Shifting Macroeconomic Challenges Facing Nonprofits

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David Hagee, Chief Investment Officer: Hello, and welcome to Conversations with Commerce Trust, our show about the markets, investment themes, and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust.

Today, we're discussing the shifting landscape for nonprofits with Amy Pieper, our Director of Institutional (Client) Sales and Service at Commerce Trust. Welcome back to the podcast, Amy!

Amy Pieper, Director, Institutional Client Sales and Service: Thank you, David. Happy to be here.

David: Well, I'm excited to have you here.

You know, certainly near and dear to my heart is a lot of these nonprofits, and the challenges that they're facing today. It has been a shifting landscape for them over the past, say, two decades, so quite a bit of time here, but maybe it'd be helpful to give a bit of the landscape as we see it today.

You know, certainly what we're talking about, the nonprofit space, which can be both the higher ed space, so think about this as both big and small colleges and universities that have different-sized endowments out there, and then also your traditional nonprofits, or maybe your non-academic nonprofits out there, as they're sort of faced with some different challenges than the academic ones are.

So, Amy, you know, any particular insights that you have around, sort of, what the landscape looks like today?

Amy: Yeah, so I would say the word I would use is uncertainty, right, and flexibility. I think, as you said, things have certainly changed for nonprofits over the last several years. I think today they're dealing with pressures on multiple fronts, and so managing all of this to serve the mission has become, really increasingly complex.

While 2025 was a record-breaking year for charitable giving, donor behavior is changing, so nonprofits have to be able to effectively reach different types of donors. And additionally, there's some uncertainty around public and private grant funding that wasn't there as much before. So, kind of understanding how that can impact your organization is really important.

Second, I think operating costs remain elevated. Nonprofits are being impacted by inflation, really at the same time their clients are as well, which means they're trying to do more with less while the need for their services is growing.

And then third, I think boards must effectively build investment governance, all while ensuring that both immediate and future needs are being considered. Investment decisions can't be viewed in isolation from the organization's mission. Boards really now have to take a step back and kind of look at their assets in different buckets or segments. They have to think about what they need today versus three to five years down the road, plus, you know, what they'll need in 50 years.

So, once, you know, nonprofit boards can kind of answer these questions, the investment strategy can become a lot clearer.

David: My take on it is very similar to yours in terms of the landscape. Certainly, in the higher ed space, there was, demographically, there was a large chunk of kids going through university, 20 to 15 years ago, somewhere in there, in that range. Universities, had a lot of students coming through, were flush with cash, built out a lot of extra, you know, property, plant, and equipment, out there, and now are faced with a little bit (of a) different challenge as the demographics are no longer as favorable in terms of the amount of kids heading to university. Also, you know, the foreign students are not as prevalent as they were several years ago, so, you know, some tougher choices being faced for universities as their revenue streams dried up.

That's been the challenge. It's moved away from sort of corporate and foundation towards personal philanthropy, so I think an interesting time, certainly, as people reassess things. And, you know, quite frankly, in both spaces, some consolidation going on, which is an unusual aspect for the nonprofit world, right? Whether it be schools locally, like, Washington University, absorbing Fontbonne (University).

Amy, in terms of that donor and revenue pressure, where are you seeing that coming from, how is that landscape shifting for people?

Amy: Yeah, so first, the good news first, right? You know, the 2026 Giving USA report on philanthropy (Giving USA 2026 The Annual Report on Philanthropy for the Year 2025) recently came out.

It's published every year by Indiana University (Lilly Family School of Philanthropy), and so the latest report covers calendar year 2025 data.

It summarizes charitable giving in four different buckets, and that's individuals, corporations, giving by bequest or at-death giving, and then giving by foundations. And the great news is, this year, in 2025, charitable gifts were $617.2 billion. So, this is the first time that gifts have exceeded $600 billion and represented about a 5.7% increase from the year before. And even on an inflation-adjusted basis, that was a 3% increase.

You know, while individual givers are by far the largest component of this total at 64%, last year we saw almost a 20% increase in giving by bequest, or what some organizations call planned gifts, and almost a 6% increase in giving by foundations.

And I think some of the trends that we're seeing is that nonprofits can't really assume the same historical patterns of giving, will continue indefinitely into the future. While donations are up, kind of across the board, it doesn't really mean that we're broadening out that donor base, as overall donor participation has declined, even though the gift value has gone up. It's really, you know, individual giving is really concentrated among major donors, and trends towards gifts of wealth. So think about things like appreciated stock, some of the planned gifts that we talked about, and those are the meaningful gifts that organizations are receiving. Which means, I think for nonprofits, it makes it really urgent to create a great pipeline of future donors as well, and try to build out your donor base and broaden it out.

