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# Mission Driven Investing: A Framework for Asset Allocation

Mission Driven Investing

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*December 2025*

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SUSTAINABLE  
 SAGE

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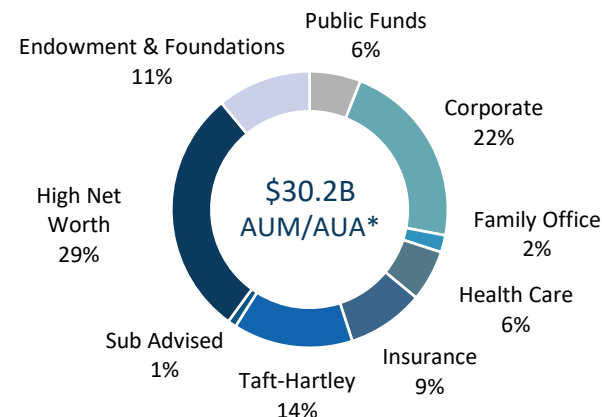
Protected Expenditures + Performance Portfolio

The Advantages of an MDI Approach

## Who We Are

- Founded in 1996
- 100% employee operated
- 17-member investment team has an average industry experience of 18 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  
56 Years*

**Thomas H. Urano, CFA**

*Co-CIO  
30 Years*

**Robert D. Williams, CFA**

*Chief Investment Strategist  
29 Years*

**Michael D. Walton, AIF®**

*Managing Partner  
29 Years*

**Robert W. Moser, CIMA®, CRPC, CFIP**

*Managing Partner  
26 Years*

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### Investment Management

**Portfolio Management**

**Research & Strategy**

### Relationship Management

**Institutional**

**Private Client**

**Marketing Services**

### Enterprise Management

**Information Technology**

**Operations**

**Administration**

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### Organizational Committees

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



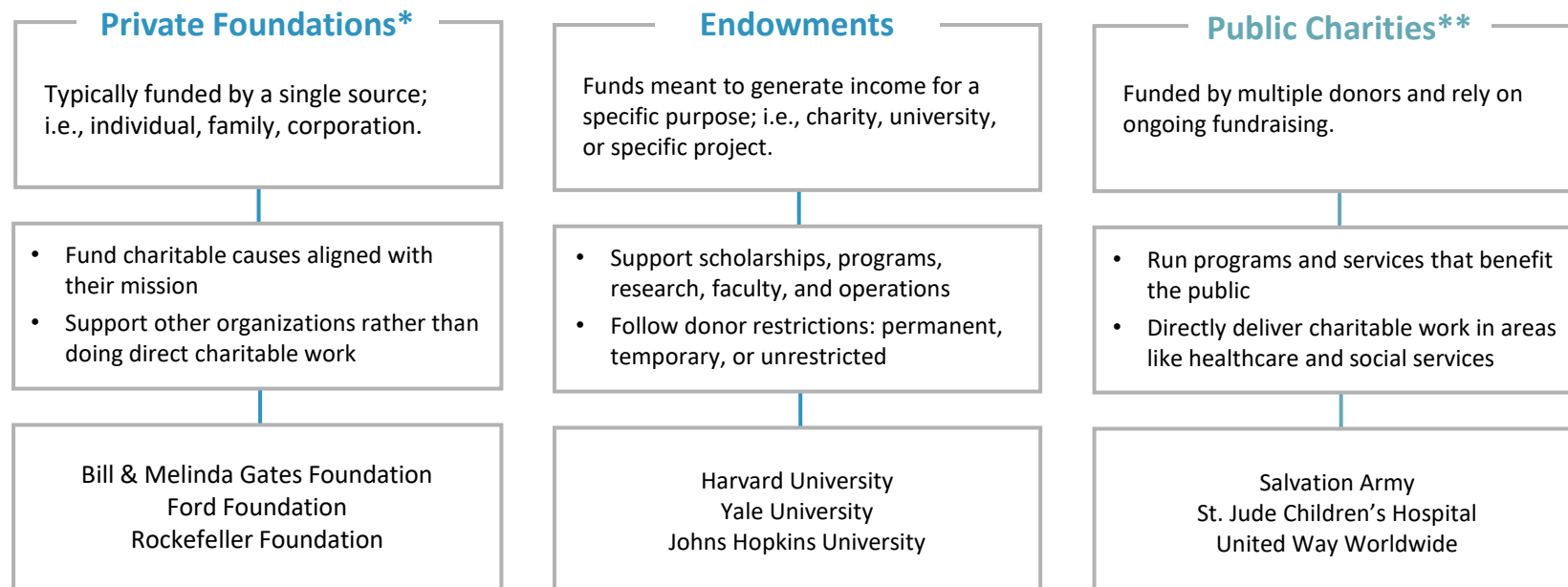
## Defining the Mission

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## 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

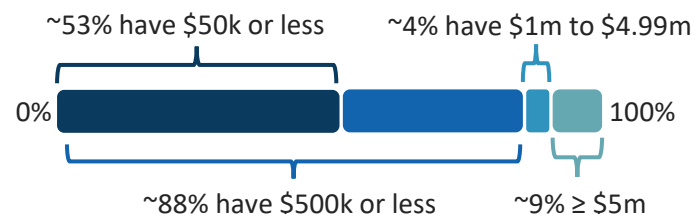


88% operate with less than \$500k annually



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

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## Assessing the Mission

### Example: St. Jude Children's Research Hospital

*What is the mission?*

Find cures and improve the survival rates of children with cancer and other diseases.

*What are the short-term goals?*

Provide free treatment: St. Jude ensures no child is denied treatment based on a family's ability to pay or other external factors.

*What are the long-term goals?*

- Understand, treat, and defeat childhood cancer and other life-threatening diseases.
- Increase the survival rates of children with cancer and other catastrophic diseases.

*How is the mission funded?*

Mostly donation-based; monthly donors, known as Partners in Hope, provide a steady stream of funding. Also government-sponsored research grants.

*How often are distributions?*

Ongoing to support operations and research.

