

Visit our website!



Mission Driven Investing: A Framework for Asset Allocation

Mission Driven Investing

September 2025

Sage Advisory Services
5900 Southwest Parkway
Building 1, Suite 100
Austin, Texas 78735

SUSTAINABLE
 SAGE

Contents

03

Overview of Sage

Who We Are

Who We Serve

Responsible Investing Affiliations

05

Defining the Mission

Types of Nonprofit Organizations

MDI: Not One Size Fits All

UPMIFA and Investment Standards

10

Organizational Evaluation

What is the Mission?

How is the Mission Funded?

MDI Approach

Sustaining the Mission

16

Case Study

Assessing Operating Nature

Creating a Tailored Portfolio

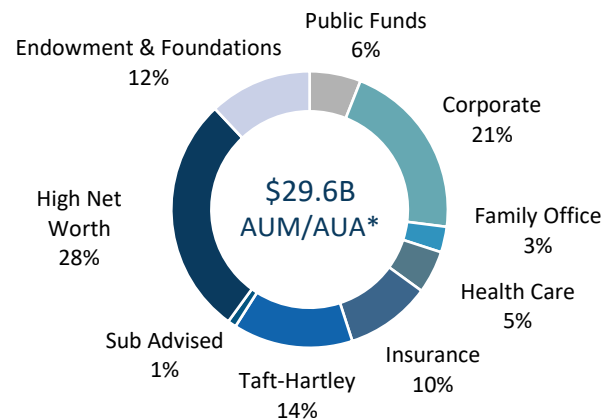
Protected Expenditures + Performance Portfolio

The Advantages of an MDI Approach

Who We Are

- Founded in 1996
- 100% employee operated
- 18-member investment team has an average industry experience of 17 years
- Responsible Investing strategies include SRI, Sustainable, Impact, Values Based, and Mission Driven

Who We Serve



Responsible Investment Organization Affiliations



Signatory



Affiliate



DEI Code Signatory



Member



Signatory



NZAM Signatory



Member

Executive Leadership

Robert G. Smith, III, AIF® & CIMC

*President & Co-CIO
55 Years, 28 Years at Sage*

Thomas H. Urano, CFA

*Co-CIO
29 Years, 22 Years at Sage*

Robert D. Williams, CFA

*Chief Investment Strategist
28 Years, 20 Years at Sage*

Michael D. Walton, AIF®

*Managing Partner
28 Years, 15 Years at Sage*

Robert W. Moser, CIMA®, CRPC, CFIP

*Managing Partner
25 Years, 9 Years at Sage*

Investment Management

Portfolio Management

Research & Strategy

Relationship Management

Institutional

Private Client

Marketing Services

Enterprise Management

Information Technology

Operations

Administration

Organizational Committees

Executive — Investment — Operating — Vendor Oversight — GIPS Oversight — Brokerage Oversight

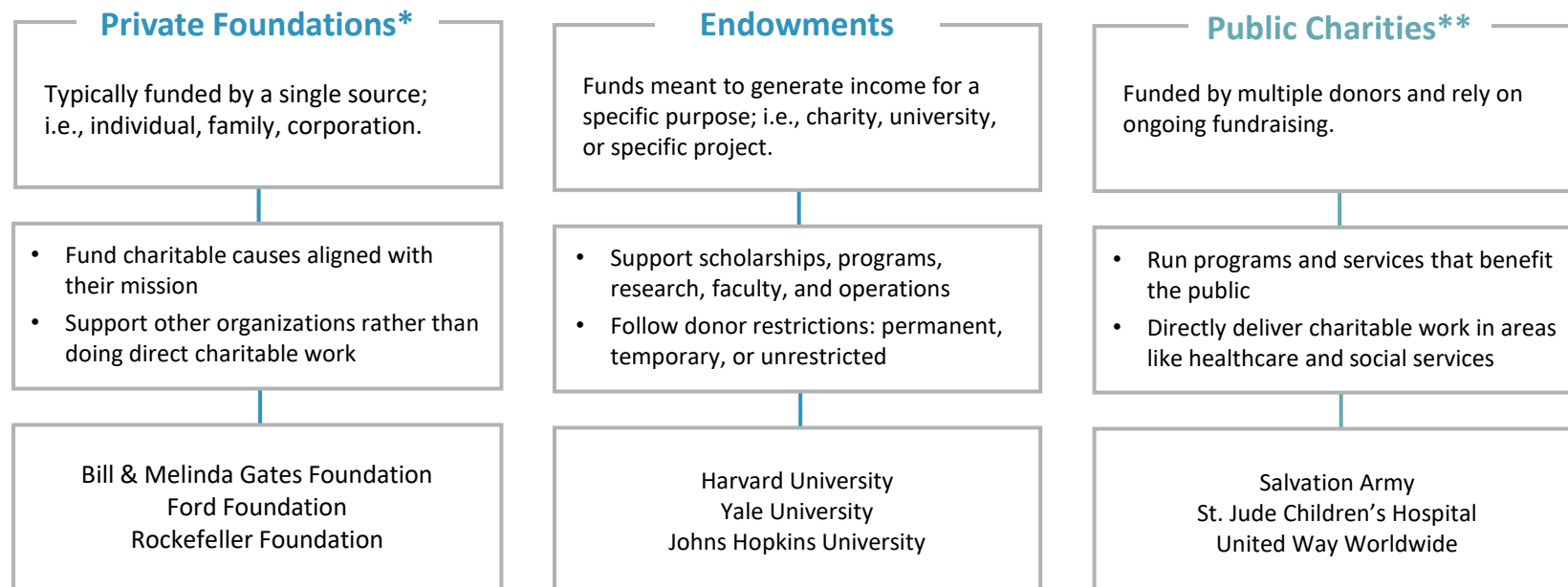


Defining the Mission

Defining the Mission

Nonprofits Vary in Structure and Funding

The goal of each foundation and charity is to maintain the endowment so that the charity can continue carrying out its mission.



*Private foundations must distribute at least 5% of their assets annually to maintain their tax-exempt status. **Public charities do not have to distribute at least 5% of their assets annually to maintain their tax-exempt status but must get at least one-third of funding from public sources.

Nonprofit Market: Size & Scope

US Nonprofits Size

Most of the ~2 million US nonprofits are relatively small.



~97% of annual budgets are less than \$5m

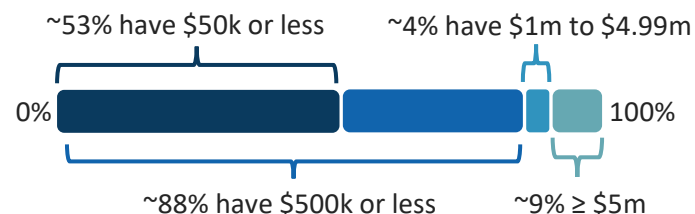


88% operate with less than \$500k annually



86% of endowments' value are less than \$1 billion in assets

Annual Revenue



US Foundations

- 52k with assets up to \$250k
- 40k with assets \$1m – \$100m

US Endowments

- Average market value \$1.3b
- Median market value \$234.1m

Mission Driven Investing: A Tailored Approach

Mission Driven Investing (MDI) customizes investment strategies to align with an organization's mission, balancing financial returns with social impact.

- MDI is not a one-size-fits-all solution
- MDI reflects careful consideration of organizational goals and constraints.

Types of Nonprofits

Nonprofits include public charities, private foundations, and other tax-exempt organizations that fall under the 501(c) classification.



Education

Schools, universities, ed programs



Healthcare

Hospitals, clinics, health advocacy



Social Services

Support for vulnerable populations



Arts & Humanities

Museums, theaters, cultural institutions



Religion

Churches, synagogues, mosques, etc.

UPMIFA and Investment Standards

Key Provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Standard of Conduct

- Manage and invest funds with the care.
- Consider the purposes of the institution and the fund.
- Incur only reasonable costs.
- Make a reasonable effort to verify relevant facts.

Endowment Spending

- Set spending rates based on the needs of the organization.
- Expenditure/accumulation considers endowment duration, economic conditions, and investment policy.
- Optional: Spending more than 7% of fund in one year may be imprudent.

Delegation of Authority

- Carefully consider investment management delegation.
- Delegated agents must comply with the delegation's scope and terms.
- Institutions are not liable for the actions of compliant delegated agents.