I talk to a lot of organizations that talk about that next generation of donors, because they may have an aging group of current major supporters, and they're trying to meet that next generation and ensure that support goes into the future. So, I think that's one thing that nonprofits have to rely upon.

The second, planned giving, I mentioned, surged almost 20% in 2025, and this is a trend that's really continued over the last three or four years, so we're really seeing that wealth transfer starting to take effect and impact the nonprofit industry as a whole.

And so this means if organizations have not invested into sound planned giving programs and strategies, it's really something that's important, that should be invested in. You know, those that have always had kind of sound practices and have viewed that as an area of focus are starting to reap the benefits of that, definitely, as that wealth transition happens.

And then finally, foundation giving is continuing to expand. When you think about this report, foundation giving includes community foundations, which largely house, you know, those donor-advised funds that individual givers create, which is a fast-growing area within philanthropy.

And so organizations can't miss a piece. You have to cover individuals. You have to think about planned giving, but you also need to find a way to align your mission with foundations that are within your service area, and continue to show measurable outcomes to benefit from this area of funding as well.

David: Yeah, I think that's a very important point to consider here, is that while the revenue picture has been increasing year over year, how that revenue's derived maybe isn't as sustainable, or maybe recurring would be the right way to phrase that, with those bequests out there that, you know, happen episodically as opposed to, you know, that large donor that continues to give.

I think you mentioned another trend that's worthwhile considering outside of having a development program around planned giving or bequest. Also we've seen donor-advised funds, so connections with some sort of donor-advised fund as a preferred method of philanthropy, especially with highly appreciated securities that certainly the markets have generated quite a few over the past several years, as being a great vehicle for people to give with. Given that, so here you have a revenue picture, and certainly there's a consistent need, whether it is in the performing arts space or whether it's in the fine arts space, or whether it's, you know, in the non-academic space or academic space, there's consistent need out there.

As we unpack the board a little bit and unpack the functions of our nonprofits, you know, what do you see as the biggest challenges around governance and fiduciary duty?

Amy: Yeah, I think sometimes nonprofit boards, or nonprofits in general, can underestimate how important it is to have consistent governance process(es).

Being a fiduciary or serving on a board does not necessarily mean you need to be an investment expert or a charitable, tax-efficient, charitable gift expert, but it does mean that you need to have a process that makes those types of activities really efficient for your organization.

You know, it's really about having a thoughtful process, making decisions, documenting those decisions, and then monitoring partners or organizations that you've delegated that responsibility to. I think it's always a best practice.

One thing that I see as you have new board members, you know, one of the natural things about nonprofit boards is generally there's term limits and so you have, kind of, revolving board membership over time. And I think sometimes organizations don't provide board member orientation, and I think that's such a great way to get new board members fully engaged and really understand the history of how governance policies were put in place, why those decisions were made, how they're benefiting your organization. You know one thing we like to help with that board orientation, especially as it relates to the investment program, and maybe some ways that we're helping with, you know, gift acceptance and donor development and those types of things.

But one tool we always try to recommend to our clients is to develop what we call a fiduciary calendar. But it's really a tool that helps board members align what they want to hear in those committee meetings and what's important to hear. So, it's going to have kind of your typical economic outlook, looking at investment performance, making sure you're aligned with the investment policy statement, all of those things.

But then it also gives you an opportunity to kind of schedule other types of items that are still super important to governance, but unless they're on the calendar they might not be addressed within your fiscal year. So, these are things like spending policy analysis and making sure what you're doing is sustainable, looking at your donor development strategies and tools and the ways you're supporting your donors, reviewing that investment policy statement just to make sure it's still aligned with where your goals and your risk objectives are.

But it's just a helpful tool that you bring to every board meeting, and it really sets the cadence for what you're going to talk about in those board meetings, just to make sure your governance is aligned with where it needs to be.

David: Yeah, I couldn't agree more that, you know, from a board governance point of view outside of, sort of, the bylaws and things like that, that onboarding is a huge part of how you get board members more actively engaged, how you get board members understanding beyond the core mission of the organization into sort of all the other pieces that they're currently working with.

But, a couple of tools that I've seen be most effective here are that investment policy statement to give them a bit of an institutional memory on how the assets have been invested, why they're invested that way. (It) also gives you a bit of guardrails around things in terms of what they can and can't invest into.