*Are there any constraints?*

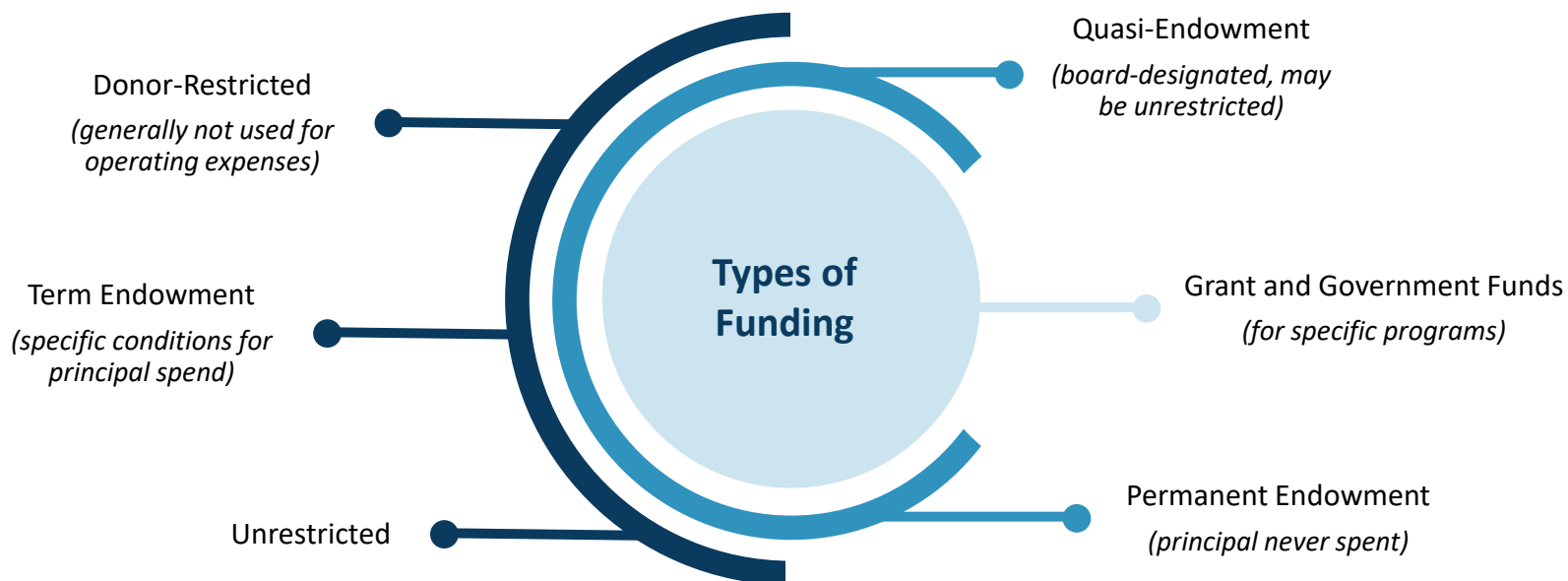
Heavy reliance on donations, potential cuts in NIH funding for indirect costs, substantial operating costs, research costs

*How is the mission sustained?*

Through endowment funds (unrestricted, restricted) and diversified asset allocation.

## Sustaining the Mission

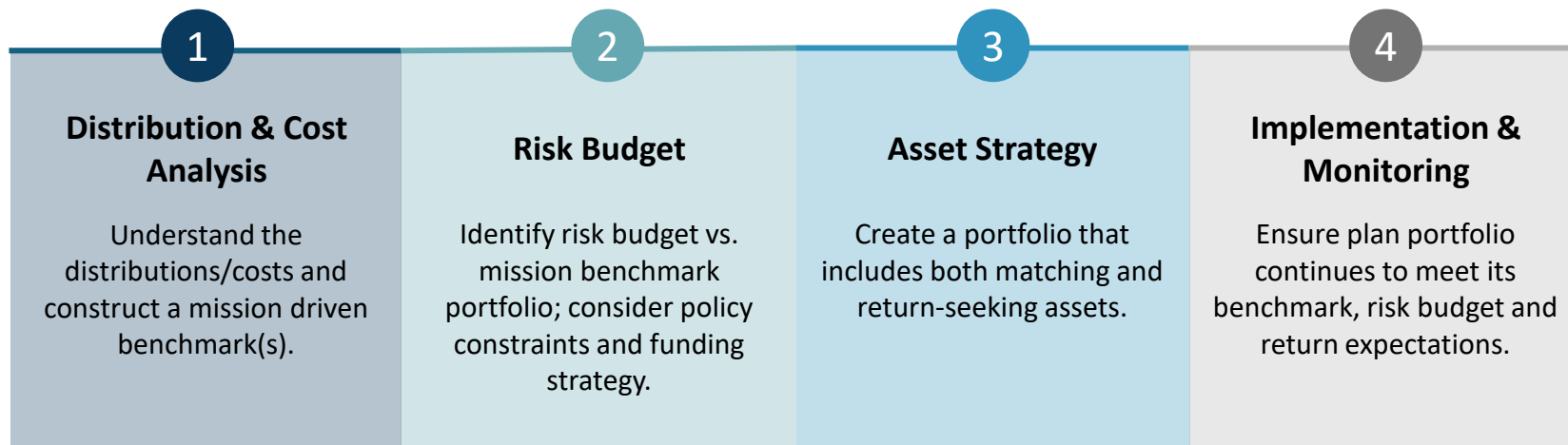
- Funding variability can be caused by fluctuating donor contributions, grant and government dependency, and adaptive spending policies.
- MDI promotes intergenerational equity, balancing current spending with long-term portfolio sustainability.
- Dedicated portfolios ensure predictable cash flows and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