Organizational Evaluation

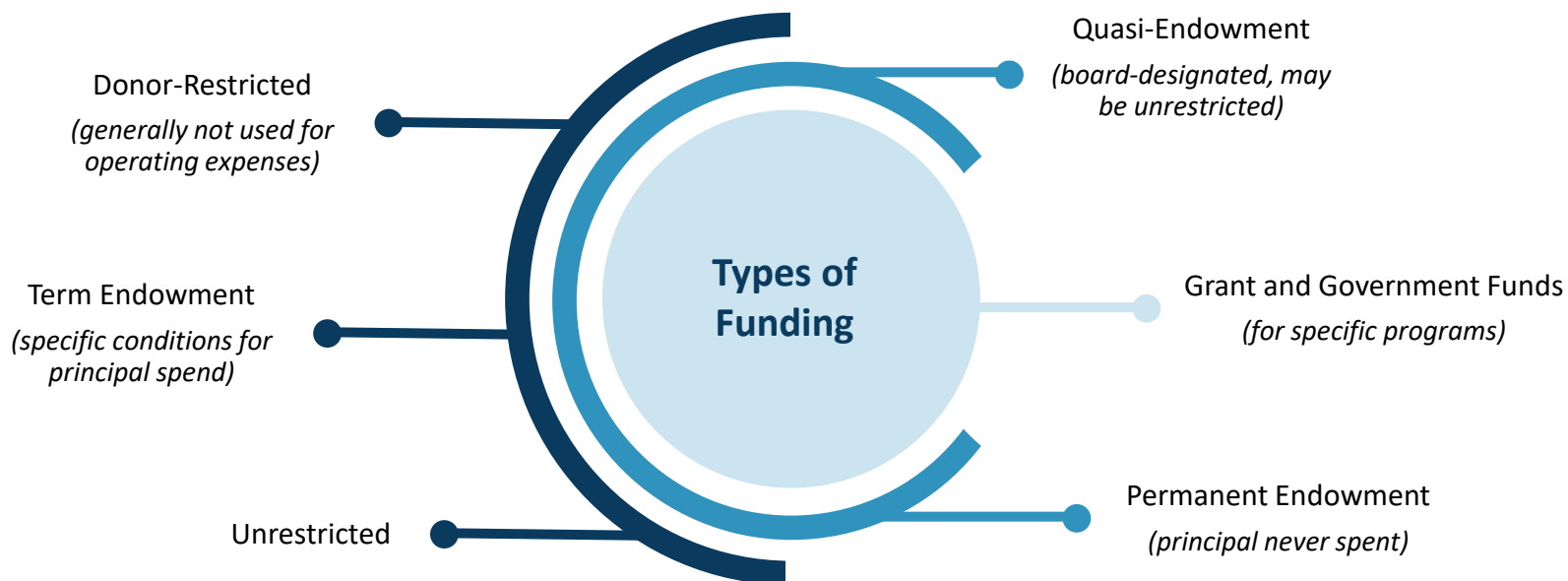
Assessing the Mission

Example: St. Jude Children's Research Hospital

<i>What is the <u>mission</u>?</i>	Find cures and improve the survival rates of children with cancer and other diseases.
<i>What are the <u>short-term goals</u>?</i>	Provide free treatment: St. Jude ensures no child is denied treatment based on a family's ability to pay or other external factors.
<i>What are the <u>long-term goals</u>?</i>	• Understand, treat, and defeat childhood cancer and other life-threatening diseases. • Increase the survival rates of children with cancer and other catastrophic diseases.
<i>How is the mission <u>funded</u>?</i>	Mostly donation-based; monthly donors, known as Partners in Hope, provide a steady stream of funding. Also government-sponsored research grants.
<i>How often are <u>distributions</u>?</i>	Ongoing to support operations and research.
<i>Are there any <u>constraints</u>?</i>	Heavy reliance on donations, potential cuts in NIH funding for indirect costs, substantial operating costs, research costs
<i>How is the mission <u>sustained</u>?</i>	Through endowment funds (unrestricted, restricted) and diversified asset allocation.

Sustaining the Mission

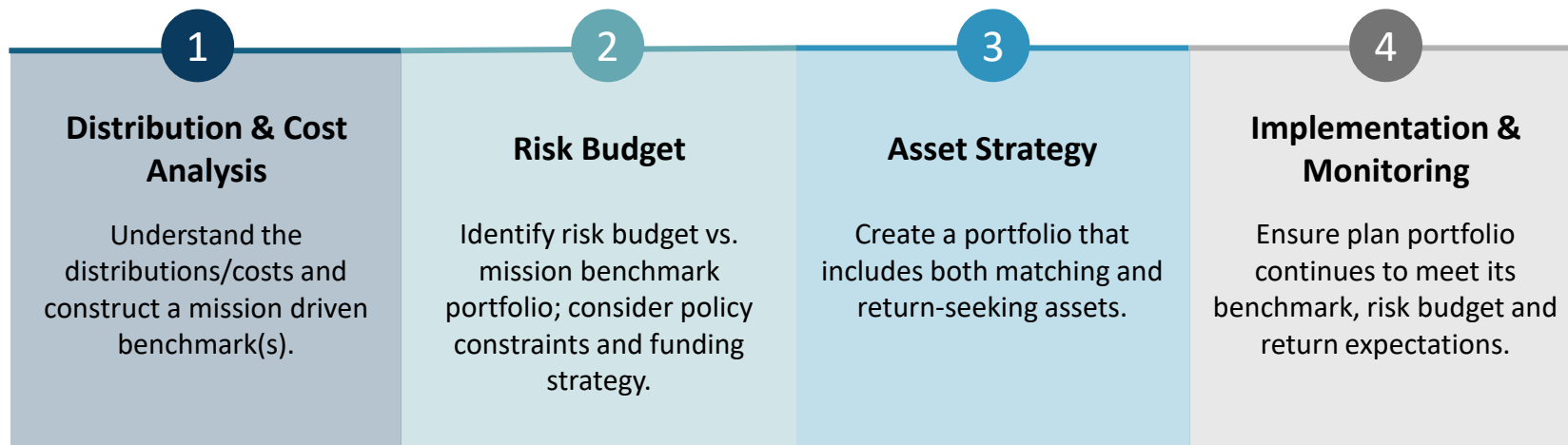
- Funding variability can be caused by fluctuating donor contributions, grant and government dependency, and adaptive spending policies.
- MDI promotes intergenerational equity, balancing current spending with long-term portfolio sustainability.
- Dedicated portfolios ensure predictable cash flows and mission alignment.



MDI Approach

Considering Short-Term vs. Long-Term Objectives

MDI investment management should incorporate a combination of approaches: cash flow based, interest rate (duration) based, and time/horizon based.



Funding the Mission

Considering the Organization's Spending Policy

The objective is to maintain a spending policy that promotes intergenerational equity, which balances current spending needs while ensuring the portfolio can provide distributions over the near and long term.

