high for investments in closed-end fund programs as new commitments constantly need to be made, creating a need to continually find new funds to commit to, while administrative resources must be allocated to the managing of cashflows for calls and distributions. This has been an aspect of the endowment model that has historically been difficult for smaller organizations to emulate and can be seen by looking at the NACUBO private equity performance, where larger endowments have fairly consistently outperformed smaller endowments¹. Due to the resource intensity and access required for a successful private market portfolio, working with a partner is often considered crucial for success by all but the largest investors. This can allow smaller and medium-sized investors to seek outcomes similar to their larger peers.

Optimizing excess return sources in the public equity portfolio

Although manager dispersion is typically narrower within public markets, there is still the need for sufficient time and resources to selecting and monitoring above-median managers within public equities to ensure success. However, for committees and staff that are time- and resource-

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¹ In only two of the last 10 years (FYs 2015-2024) have any of the smallest three endowment cohorts outperformed either of the two largest endowment cohorts within private equity. Source: NACUBO-TIAA Study of Endowments (NTSE), FY2015–FY2024, private equity sub-series. Results are net of fees as reported by participating endowments; cohort definitions per NTSE. Past performance does not guarantee future results.

constrained and don't want to outsource the construction of the public equity portfolio, implementing public equities passively is an option. This will also be relevant for investors that are concerned about a fee budget or tracking error.

In constructing the public equity portfolio, if there are limitations on the desire for active management due to fee budget concerns, resourcing to select and monitor the managers, or tracking error, Russell Investments believes that U.S. large cap equities is the first category within equities that should be considered for implementing passively. For investors wanting higher allocations to passive equity, we would then consider non-U.S. developed large cap equities for passive management, as we believe that active managers can add the greatest value in small cap and emerging markets equities.

In the construction of active equity portfolios in the areas chosen for active management, it will be important to not just focus on finding high-quality managers, but also ensure that the managers complement each other. If multiple managers are taking similar active positions, it could result in the total portfolio's active risk being much higher than intended.

Three drivers of non-profit investment success

1. Align SAA with clearly defined objectives
2. Construct with complementary, high-quality managers
3. Dynamically manage risk at the total-portfolio level

Managing your portfolio through time

Once the portfolio is constructed, the next step is managing the risk profile to the return opportunities through time—as nothing in investments is constant. Dynamic portfolio management is crucial to ensure that, as managers adjust their portfolios and allocations shift due to market movements, the overall risk profile remains aligned with the intentions of the strategic asset allocation. If desired, it can also allow the flexibility to opportunistically capture return opportunities that present themselves through time.

As the allocation to alternatives within the portfolio increases, the complexity of monitoring total portfolio risk increases. One positive development from the last few years of market uncertainty has been that investment managers have designed far better tools for monitoring and assessing ongoing investment risks. The technologies that support these tools have become faster and less expensive. This is crucial to maintaining total portfolio risk management and oversight.

Conclusion

Non-profit investors are faced with many challenges in navigating current market conditions. Ensuring that every step of the process—from designing the strategic asset allocation to constructing the portfolio with various managers and strategies, to managing it day-to-day—always answers the question, *How is this portfolio expected to help our organization reach its goals?* is key to long-term success.

Related reading

Lato, M. (2025, April). Amid funding concerns, do non-profits need to re-evaluate their investment strategies? *Russell Investments Research*. Available at: <https://russellinvestments.com/content/ri/us/en/insights/russell-research/2025/04/amid-funding-concerns--do-non-profits-need-to-re-evaluate-their-.html>

Lato, M., Singh, A., & Foster, S. (2025, March). Rethinking diversification: Webinar recap. *Russell Investments Research*. Available at: <https://russellinvestments.com/content/ri/us/en/insights/russell-research/2025/03/rethinking-diversification-webinar-recap.html>

Lato, M. (2023, December). Effective liquidity management for non-profit investors. *Russell Investments Research*. Available at: <https://russellinvestments.com/content/ri/us/en/insights/russell-research/2023/12/effective-liquidity-management-for-non-profit-investors-.html>

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