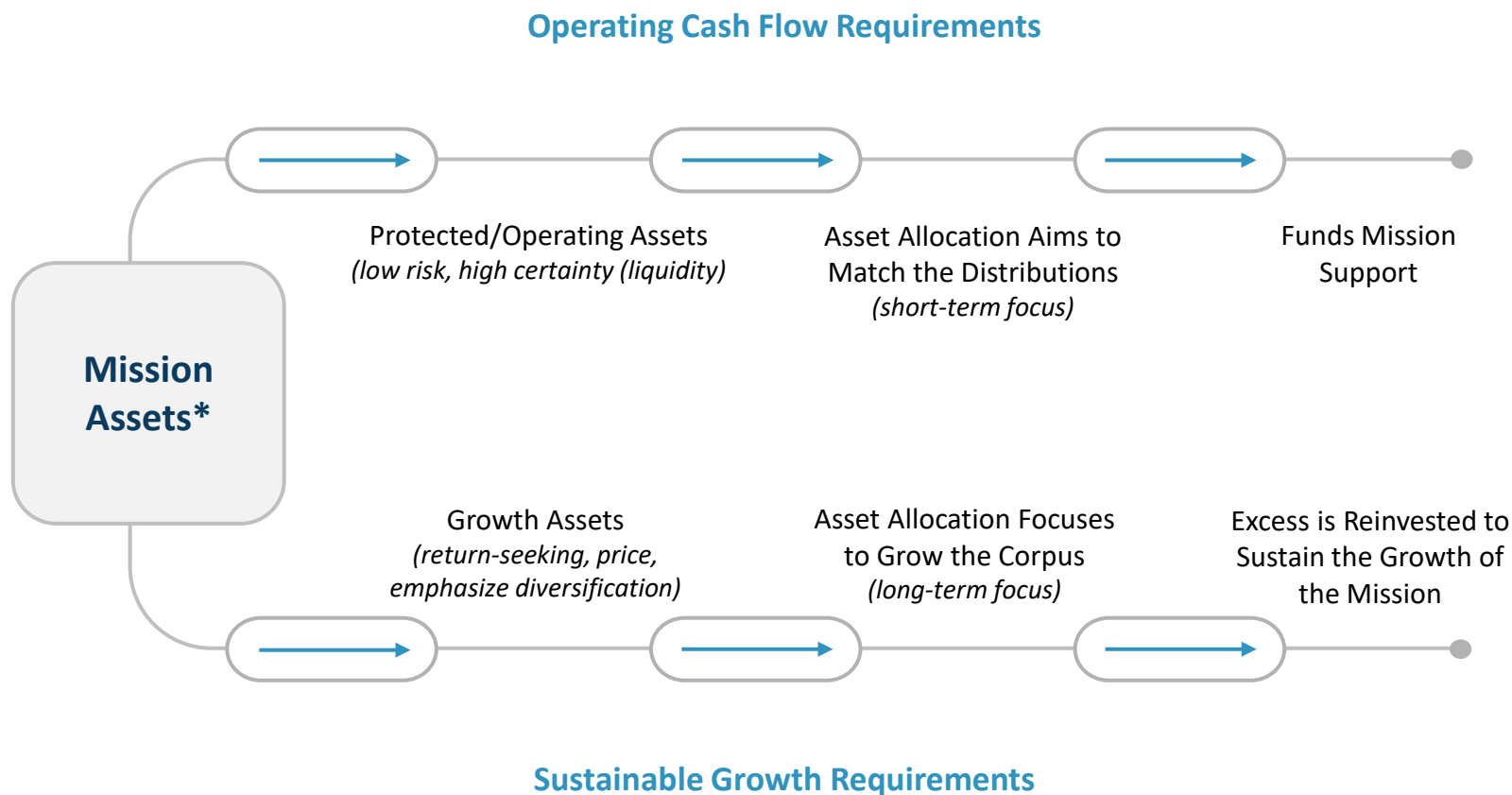
Risk Appetite of the Organization	Expected Investment Returns	Maintenance of Nonprofit Funds In Perpetuity
Cash Flow Volatility vs. Distribution Requirements	Honor Donor Intent	Principal Growth $\geq$ Inflation
Operational Needs	Future Spending Objectives	**Legal and Regulatory Compliance

\*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

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## Case Study – Midwest University

### Midwest University

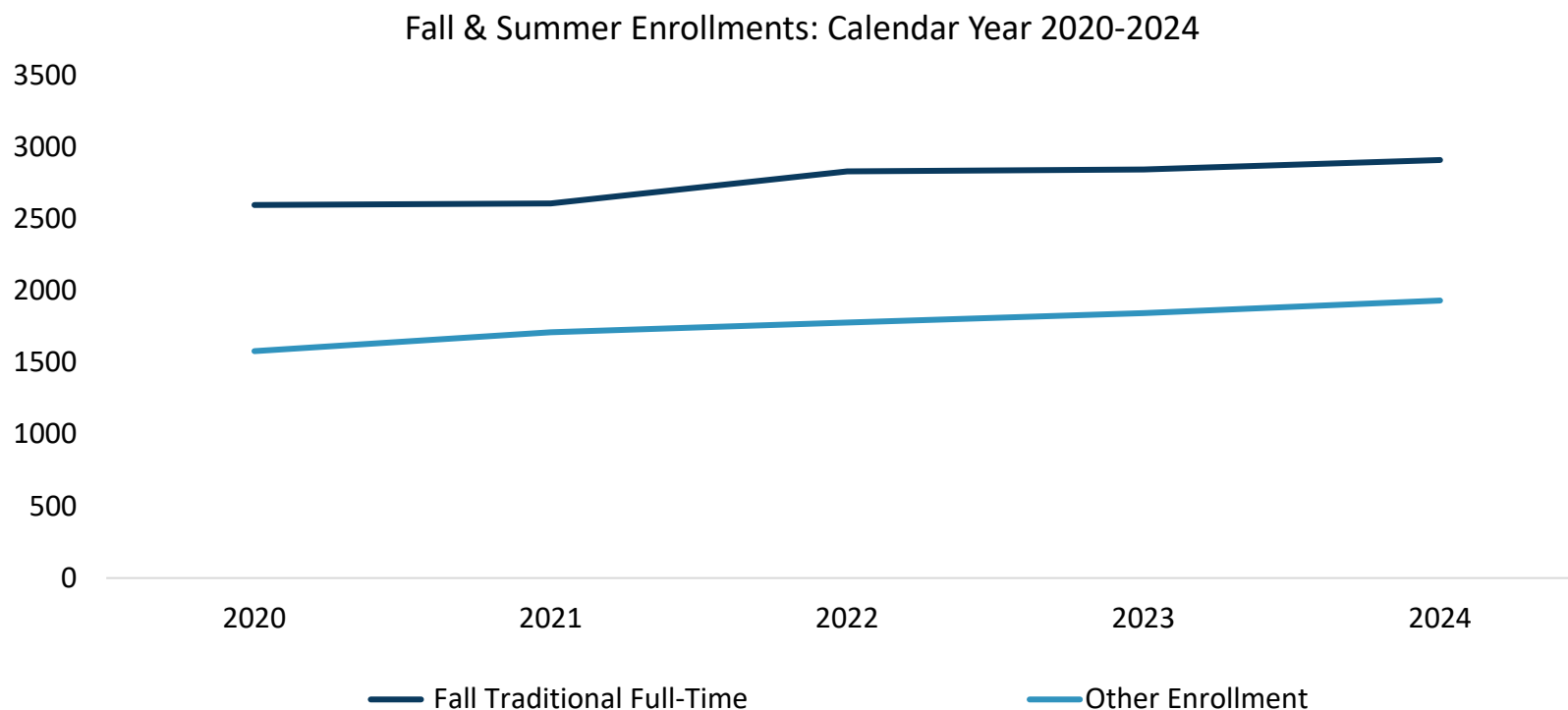
- Founded in 1871 and grounded in traditions of the United Church of Christ
- **Mission:** Inspire intellectual and personal growth in students, preparing them for meaningful and ethical contributions to a diverse, global society.
- **Vision:** Aspire to cultivate a community where students, alumni, 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