$$\text{SPENDING} + \text{INFLATION} + \text{FEES} = \text{RETURN OBJECTIVE}$$

Factors to Consider When Creating a Spending Policy*

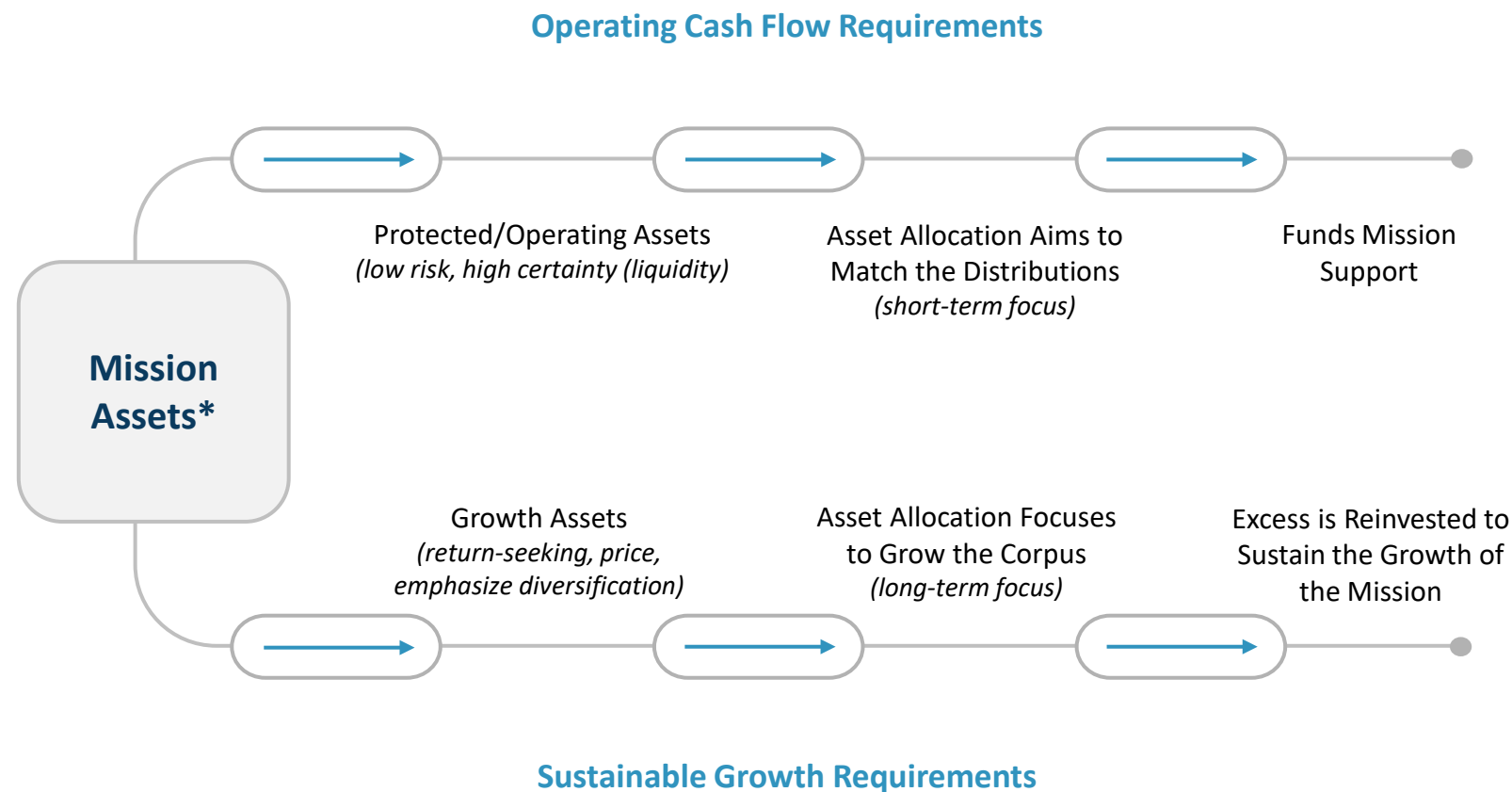
Risk Appetite of the Organization	Expected Investment Returns	Maintenance of Nonprofit Funds In Perpetuity
Cash Flow Volatility vs. Distribution Requirements	Honor Donor Intent	Principal Growth $\geq$ Inflation
Operational Needs	Future Spending Objectives	**Legal and Regulatory Compliance

*The actual distribution rate, or percentage of assets distributed in a given year, is called the effective rate. It can be higher or lower than the policy rate depending on investment returns and special funding needs.

**Such as the 5% rule, state and federal laws may govern spend, and UPMIFA regulation.

Source: Sage, FEG. UPMIFA is the Uniform Prudent Management of Institutional Funds Act.

Sustaining the Mission with Dedicated Investment Portfolios



Mission Values Alignment

Mission Driven Investing is a strategy that aligns an organization's financial goals with its mission and values. By systematically integrating values into investment decisions and portfolio management, a mission-driven organization ensures that its financial resources work in harmony with its purpose—amplifying impact, building trust, and modeling integrity in all aspects of its work.

Identify

- Understand the organization
- Identify the organization's core mission and purpose to ensure values reflect its foundational goals
- Articulate each value clearly, providing definitions or examples to avoid ambiguity

Align

- Convert each organizational value into clear investment criteria
- Specify what constitutes positive alignment for each value, as well as identify which investments would be regarded as misaligned
- Set clear, measurable goals for the degree of alignment

Report

- Establish systems for regular monitoring of the investment portfolio
- Measure performance both financially and in terms of values alignment
- Monitor measurable values alignment through consistent reporting



Case Study

Case Study – Midwest University

Midwest University

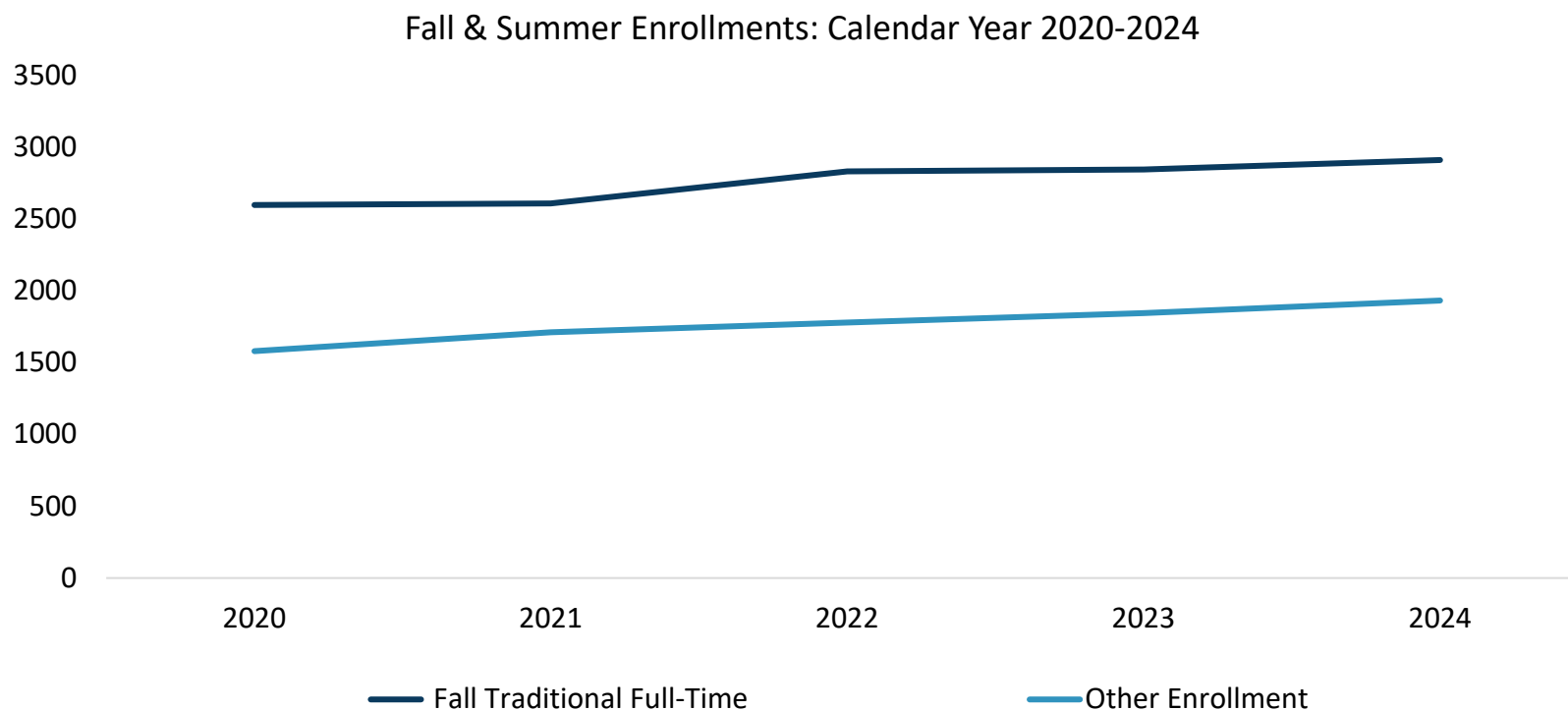
- Founded in 1871 and grounded in traditions of the United Church of Christ
- **Mission:** Inspire intellectual and personal growth in students, preparing them for meaningful and ethical contributions to a diverse, global society.
- **Vision:** Aspire to cultivate a community where students, alumni, faculty and staff lead with innovation, equity and inclusion as they seek to address complex challenges and change for the common good.
- Became a university in 2020.

Students & Faculty

Full-time teaching faculty	173
Full-time undergrad students	2,909
Graduate students	784
Full-time undergrad tuition & fees	\$42,955
On campus room, board, other expenses	\$19,844
New full-time students that receive a scholarship/financial aid	100%
Percent of students who live off campus or commute	72%
Admits as a percent of applicants	76% (4,604/6,228)

Case Study – Midwest University

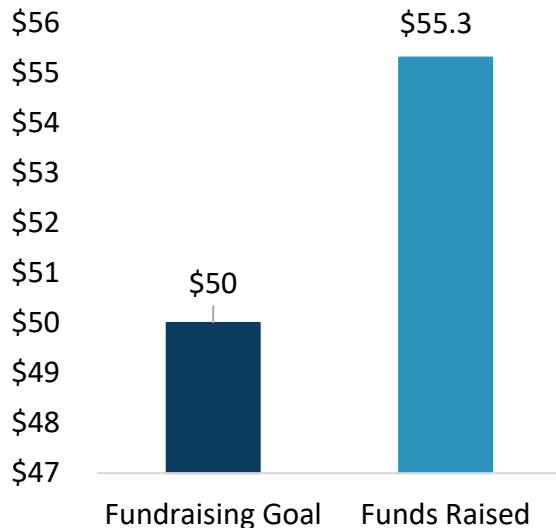
Enrollment Trends



Other enrollment includes Fall Degree Completion, Fall ELSA, Fall Traditional Part-Time, Fall Traditional Part-Time, Fall Graduate, and Summer Students.