But then, you know, the tag-along tools there of having asset allocation studies to begin to explore different questions around should you be invested in private placement securities or not, or, you know, how sustainable is your investing, or how sustainable is your asset allocation given whatever spending you might have?

An additional tool there would be the spending and sustainability study, which gives organizations the opportunity to see what level of spending is appropriate, and provide stewardship for the endowment and for the longer-term asset pools out there.

And finally, as organizations grow and as they're having success, is to start to build out some other structures, like a quasi-endowment, and some operating reserves, and maybe even a building fund if an organization has a large building.

Amy, could you maybe just touch on a couple of those segmentation strategies as well?

Amy: You know, investment management has become more than just an investment question. It's not just how much risk are we willing to take, or how much return do we expect, I think board members really have to look at their assets and segment them into different buckets, which is almost liquidity-based, as you mentioned.

One of the mistakes that I see organizations sometimes make is treating the entire portfolio as if it has one time horizon, when really, that's not matching their assets to their needs. And so, rather than saying you know, what's the nonprofit's risk tolerance, it's what's the risk tolerance for each of those pools of money, based on what it needs to accomplish.

So for example you know, sometimes I'm asked, and other teammates are asked, you know, how much liquidity does our organization really need? And there is not a one-size answer for every organization. If your organization knows it has 12 months of operating needs, expenses and operating requirements coming up, you shouldn't be taking unnecessary investment risk with that pool of money that you may need in three months, six months, nine months.

On the other hand, if you have money set aside that truly is not needed for 10, 20, 50, or maybe even into perpetuity, it's there to always be an endowed fund for the benefit of your mission, if you are too conservative with that money, inflation can gradually erode its purchasing power. So the answer isn't simply to be conservative or be aggressive, but it's really to have more of a matching strategy for those different buckets and time horizons of your assets.

David: Yeah, I couldn't agree more that, you know, as the organization is hit with different challenges out there, having some segmentation around assets is a big part of being able to be a good steward of the physical assets, as well as some of the, you know, mission, that goes forward in there.

You know, the other piece that we've talked about a little bit is the idea of an outsourced chief investment officer (OCIO). What this looks like for a lot of organizations is delegating some of the investment authority to an outside advisor. I think this is particularly meaningful as we talked about, with all these different challenges facing nonprofits, whether it be a board that does have a particular rotation around, you know, whatever terms are in place, or whether that be some of the new challenges that you need to have opportunities presented to you in terms of either asset allocation or how you're segmenting your assets.

So, that OCIO, or outsourced chief investment officer approach to managing an endowment has been extraordinarily well received inside the space, and really, we're looking at about 15 years of this thing, kind of being the preferred method for nonprofits to be able to manage a lot of their endowment needs out there.

Amy: Right, yeah, absolutely. And I think, you know, it's just not economically feasible for every size nonprofit organization to hire its own internal CIO (chief investment officer).

So, outsourcing is that next best solution where you have a fiduciary partner that helps you not just manage your assets but also provides that value around governance and other areas of expertise. So, I think it can be particularly important because nonprofit board members are volunteers, and they're incredibly talented people, but they are not necessarily investment professionals, and they have other responsibilities.

And you know, when shifts are needed in the portfolio or things need to happen, you have that OCIO in place to provide everything on a timely basis and really serve that larger role of just not investing the assets, but being your partner through governance, asset management, asset allocation, you know, helping with some of those extended services like your donor development activity and those types of things.

David: Amy, this is great. (My) emerging favorite part of the show, my stat (statistic) of the show. What do you have for us today?

Amy: Alright, so, the total number of nonprofits, as of the end of 2024, was 1,548,798 and that was up almost 40% over the last decade.

So, I think that tells me that there are a lot of great organizations out there that are doing great work. So I think it makes this conversation just incredibly important.

David: So, doing the quick back-of-the-envelope math on that, that would be about one nonprofit for about every 200 U.S. citizens out there. So, quite a bit of nonprofits out there, so a wide landscape to be talking about.

My stat of the show is 28 points. 28 points reflects the difference between what a 15-year-old that was using AI (artificial intelligence) every day for their schoolwork and a 15-year-old that was using AI only occasionally. So, the non-everyday user actually scored higher. So interestingly enough, I think the 28 points, which reflects about a year and a half worth of teaching, that difference says AI is a tool, and it's not the answer. And that's probably more a message for my kids. Let's open the book every now and then.

Amy: Well, and definitely an emerging theme with nonprofits as well. That could be a whole other podcast, David, on how to effectively use AI in business models.

David: For sure, for sure. Well Amy, thank you for the interesting discussion today.

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