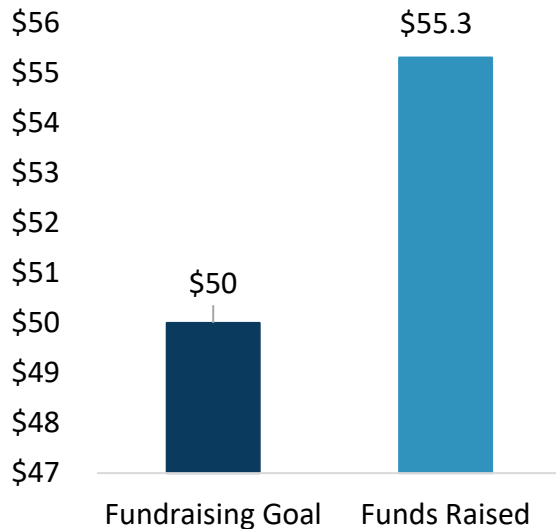
### Enrollment Trends



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**

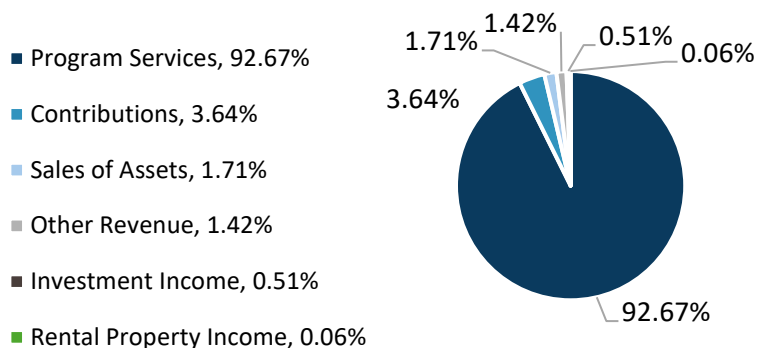
Expanding restricted funds for faculty chairs, programs, and scholarships to ensure short-term liquidity and long-term financial stability.

#### **The Annual Fund**

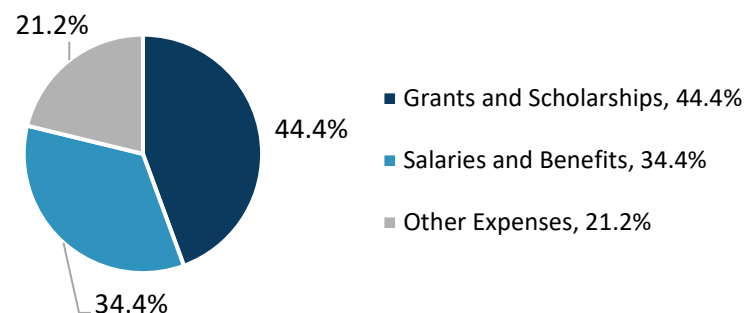
Targeting \$1 million annually, equivalent to \$20 million in endowment impact, to support scholarships and operations.