Case Study – Midwest University

Midwest 150 Campaign* (in millions)



Focus

Health Sciences Initiative

Envision a thriving hub for the health sciences.

Athletics and Recreation

Upgrading Smith Hall and Harper Field for students, coaches, and the community.

Endowment Growth

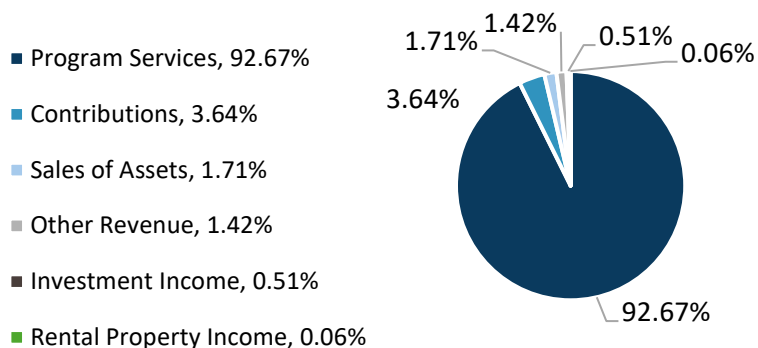
Expanding restricted funds for faculty chairs, programs, and scholarships to ensure short-term liquidity and long-term financial stability.

The Annual Fund

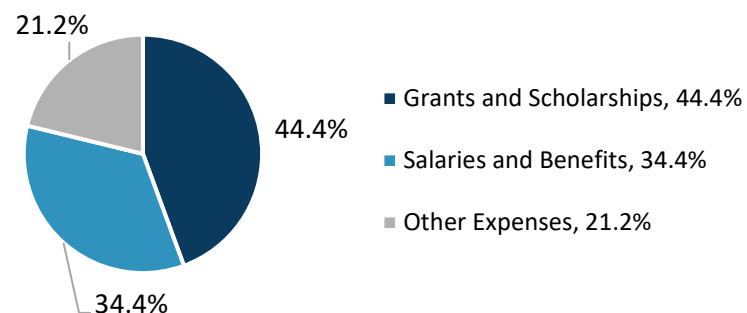
Targeting \$1 million annually, equivalent to \$20 million in endowment impact, to support scholarships and operations.

Case Study – Midwest University

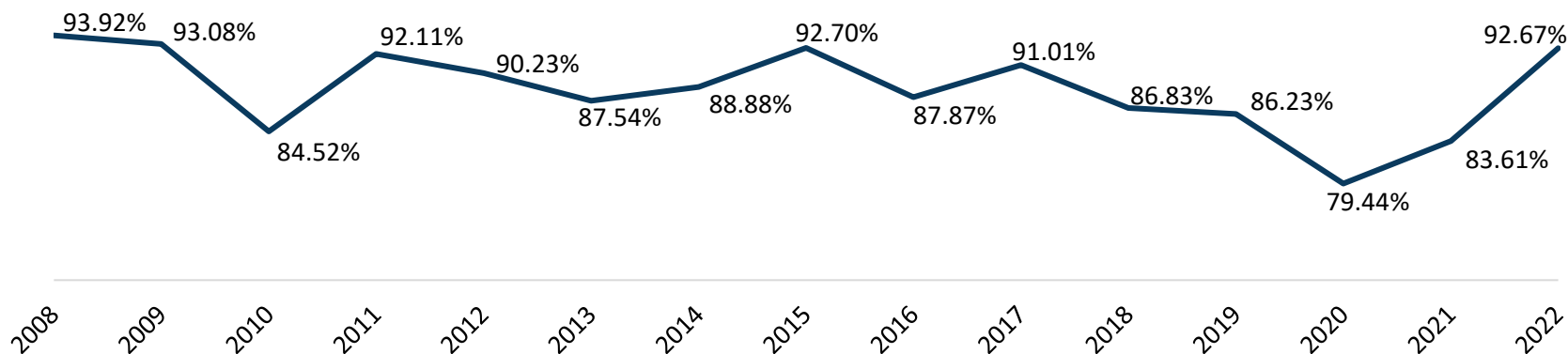
2022 Sources of Funds



2022 Uses of Funds



Tuition and Room & Board as % of Revenue

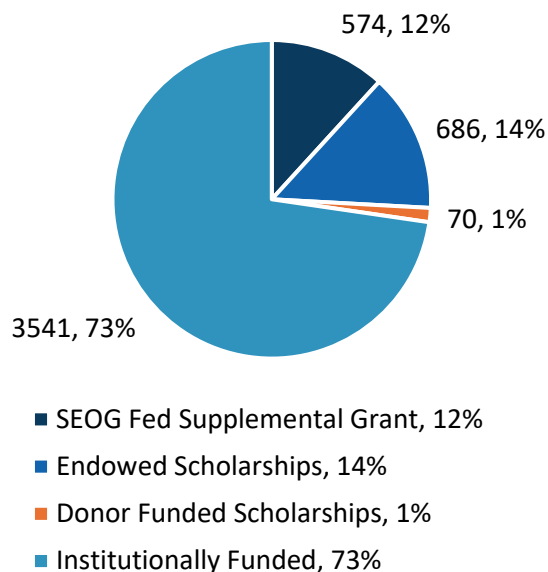


Case Study – Midwest University

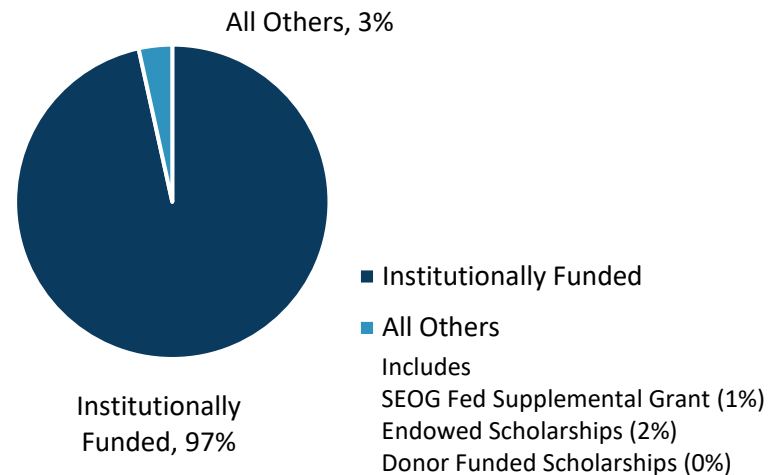
2022 Scholarships

Most scholarships are institutionally funded.