## Case Study – Midwest University

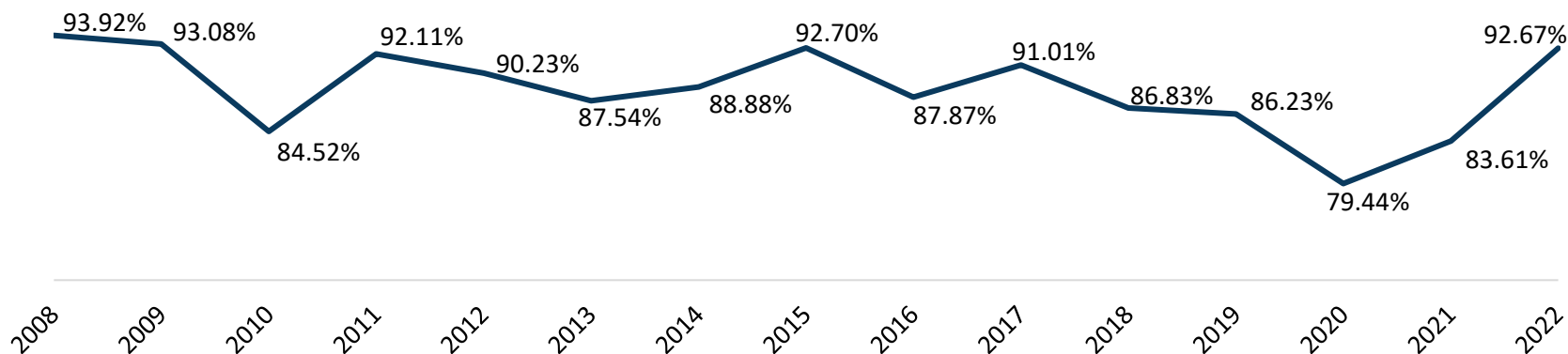
### 2022 Sources of Funds



### 2022 Uses of Funds



### Tuition and Room & Board as % of Revenue

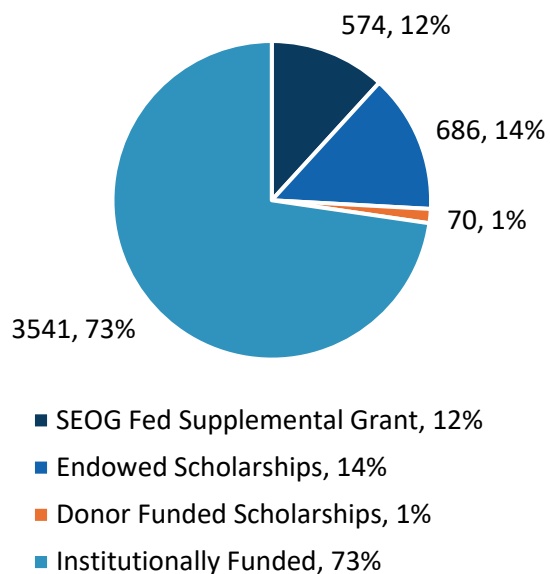


## Case Study – Midwest University

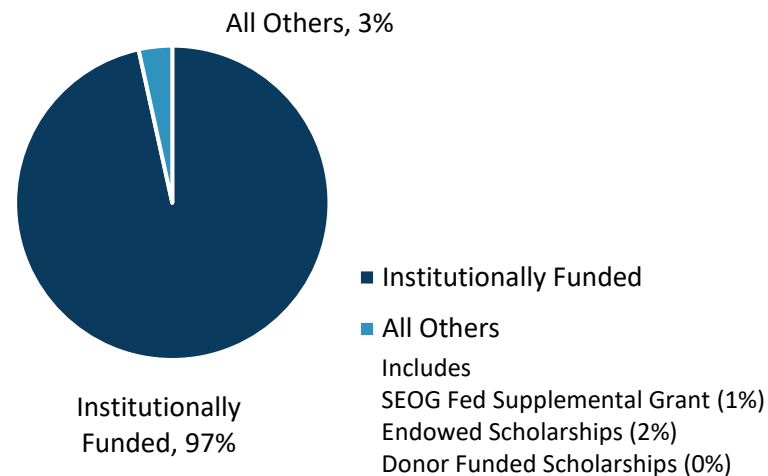
### 2022 Scholarships

*Most scholarships are institutionally funded.*

Funding Type and Headcount



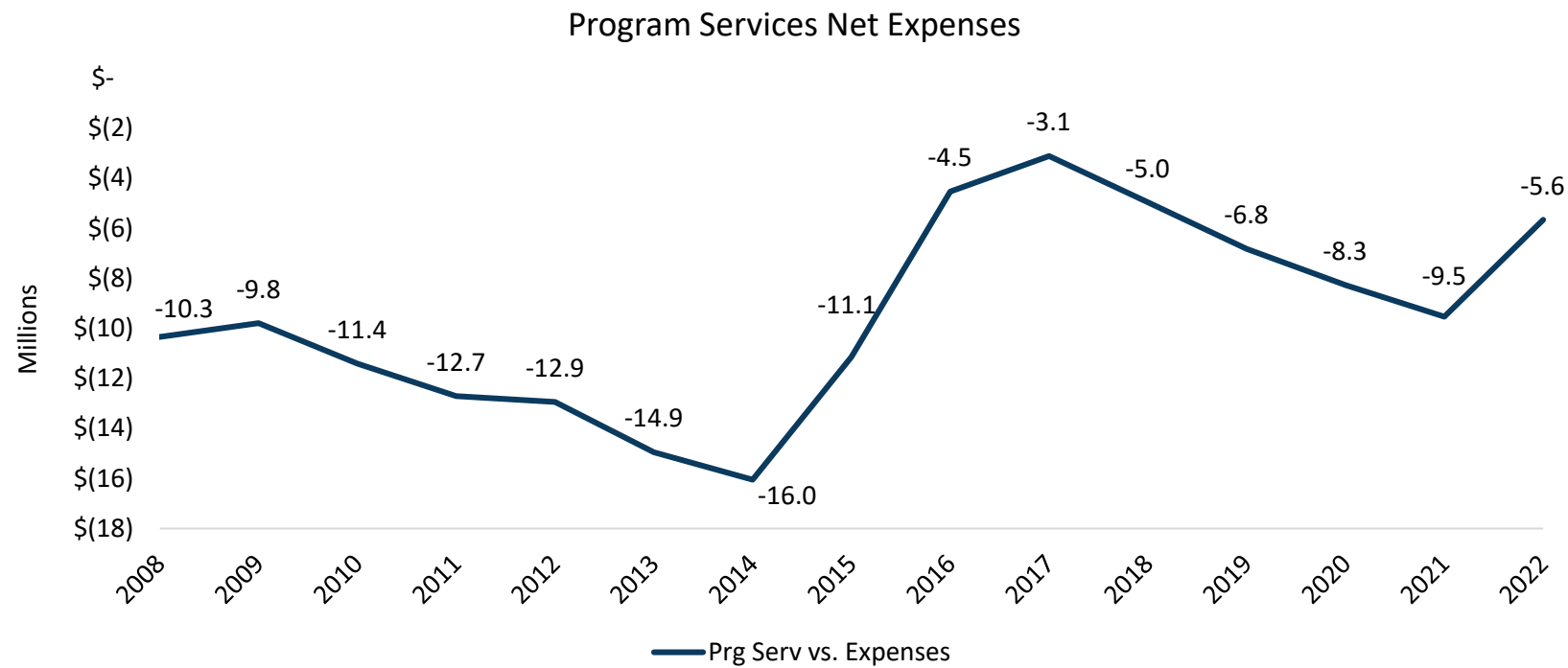
Scholarships by Funding Type



## Case Study – Midwest University

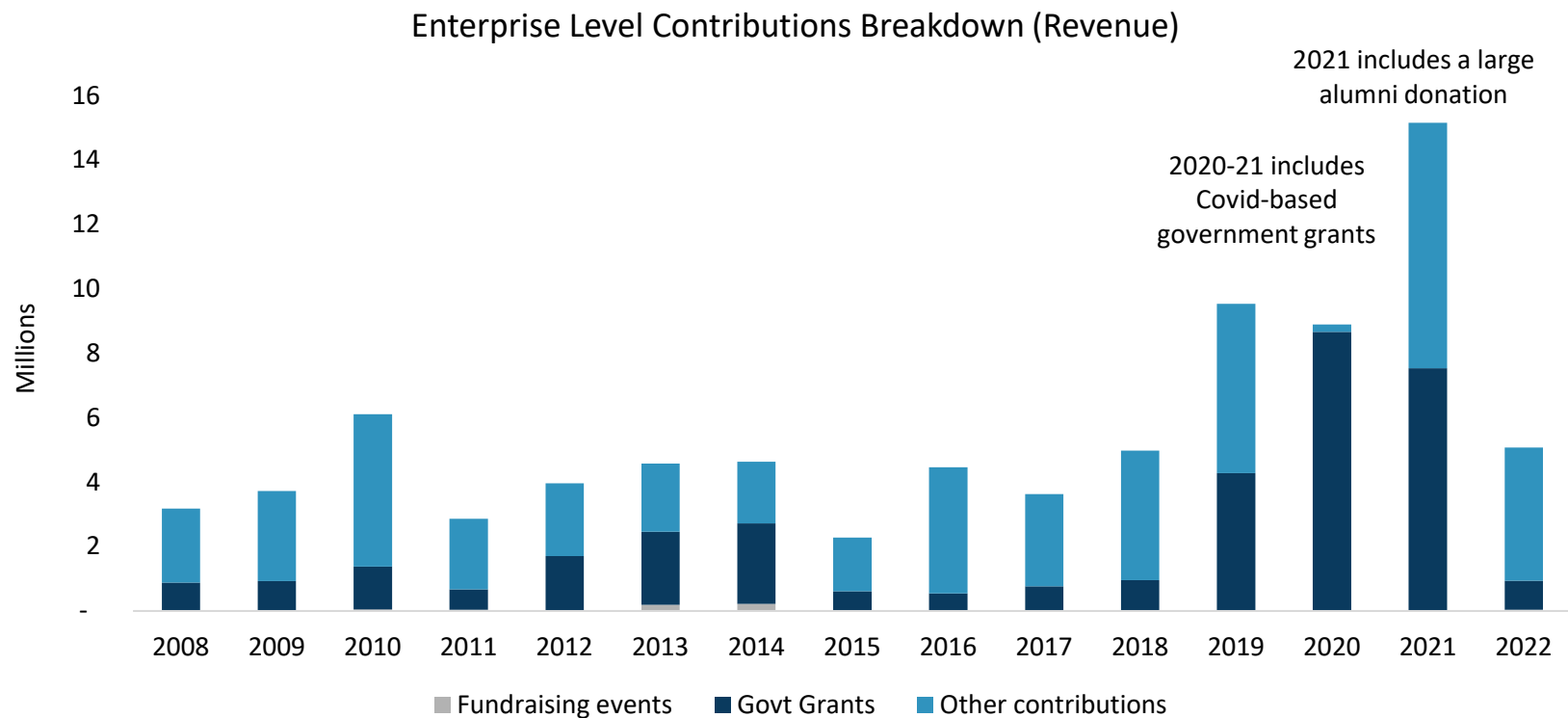
### Program Services Annual Cash Deficit

*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.

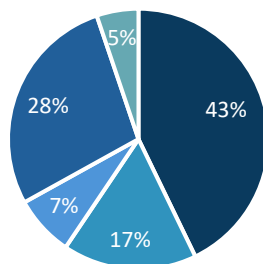


## Case Study – Midwest University

### Endowment Asset Allocation

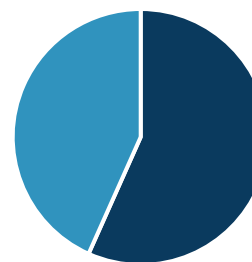
#### Endowment Asset Allocation

- 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%



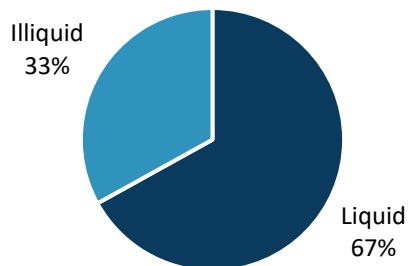
#### Endowment Fund Net Assets

Restricted  
43%



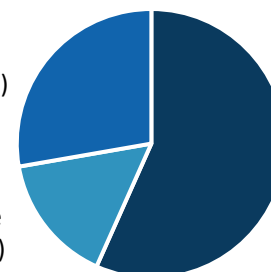
Unrestricted  
57%

#### Liquidity Chart



#### Endowment Fund Net Assets

Perpetual  
(restricted)  
28%



Spendable  
(restricted)  
15%

Board  