Funding Type and Headcount



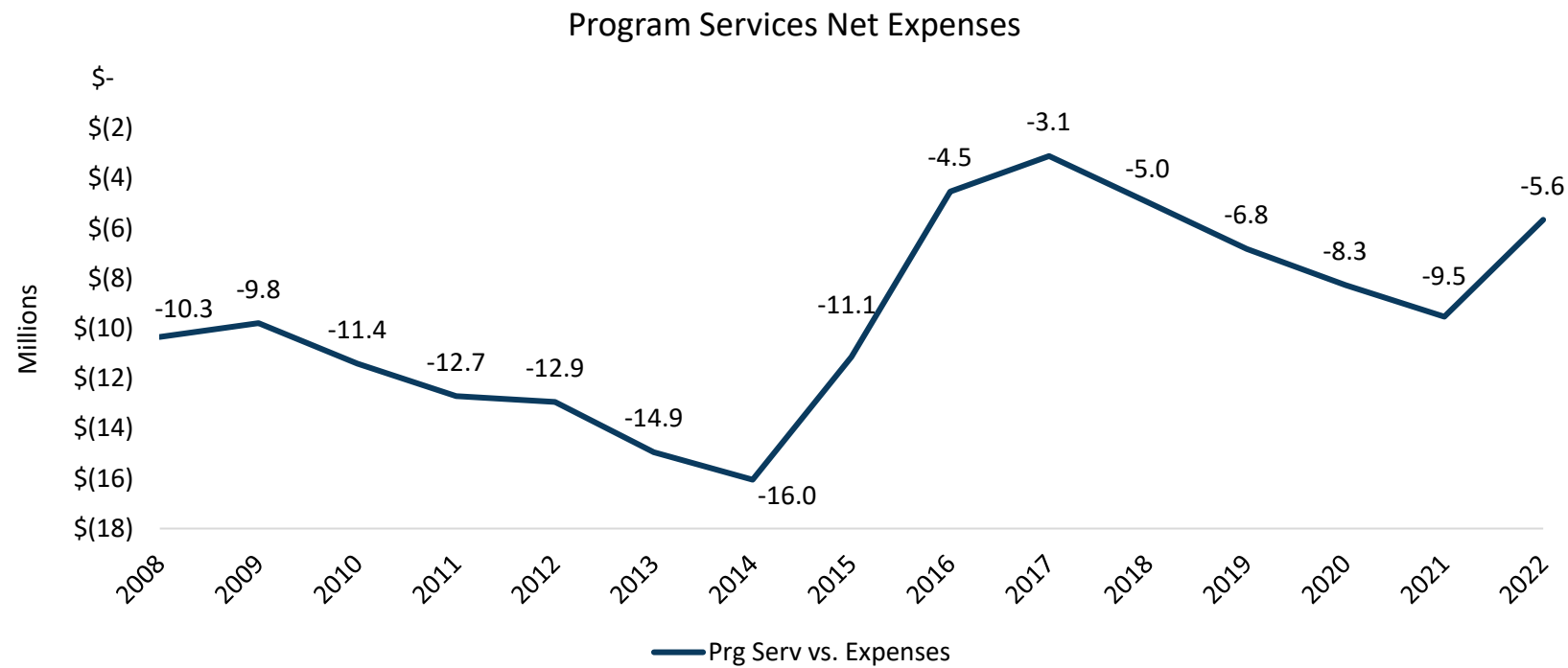
Scholarships by Funding Type



Case Study – Midwest University

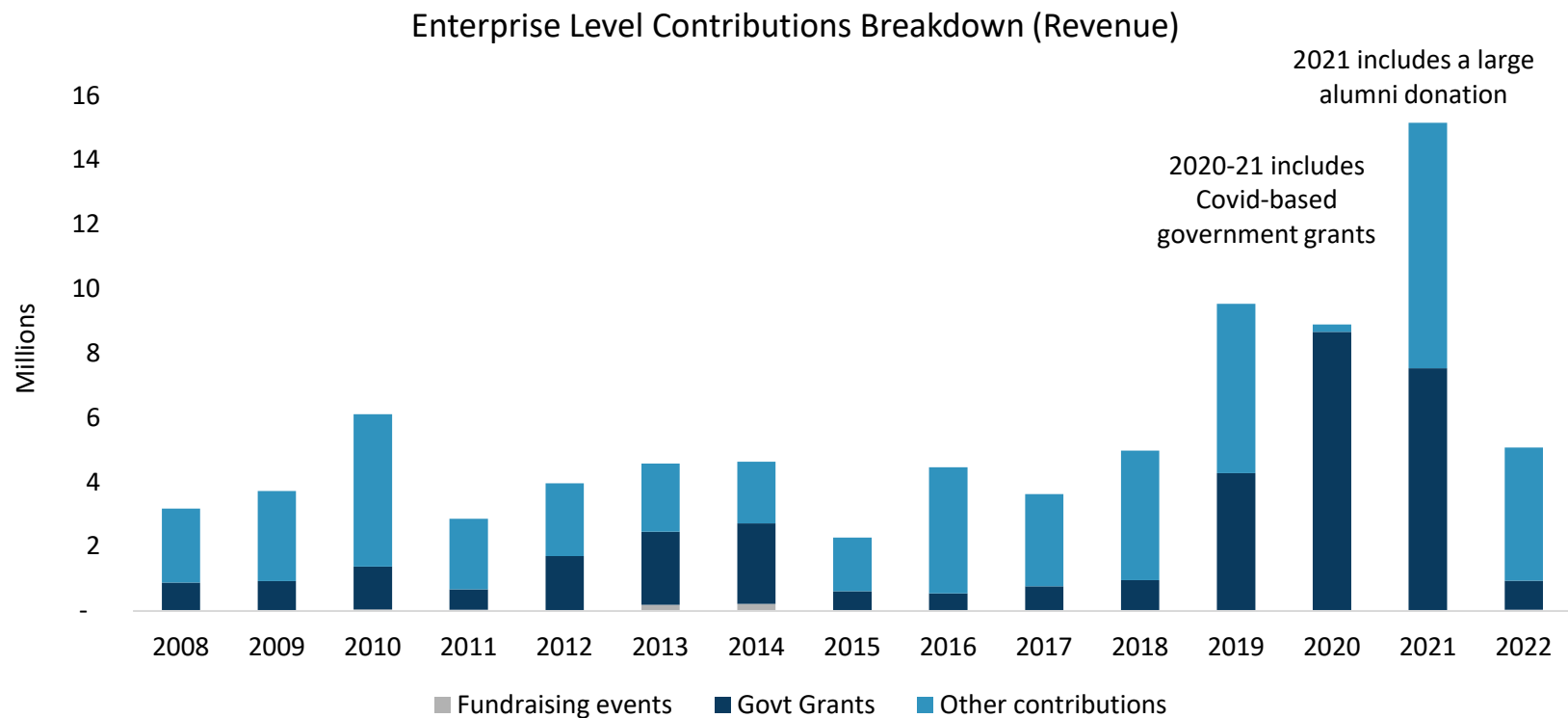
Program Services Annual Cash Deficit

There's a deficit each year for program services. The difference is made up from grants and contributions, as well as a small part from the endowment.



Case Study – Midwest University

Contributions and Grants Made to Midwest University



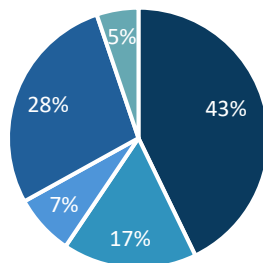
*Other contributions include private donations.

Case Study – Midwest University

Endowment Asset Allocation

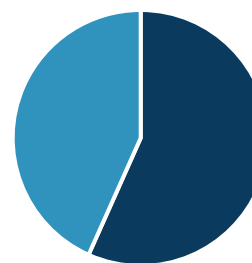
Endowment Asset Allocation

- Commingled Funds: 77.1 MM, 43%
- High Yield Funds: 30.1 MM, 17%
- Core Equity Fund: 13.1 MM, 8%
- Limited Partnerships (illiquid): 50.1 MM, 28%
- Strategic Solutions Real Estate (illiquid): 9.1 MM, 5%