Designated  
(unrestricted)  
57%

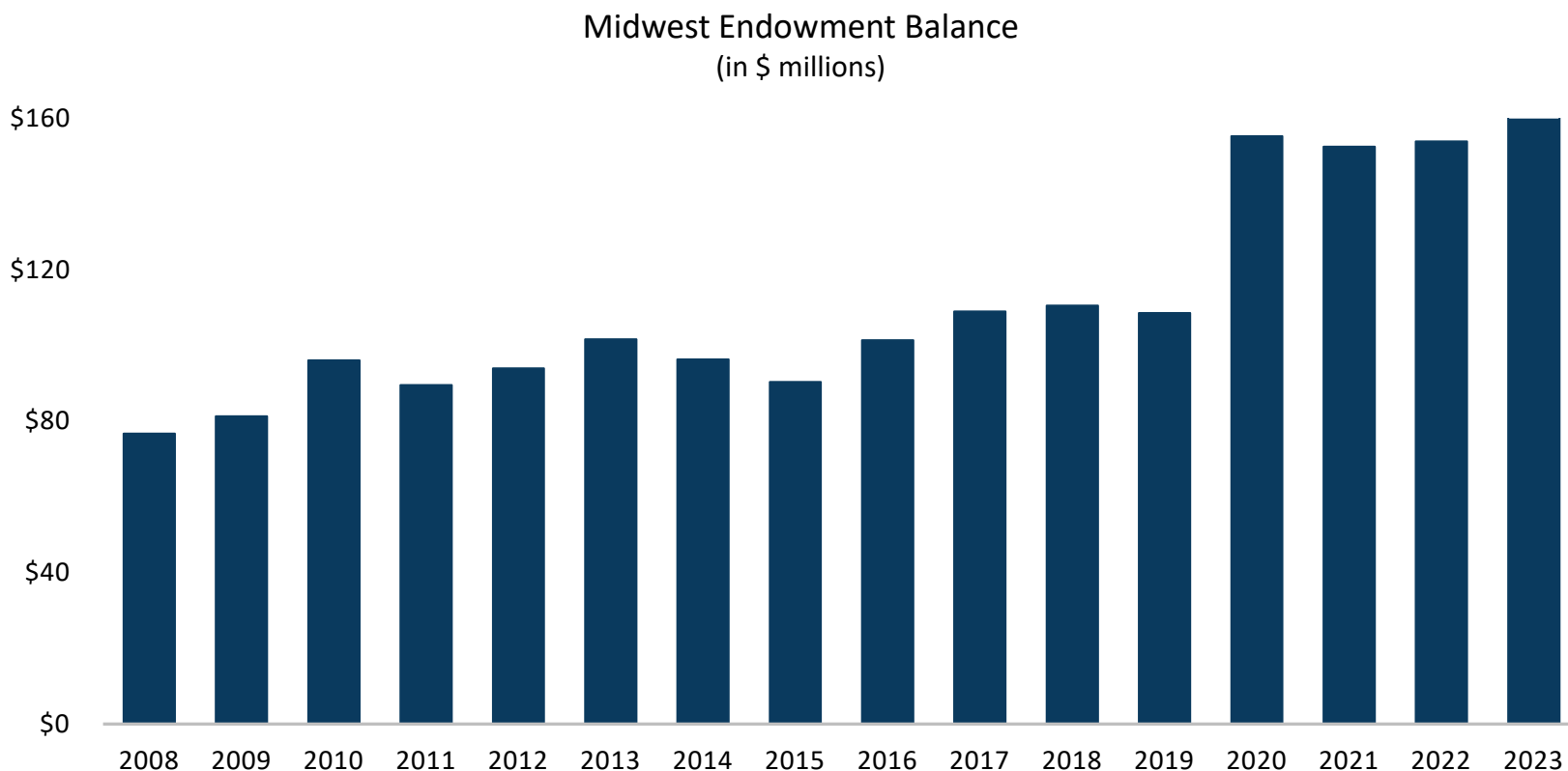
Source: Sage, Midwest University

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

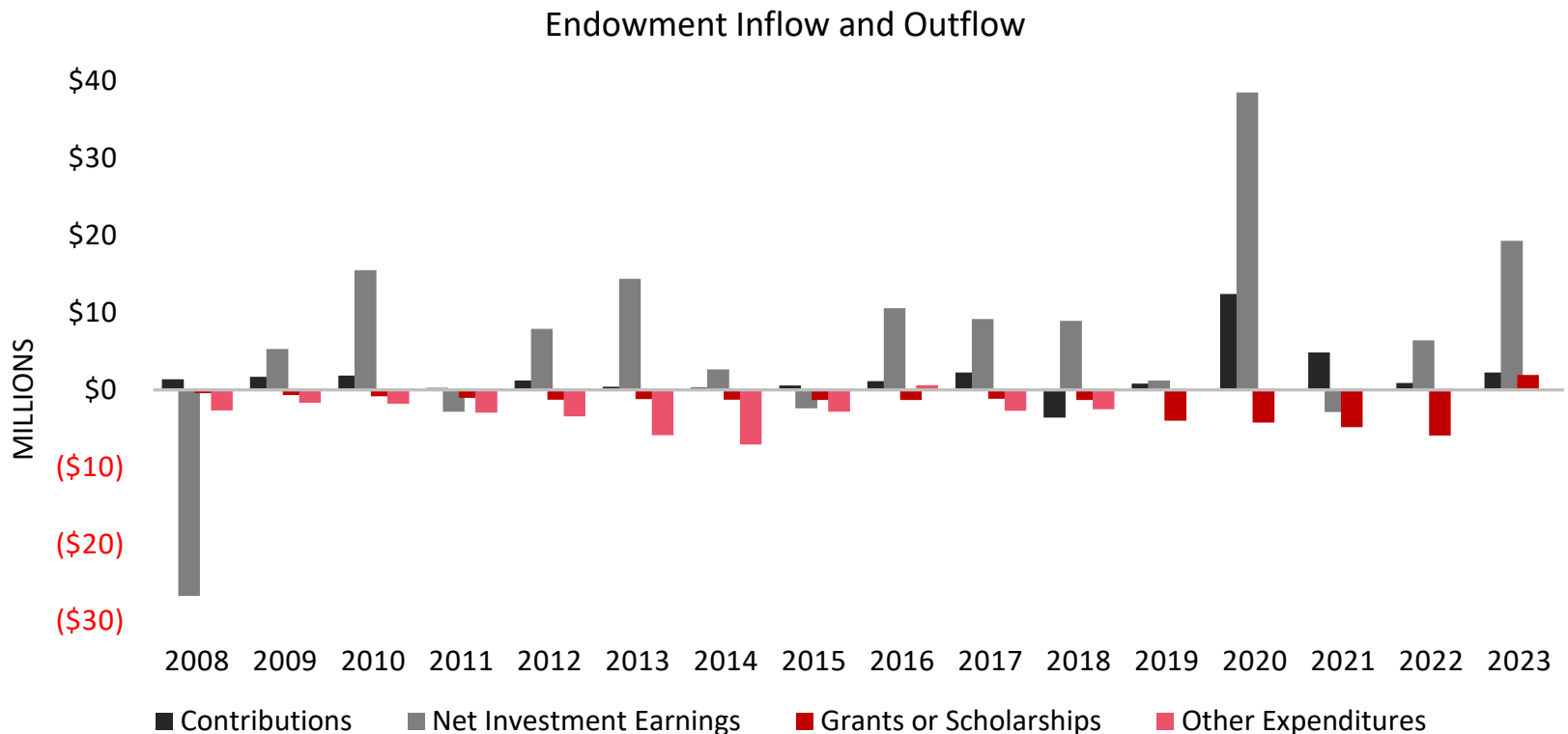
*The endowment grew significantly in the Covid period and was stable afterward.*



## Case Study – Midwest University

### Endowment Flows

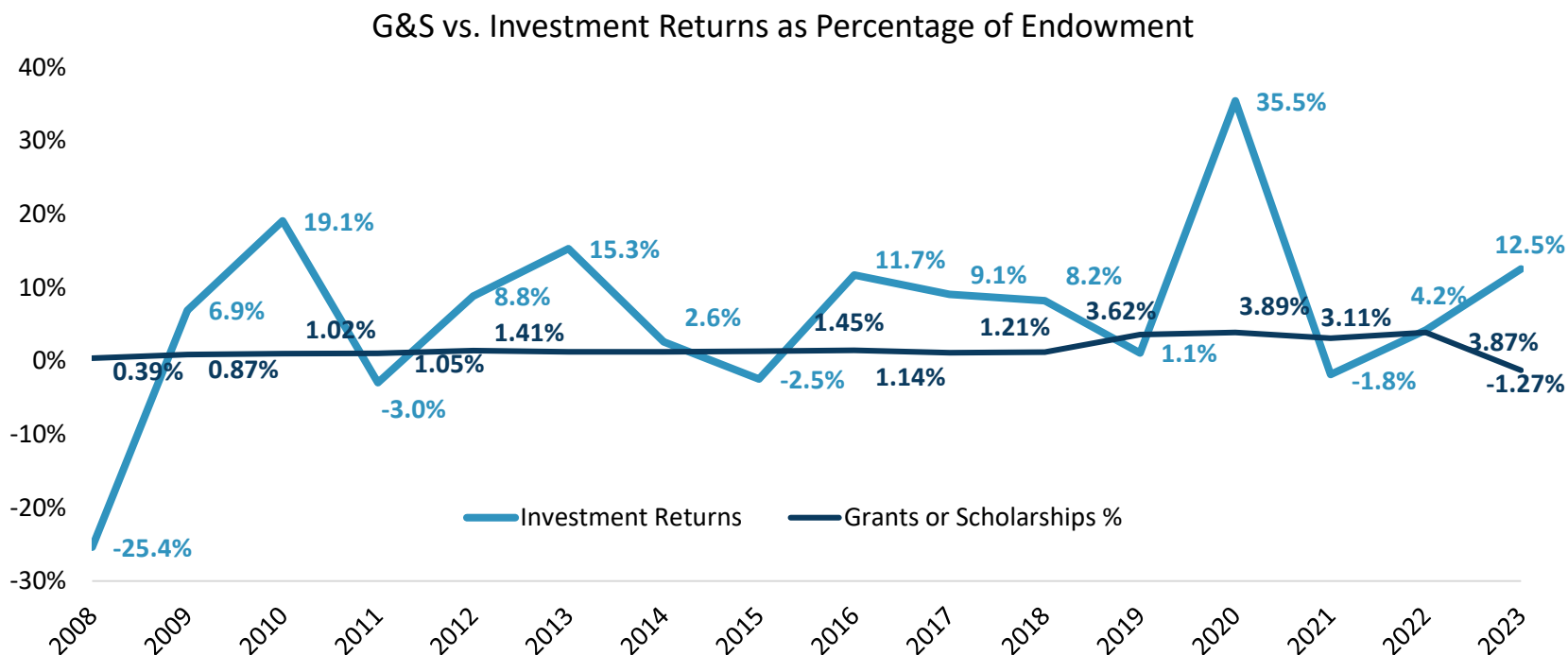
*Investment returns can have a large impact of the endowment value. Contributions and net investment earnings can help grow the endowment.*



## 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.*

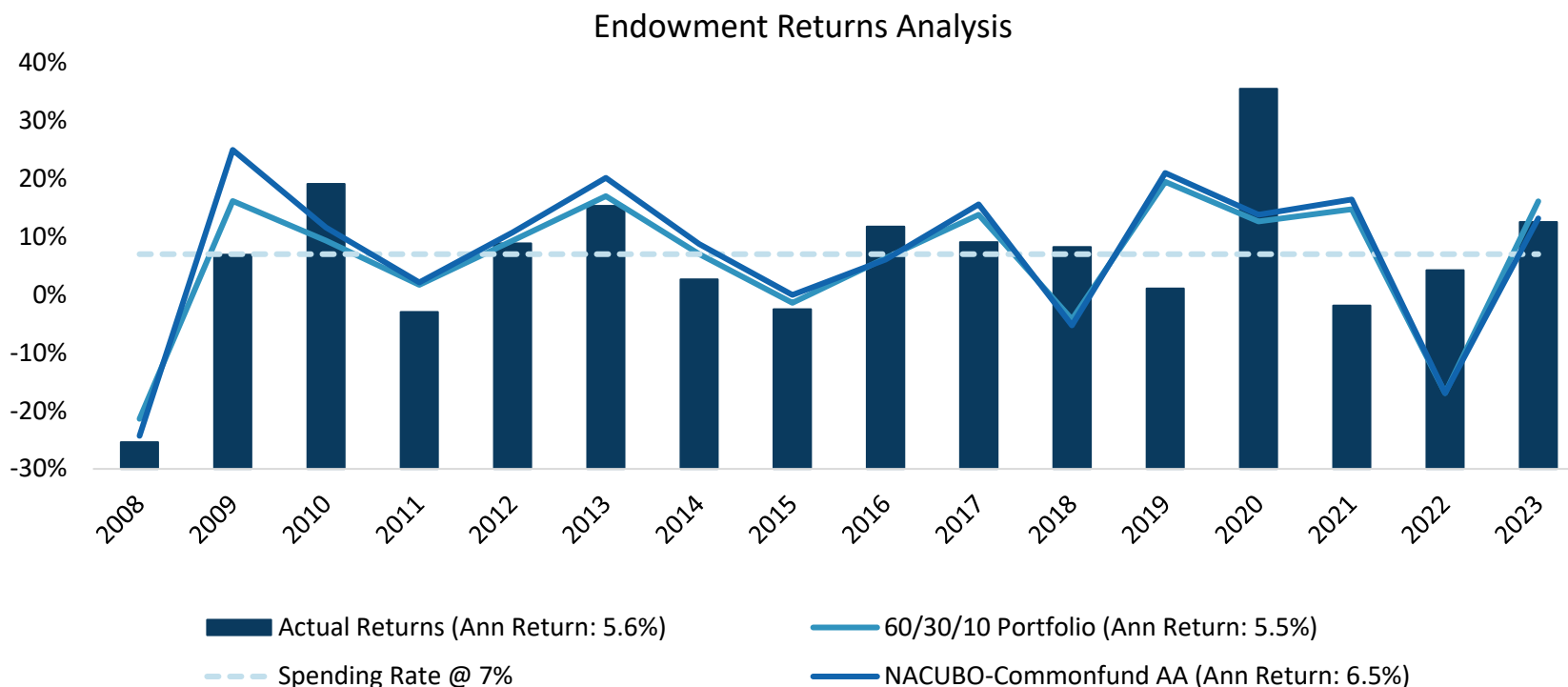
Gross Annualized Return	5.64%
Return outliers	-32.39% to +28.47%
Annualized Volatility	12.8%



## 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.*



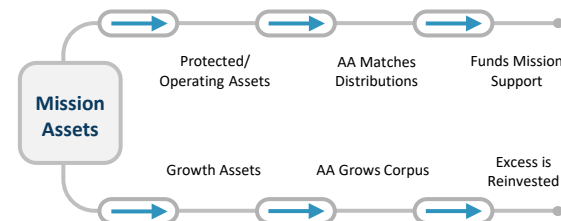
## Case Study – Midwest University

### 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

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### 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.

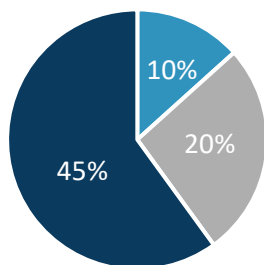


## Proposed Endowment Asset Allocation

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

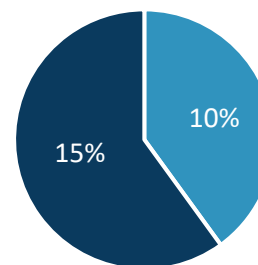
### Proposed Endowment Asset Allocation

#### 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

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- **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

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