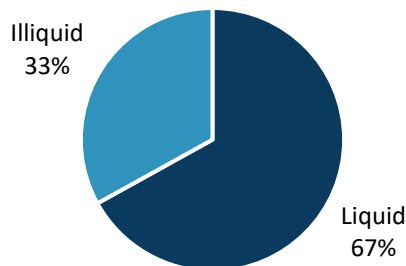
Endowment Fund Net Assets

Restricted
43%



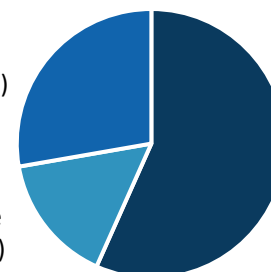
Unrestricted
57%

Liquidity Chart



Endowment Fund Net Assets

Perpetual
(restricted)
28%



Spendable
(restricted)
15%

Board
Designated
(unrestricted)
57%

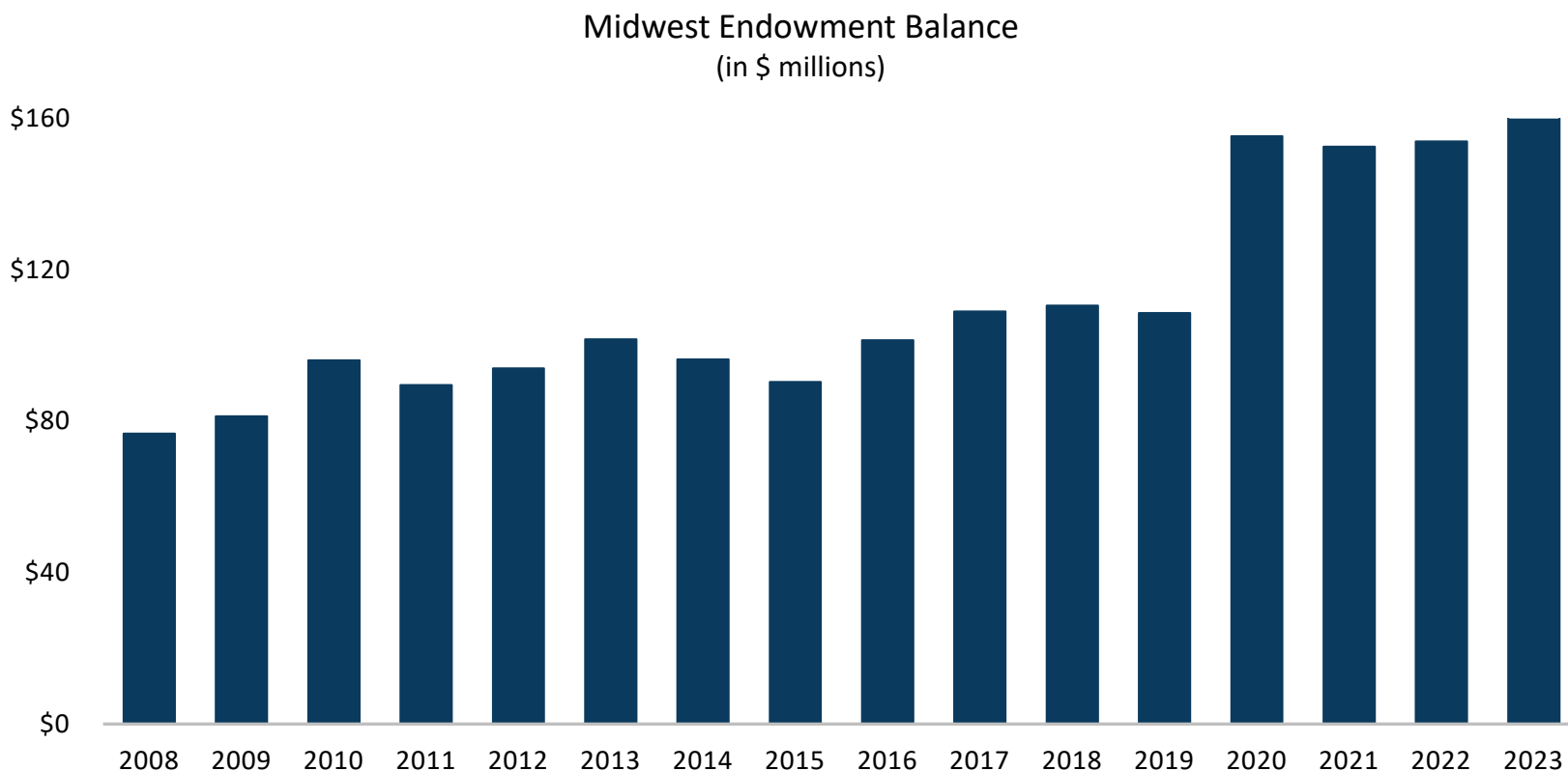
Source: Sage, Midwest University

High-yield funds - The class includes investments in fund that invest primarily in bonds. Core Equity Fund - This fund invests in funds that invest primarily in equity stock and debt securities. The investment objective of the funds is to exceed S&P 500 Index over a full market cycle while providing some protection during down markets. Commingled funds - The funds are composed primarily of marketable equity and debt securities. The investment objective of the funds is to exceed the return of the S&P's 500 or the Russell 3000 Index. Strategic Solutions Real Estate - This fund invests in real estate, with the objective to offer higher returns and greater diversification than are available in public markets alone. Limited partnerships - These funds invest in real estate, energy, natural resources, venture capital, private equity, internal, equity distressed debt, emerging markets and inland appreciation partnerships with the objective offer higher returns and greater diversification than are available in public markets alone.

Case Study – Midwest University

Endowment Balance

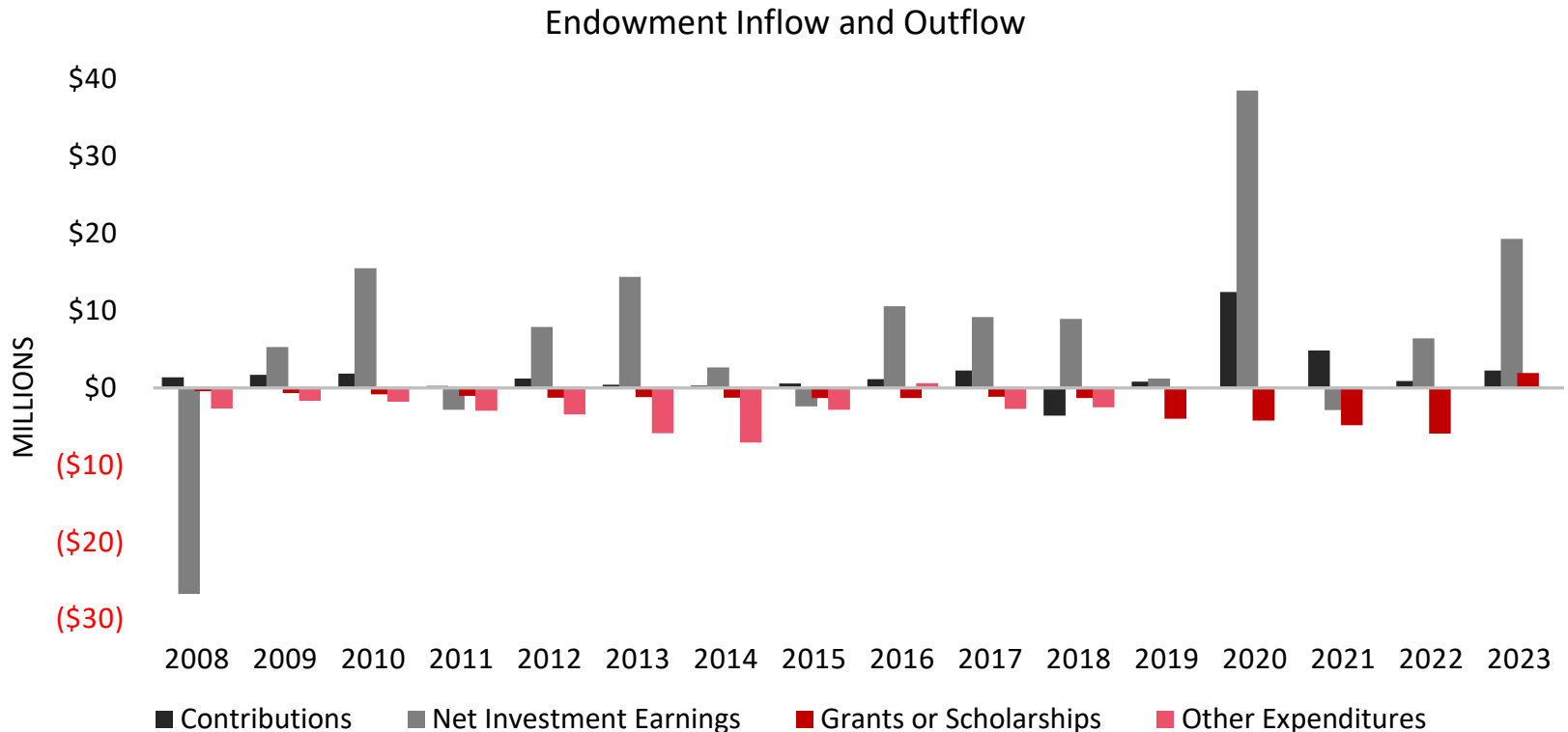
The endowment grew significantly in the Covid period and was stable afterward.



Case Study – Midwest University

Endowment Flows

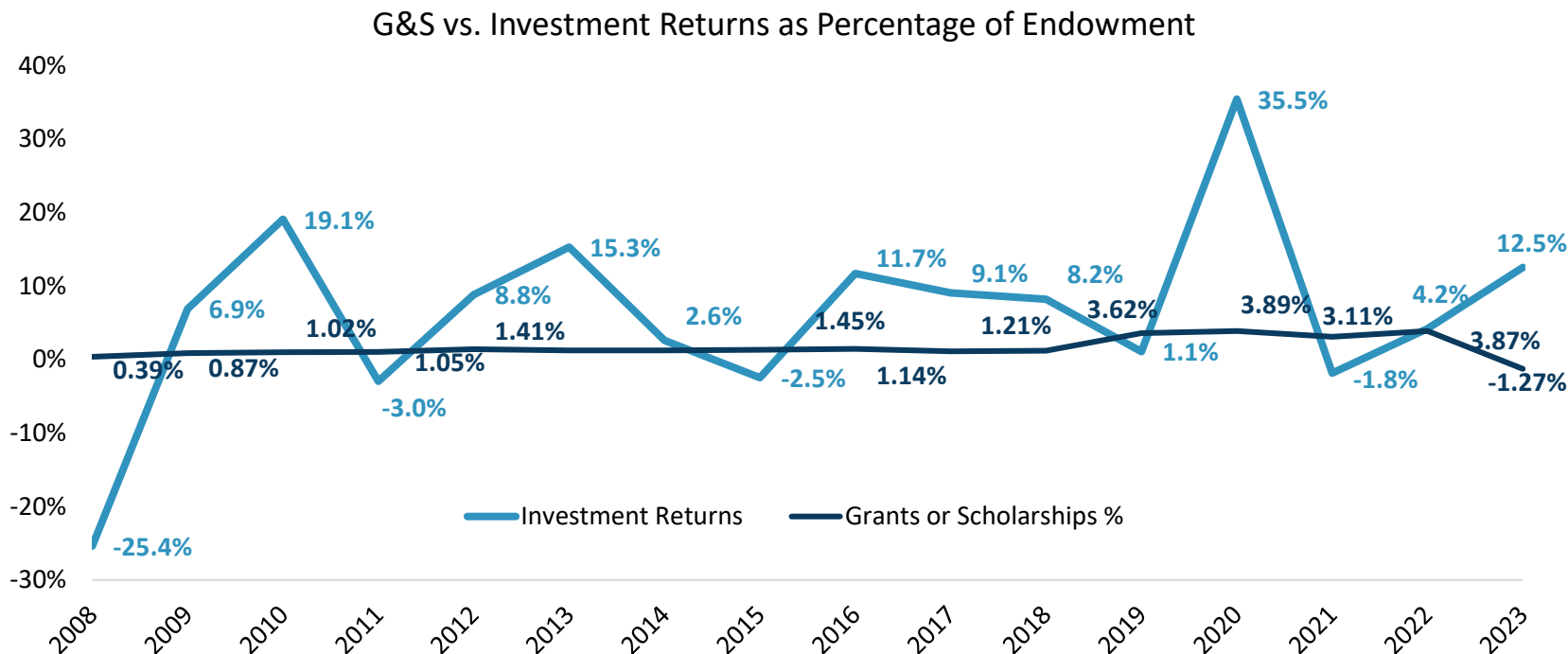
Investment returns can have a large impact of the endowment value. Contributions and net investment earnings can help grow the endowment.



Case Study – Midwest University

Much of program and services revenue is used for G&S (maybe restrictions on use from the endowment). Midwest's focus for the endowment is capital preservation.

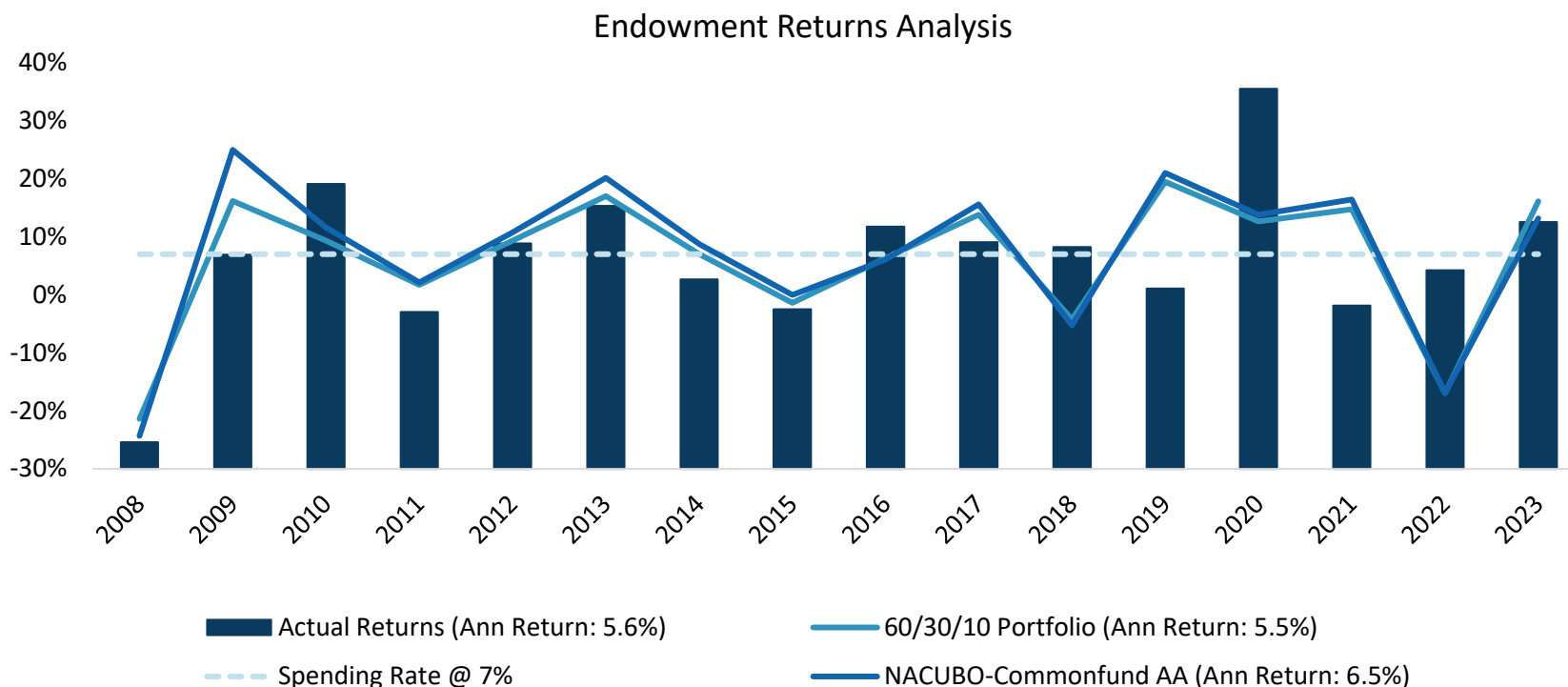
Gross Annualized Return	5.64%
Return outliers	-32.39% to +28.47%
Annualized Volatility	12.8%



Case Study – Midwest University

Midwest vs. Other College Endowment Returns

The following compares the returns of Midwest to the returns of participating college endowments in the NACUBO-Commonfund Study of Endowments (NCSE), an annual research report that analyzes the investment performance, asset allocation, and governance practices of college and university endowments and affiliated foundations in the US.



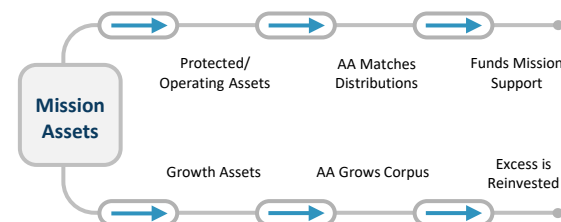
Case Study – Midwest University

Sequence of Return Risk

Year	Net CFs	SCENARIO 1		SCENARIO 2		SCENARIO 3	
		Return	MV	Return	MV	Return	MV
0	(\$ 3,700)		\$ 179,226		\$ 179,226		\$ 179,226
1	(\$ 3,700)	8.2%	\$ 190,127	-7.8%	\$ 161,734	22.3%	\$ 215,081
2	(\$ 3,700)	8.2%	\$ 201,926	-7.6%	\$ 145,961	21.9%	\$ 258,197
3	(\$ 3,700)	8.2%	\$ 214,695	2.0%	\$ 145,209	21.2%	\$ 308,862
4	(\$ 3,700)	8.2%	\$ 228,515	9.0%	\$ 154,464	2.0%	\$ 311,443
5	(\$ 3,700)	8.2%	\$ 243,472	-4.4%	\$ 144,057	11.0%	\$ 341,727
6	(\$ 3,700)	8.2%	\$ 259,661	8.6%	\$ 152,651	9.0%	\$ 368,734
7	(\$ 3,700)	8.2%	\$ 277,182	-8.8%	\$ 135,746	23.0%	\$ 449,312
8	(\$ 3,700)	8.2%	\$ 296,145	-5.9%	\$ 124,181	20.6%	\$ 537,592
9	(\$ 3,700)	8.2%	\$ 316,668	7.5%	\$ 129,607	7.5%	\$ 573,850
10	(\$ 3,700)	8.2%	\$ 338,881	21.1%	\$ 152,908	11.4%	\$ 635,613
11	(\$ 3,700)	8.2%	\$ 362,921	22.3%	\$ 182,897	19.6%	\$ 756,047
12	(\$ 3,700)	8.2%	\$ 388,940	20.6%	\$ 216,424	8.6%	\$ 817,537
13	(\$ 3,700)	8.2%	\$ 417,101	23.0%	\$ 262,023	21.1%	\$ 986,130
14	(\$ 3,700)	8.2%	\$ 447,579	21.9%	\$ 315,441	-5.9%	\$ 924,603
15	(\$ 3,700)	8.2%	\$ 480,566	11.4%	\$ 347,633	18.7%	\$ 1,093,720
16	(\$ 3,700)	8.2%	\$ 516,267	18.7%	\$ 408,702	-6.1%	\$ 1,023,072
17	(\$ 3,700)	8.2%	\$ 554,906	-6.1%	\$ 380,057	-4.4%	\$ 974,488
18	(\$ 3,700)	8.2%	\$ 596,726	19.6%	\$ 450,442	-8.8%	\$ 885,597
19	(\$ 3,700)	8.2%	\$ 641,987	11.0%	\$ 495,982	-7.6%	\$ 815,151
20	(\$ 3,700)	8.2%	\$ 690,974	21.2%	\$ 597,056	-7.8%	\$ 748,200
Annualized Return		8.2%		8.2%		8.2%	
Annualized Volatility		0.0%		12.0%		12.0%	

Case Study – Midwest University

Sequence of Return Risk: 16% Cash Match/84% Return Seeking



Cash Match Portfolio			Return-Seeking Portfolio						
Year	Distributions	MV	Net Ctbts	SCENARIO 1		SCENARIO 2		SCENARIO 3	
				Return	MV	Return	MV	Return	MV
0		\$ 27,780			\$ 151,446		\$ 151,446		\$ 151,446
1	(\$ 4,700)	\$ 24,378	\$ 1,000	8.2%	\$ 164,951	-7.3%	\$ 141,407	4.9%	\$ 159,926
2	(\$ 4,700)	\$ 20,803	\$ 1,000	8.2%	\$ 179,566	16.7%	\$ 166,067	25.8%	\$ 202,383
3	(\$ 4,700)	\$ 17,046	\$ 1,000	8.2%	\$ 195,385	3.1%	\$ 172,156	10.5%	\$ 224,600
4	(\$ 4,700)	\$ 13,097	\$ 1,000	8.2%	\$ 212,505	11.1%	\$ 192,248	3.1%	\$ 232,478
5	(\$ 4,700)	\$ 8,947	\$ 1,000	8.2%	\$ 231,035	10.9%	\$ 214,281	13.6%	\$ 265,073
6	(\$ 4,700)	\$ 4,585	\$ 1,000	8.2%	\$ 251,089	10.6%	\$ 237,997	11.1%	\$ 295,440
7	(\$ 4,700)	\$ 0	\$ 1,000	8.2%	\$ 272,794	-18.7%	\$ 194,487	12.9%	\$ 334,701
8			(\$ 3,700)	8.2%	\$ 291,396	-5.3%	\$ 180,575	12.0%	\$ 371,084
9			(\$ 3,700)	8.2%	\$ 311,529	15.0%	\$ 203,673	15.0%	\$ 422,735
10			(\$ 3,700)	8.2%	\$ 333,318	-1.3%	\$ 197,421	14.2%	\$ 478,811
11			(\$ 3,700)	8.2%	\$ 356,901	4.9%	\$ 203,350	27.2%	\$ 604,670
12			(\$ 3,700)	8.2%	\$ 382,425	12.0%	\$ 223,917	10.6%	\$ 664,737
13			(\$ 3,700)	8.2%	\$ 410,049	12.9%	\$ 248,936	-1.3%	\$ 652,657
14			(\$ 3,700)	8.2%	\$ 439,947	25.8%	\$ 309,127	-5.3%	\$ 614,454
15			(\$ 3,700)	8.2%	\$ 472,306	14.2%	\$ 349,070	27.4%	\$ 778,752
16			(\$ 3,700)	8.2%	\$ 507,327	27.4%	\$ 440,604	-5.6%	\$ 731,803
17			(\$ 3,700)	8.2%	\$ 545,231	-5.6%	\$ 412,479	10.9%	\$ 807,765
18			(\$ 3,700)	8.2%	\$ 586,254	27.2%	\$ 520,325	-18.7%	\$ 653,693
19			(\$ 3,700)	8.2%	\$ 630,654	13.6%	\$ 586,949	16.7%	\$ 758,698
20			(\$ 3,700)	8.2%	\$ 678,707	10.5%	\$ 644,448	-7.3%	\$ 700,020
Annualized Return				8.2%		8.2%		8.2%	
Annualized Volatility				0.0%		12.0%		12.0%	

Executive Summary

Financial Overview and Challenges

Revenue Dependence

Tuition and service fees currently fund 75% to 85% of operational needs.

Operating Gap

Cash flow shortfalls are bridged by unpredictable and market-sensitive grants and donations.

Contribution Volatility

Donations vary significantly, impacting financial planning.

Investment Constraints

Endowment portfolio faces return volatility, illiquidity, and use restrictions, limiting short-term cash availability.

Asset Allocation Misalignment

Current investment strategy does not adequately support cash requirements, worsening cash flow gaps.

Recommendations for Financial Resilience

Prioritize Liquidity and Stability

Adjust asset allocation to emphasize predictable cash flow and liquidity.

Strengthen Endowment Resilience

Build a financial cushion to absorb return volatility and stabilize giving fluctuations.

Mitigate Sequence of Return Risk

Allocate a portfolio portion to match near-term distributions for a 7% return target.

Implement Liquidity Guidelines

Establish a minimum liquidity reserve in the investment policy.

Conduct Regular Stress Testing

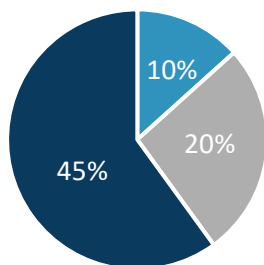
Use scenario planning to assess resilience under adverse financial conditions.

Proposed Endowment Asset Allocation

Objective: Balance growth, income, and liquidity to support operational needs and long-term mission sustainability.

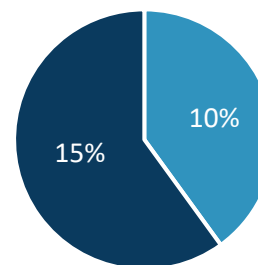
Proposed Endowment Asset Allocation

75% Traditional Separately Managed Asset Portfolios



■ Cash Portfolio ■ Fixed Income Portfolio ■ Equity Portfolio

25% Alternative Asset Comingled Funds



■ Hedge Funds ■ Private Equity Funds

- Private funds may offer higher potential total returns, but they often produce less predictable return and cash flow sequences to support operating and short-term liquidity needs compared to customized separately managed public security portfolios.
- Separately managed security portfolios provide a greater opportunity for client-centric customization and more assured religious, or ethical value investment alignment as may be required.

Higer Education Challenges to Consider

-  **Tax optimization**
Endowment tax increases could impact endowments' spending rates and return optimization. (private university endowments now face a tiered tax system with the larger endowments facing an [8% tax rate, up from 1.4%.](#))
-  **Private markets vs. public securities**
While asset allocation is not a one-size-fits-all calculation, the sequence of returns for private funds is oftentimes more difficult to predict than with publicly listed securities. Advisors need to emphasize these inherent structural and forecasting drawbacks and illustrate how asset allocation supports efficient spending outcomes and protects operating assets.
-  **Government funding**
[We have seen proposed federal funding cuts to universities across the country.](#) Endowments and foundations should evaluate the consistency of government funding availability given their respective vulnerabilities.

IMPORTANT DISCLOSURES

This report is for informational purposes only and is not intended as investment advice or an offer or solicitation with respect to the purchase or sale of any security, strategy or investment product. Although the statements of fact, information, charts, analysis and data in this report have been obtained from, and are based upon, sources Sage believes to be reliable, we do not guarantee their accuracy, and the underlying information, data, figures and publicly available information has not been verified or audited for accuracy or completeness by Sage. Additionally, we do not represent that the information, data, analysis and charts are accurate or complete, and as such should not be relied upon as such. All results included in this report constitute Sage's opinions as of the date of this report and are subject to change without notice due to various factors, such as market conditions. No part of this Material may be reproduced in any form, or referred to in any other publication, without our express written permission.

Investors should make their own decisions on investment strategies based on their specific investment objectives and financial circumstances. All investments contain risk and may lose value. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, derivatives risk, income risk, and other investment company risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Foreign investments involve additional risks as noted above. Investing involves substantial risk and high volatility, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. Past performance is not a guarantee of future results.

Sage Advisory Services, Ltd. Co. is a registered investment adviser that provides investment management services for a variety of institutions and high net worth individuals. For additional information on Sage and its investment management services, please view our web site at www.sageadvisory.com, or refer to our Form ADV, which is available upon request by calling 512.327.5530.